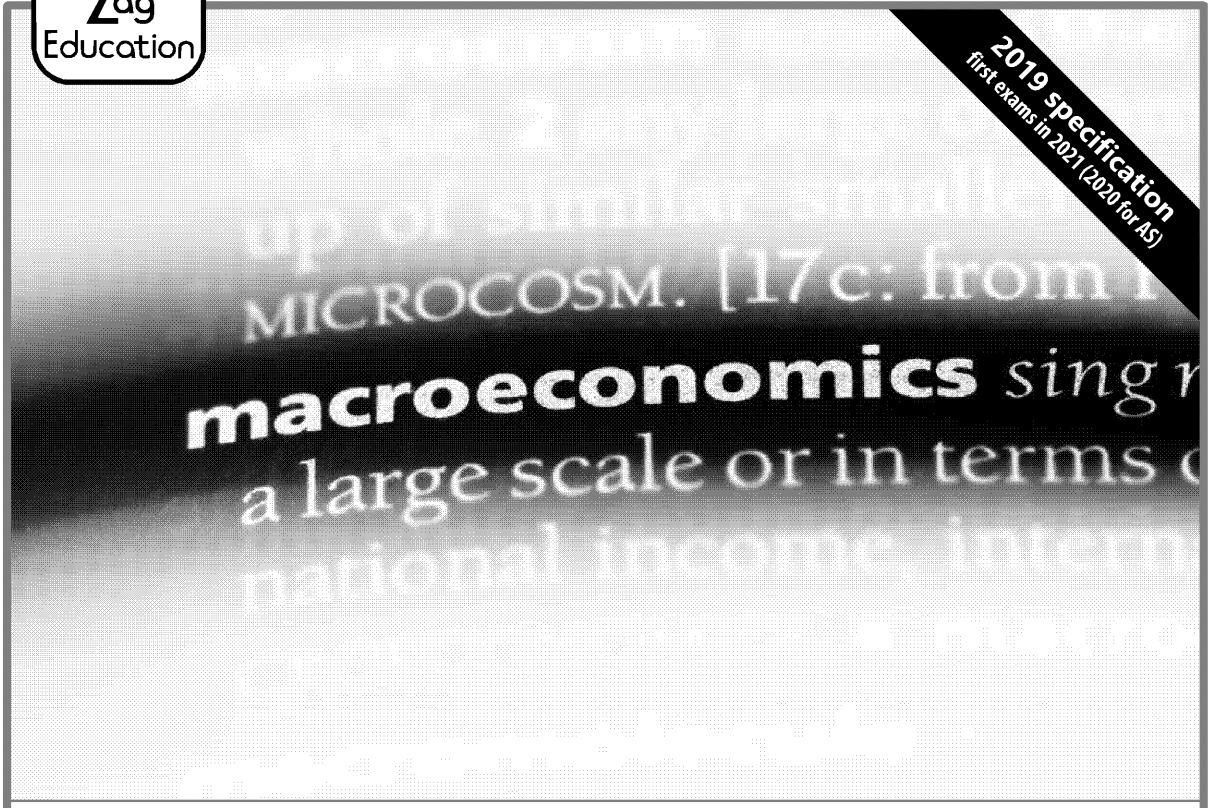
Zig Zag Education

Economics AS / A Level | OCR | H060/H460



Topic Tests for AS / A Level Year 1 OCR

Macroeconomics

zigzageducation.co.uk

POD 9756

Contents

Teacher's Introduction

This resource consists of a set of Topic Tests that have been written to support the teaching of OCR AS (or Year 1) Macroeconomics. It allows teachers and students to check their understanding and consolidate knowledge of each part of the OCR specification. In each Topic Test there is a mixture of numerical, multiple-choice, short-answer and essay-style questions of a variety of different difficulties. There are 12 Topic Tests in this resource.

Importantly, each Topic Test is accompanied by a set of detailed answers that could be handed out to students as a basis for 'model' answers in the examination. Note that although the Topic Test questions aren't always in exam format, the questions within have been written carefully with the intention of testing the range of Assessment Objectives and often borrow aspects that are similar to those in the exam.

Most of the case studies in the Topic Tests include up-to-date economic data and scenarios that should place economic theory in recent history, enrich students' general knowledge of the subject, and prepare students for the Data Response aspects of the examination. Moreover, the resource also includes plenty of opportunities for students to practise the Quantitative Skills outlined in the Appendix of the OCR specification.

Each Topic Test contains approximately 30–40 marks worth of questions, although occasionally the tests might include an additional number of marks in order to fully cover the OCR specification. It is intended that these Topic Tests will take about one hour to complete and should be presented to students *after* teaching the parts of the specification that are to be tested. However, the Topic Tests could also be given to students as homework in order to consolidate their knowledge outside of the classroom, or certain aspects could be used as a supplement to in-class learning.

It is important to note that this resource should be used as a complement to other resources such as textbooks and practice exam papers, and not in isolation. These Topic Tests include plenty of explanation of the theory in the mark scheme, but students should be encouraged to access information as widely as possible.

It is hoped that this resource, as well as offering support for teaching the essential elements of the OCR AS Macroeconomics specification, will help students fully prepare for their AS and A Level examinations. The economic environment is constantly in flux, and full of fascinating current issues. This resource attempts to share some of these current issues as a basis for teaching in the most interesting way possible, meanwhile encouraging further study from the next generation of Economists!

Happy teaching!

November 2019

Mark Scheme: Levels of Response Tables for Long-answer Ques

8 marks

		Knowledge (1), application (1) and analysis (3)
	0	No relevant answer given.
Level 1	1–3	Some knowledge of economic concepts is shown, partially linked to the q skills, but may focus too much on one side of an argument.
Level 2	4–5	Knowledge of the economic concepts is very accurate. Links to the questi examples. Analysis is well reasoned and logical, and appropriate for the q
		Evaluation (3)
	0	No evaluation.
Level 1	1	Limited attempt at evaluation – may be only loosely related to the questio
Level 2	2–3	Accurate, balanced evaluative comments are made, supporting a rounde to the question.

10 marks

		Knowledge (2), application (2) and analysis (2)
	0	No relevant answer given.
Level 1	1–2	A few concepts may be identified correctly, but inconsistently, and with behind the causes and effects.
Level 2	3–4	Some knowledge of economic concepts is shown, partially linked to the q skills, but may focus too much on one side of an argument.
Level 3	5–6	Knowledge of the economic concepts is very accurate. Links to the questi examples. Analysis is well reasoned and logical, and appropriate for the q
		Evaluation (4)
	0	No evaluation.
Level 1	1–2	Limited attempt at evaluation – may be only loosely related to the questio
Level 2	3–4	Accurate, balanced evaluative comments are made, supporting a rounde to the question.

15 marks

		Knowledge (3), application (3) and analysis (3)
	0	No relevant answer given.
Level 1	1–3	A few concepts may be identified correctly, but inconsistently, and with behind the causes and effects.
Level 2	4–6	Some knowledge of economic concepts is shown, partially linked to the reasoning skills, but may focus too much on one side of an argument.
Level 3	7–9	Knowledge of the economic concepts is very accurate. Links to the ques examples. Analysis is well reasoned and logical, and appropriate for the
		Evaluation (6)
	0	No evaluation.
Level 1	1–2	Limited attempt at evaluation – may be only loosely related to the questi
Level 2	3–4	Clear evidence of evaluative comments, though they may be unfairly w argument. Reasoning / supporting evidence is provided but may be inc
Level 3	5–6	Accurate, balanced evaluative comments are made, supporting a round directly to the question.

20 marks

		Knowledge (4), application (4) and analysis (6)
	0	No relevant answer given.
Level 1	1–3	A few concepts may be identified correctly, but inconsistently, and wit behind the causes and effects.
Level 2	4–6	Some knowledge of economic concepts is sh partially linked to the basic reasoning skills.
Level 3	7–10	Good knowledge of the rev economic concepts is displayed, linked evidence to sup t th arguments. Analysis is well developed, bu of an ar
Level 4	11	no edge of the economic concepts is very accurate. Links to the que amples. Analysis is well reasoned and logical, and appropriate for the
		Evaluation (6)
	0	No evaluation.
Level 1	1–2	Limited attempt at evaluation – may be only loosely related to the questi
Level 2	3–4	Clear evidence of evaluative comments, though they may be unfairly w argument. Reasoning / supporting evidence is provided but may be inc
Level 3	5–6	Accurate, balanced evaluative comments are made, supporting a round directly to the question.

25 marks

Level of Response	Re
5	Strong answer with well-gr valuation • Clear unders economic ideas • Appli to the question, using supporting data where nee S en-reasoned analysis St ong, well-supported evaluation
4	Strong answer, with some good evaluation • Clear understanding of the economic ideas • Applied accurately to the question, using supporting data where nee • Some sound, well-reasoned analysis • Reasonable evaluation content, with some support
3	Reasonable answer, but poor evaluation • Adequate understanding of the economic ideas • Satisfactorily applied to the question, using some supporting data • Adequate analysis, might be underdeveloped or lacking in detail • Reasonable attempt at evaluation, but lacking support for arguments
2	Fairly weak answer • Limited understanding of economic ideas • Loosely applied to the question • Limited analysis, may be unfocus rect • Limited attempt at eval ke to be unsupported
1	Weak answer • Poor of relevant economics analysis • Unsupported or irrelevant evaluation

Mark Breakdown Test-by-test

Test
1.1–2: Circular Flow of Income and Aggregate Demand
1.3–4: Aggregate Supply
2.1: Economic Growth
2.2: Development
2.3: Employment
2.4: Inflation
2.5: Balan[illegible]ay[illegible]nts
3.1: Fiscal [illegible]
3.2: Monetary Policy
3.3: Supply Side Policy
3.4: Policy Conflicts
4.1: International Trade and Exchange Rates

2.5: Balance of Payments

1. What is meant by the Balance of Payments (BoP)?

2. Which of the following items would appear on the *current* account?
   A International aid
   B FOREX reserves
   C Initial foreign direct investment into the UK
   D Initial portfolio investment in the UK

3. Which of the following items would appear on the *financial* account?
   A Trade in goods
   B Trade in services
   C Initial foreign direct investment into the UK
   D Investment income

4. Table 1 outlines information on the UK's *current account* for Quarter 4 of 201

Table 1

Component	Balance (£ millio
Exports (Goods)	82,057
Exports (Services)	64,892
Imports (Goods)	113,701
Imports (Services)	38,093
Net Factor Income	-1,035
Net Transfer Payment	-6,208

Calculate the UK's balance on the current account.

5. Which of the following explains what is meant by an imbalance on the BoP?
   A When the BoP account doesn't sum to zero.
   B When one or more of the components of the BoP doesn't sum to zero.
   C When all of the components of the BoP individually sum to zero.
   D When there is a deficit on the current account of the BoP.

6. The UK's current account balance deficit reached a record high in 2015. It wa
   Discuss the factors that could have affected the UK's net trade in such a man

7. It is often argued that achieving a 'sustainable' position on the balance of pay
   macroeconomic objective. Assess the consequences of imbalances on the Bo

The UK has run a current account deficit consistently since 1983. Margaret Thatch
minister of the UK is often associated with a restructuring and modernisation of t
many individuals in the primary and secondary sectors unemployed. The UK, hov
strongly since Thatcher's premiership to 2016, the UK's current account deficit re
which was the second largest deficit since comparable records began.

8. Assess the causes of the UK's imbalance on the balance of payments.

3.1: Fiscal Policy

1. Laissez-faire Economists tend to cite the 'crowding out' effect of fiscal policy government intervention. Explain what is meant by the crowding out effect.

2. Table 1 gives fictional information on the amount of income tax paid by indiv income in three different economies.

Table 1

Incom	Taxed Income		
	United Kingdom	Russia	
20,000	2,000	3,000	4,00
40,000	6,000	6,000	6,00
60,000	12,000	9,000	6,00

Identify which economy has a progressive, proportional, or regressive system

3. Which of the following is an example of *indirect* taxation?
   A Corporation Tax
   B Income Tax
   C Property Tax
   D Value Added Tax (VAT)

4. Which of the following is the correct explanation for the structural deficit?
   A Structural deficits are those deficits that arise fr[illegible] changing nature
   B Structural deficits are those deficits that [illegible] fundamental imbalar government's finances.
   C Structural deficits are th[illegible] that arise from the short-term effect of the macroec[illegible]
   D Str[illegible]al [illegible] refers to the accumulation of budget deficits over tim

5. What is meant by a government's 'budget'?

6. Which of the following is an example of capital government expenditure?
   A Universal Credit payments
   B Income paid to public sector employees
   C Investment in an infrastructure project such as HS2
   D Expenditure on interest payments on the national debt

7. Table 2 gives information about the tax system of a fictional economy.

Table 2

Band	Taxable Income (p.a.)	
Personal Allowance	Up to £1,500	
Basic Rate	£11,501 to £45,000	
Higher Rate	£45,001 to £150,000	
[illegible] Rate	Above £150,000	

(i) If you earn £90,000 per annum what would the marginal tax rate be on t
(ii) If you earn £150,000 per annum what would the marginal tax rate be on
(iii) If you earn £60,000 per annum calculate your average tax rate (to 1 deci

8. Using the Laffer curve, explain the relationship between tax revenue and the

9. The United Kingdom's Conservative government budget for 2016 outlined th
£716 billion received in revenue, but a projected £772 billion in government

(i) Calculate the UK government's budget position for 2016.
(ii) What is meant by a budget deficit?

10. What is the relationship between a budget d a the national debt?

11. Explain how 'automatic stab dampen the effects of the economic c

12. The UK considering reducing income tax in order to stimulate
boost alyse the likely effect of the UK government using fiscal policy.

13. 'The UK's tax code handbook is the longest of any country on Earth at 17,000
flat-rate income tax systems can be beneficial because they make paying tax

Evaluate whether the UK should introduce a flat rate of income tax.

3.2: Monetary Policy

1. (i) What is meant by the 'interest rate'?
   (ii) How can the interest rate influence aggregate demand (AD)?

2. 'Quantitative Easing' (QE) refers to which of the following explanations?
   A When an economy's monetary policy authority publishes economic fore future interest rate changes in order to influence market expectations.
   B When an economy's monetary policy authority provides stimulus to the money creation and the purchase of financial assets.
   C When an economy's monetary policy authority conducts monetary polic in target.
   D When an economy's monetary policy authority distributes money direct handing out a citizens' dividend.

3. What is meant by inflation targeting?

The European Central Bank has a target of achieving inflation that is 2.0% or be also has an inflation target of 2.0%, but tends to avoid inflation being either ab The Federal Reserve, however, doesn't have an explicit inflation target.

4. How can inflation targeting affect the behaviour of economic agents?

5. Explain **two** limitations to the effectiveness of monetary policy measures.

On the 4th of August 2016, the Bank of England's Monetary Policy Committee (M historic low of 0.25% from the rate of 0.5%. The UK's inflation rate around this which is below the MPC's inflation target of 2.0%. Its predictions of the UK's rate were revised down from 2.3% to 0.8% largely because of the uncertainty the UK economy that has resulted from Brexit. The MPC is also considering cutting to 'close to, but a little above, zero' if the economy performs as poorly as Bank However, the Brexit result has also resulted in a depreciation of the pound sterli of the UK's imported goods.

6. Evaluate the MPC's decision to cut interest rates on the government's macro

7. Explain, using an AD/AS diagram, how monetary policy can be used to respon international financial crisis.

Hong Kong's monetary authorities have managed one of the most successful fixed modern history. Since October 1983, it has managed to fix the Hong Kong dollar per US$ without any significant fluctuation. Hong Kong's currency stability has allo external sector – in fact, Hong Kong's total trade in goods amounted to 400.9% o

However, given Hong Kong's close ties to mainland China, its currency peg is con pressure. The Chinese economy is slowing and a large proportion of Hong Kong's island and the mainland. Therefore, a slowdown in China's GDP growth is likely the Hong Kong economy by reducing the flow of trade, tourism and finance betw Moreover, the US's interest rate is on the rise which will prevent the Hong Kong e weaker economic growth across the border in China.

8. Evaluate whether Hong Kong's government should maintain a fixed exchange its currency.

3.3: Supply Side Policy

1. Explain the difference between supply-side polices and supply-side improven

2. Which of the following is *not* an example of a supply-side policy?
   A Reforming the social security system
   B Immigration
   C Quantitative Easing
   D Deregulation

3. Assess **one** poli[illegible] government could employ in order to improve labou

> In London, Crossrail 1's 'Elizabeth' line is set to open in 2021. Crossrail 1 is set to
> economic benefits in London and the South East by bringing in an additional 1.5
> minutes travel time of the City. Crossrail 2, which will travel from London's North
> similar benefits and should be completed in the not-so-distant future.

4. Explain, using one or more diagrams, how investing in Crossrail 1 and 2 will in
   of the economy.

5. Explain **two** reasons that increasing benefit payments might be unsuccessful
   income inequality.

6. Evaluate the advantages and disadvantages of privatising state-owned enterp
   promote competition.

7. In the UK, Brexit has become somewha[illegible]nd[illegible]nous with anti-immigration s
   is a wealth of research that ha[illegible]d[illegible]hat immigration can be beneficial for t

   Explain [illegible]g a[illegible]priate example, how immigration can remedy an econ
   structu[illegible]mployment.

8. Evaluate the capacity of supply-side policies to achieve the government's ma
   full employment.

3.4: Policy Conflicts

1. Explain why trade-offs can exist between policy objectives, resulting in policy example of such a conflict.

2. Explain, using an appropriate diagram, the potential for a trade-off between growth when using monetary policy to stimulate an economy.

3. Analyse how policies adopted by a government to reduce a current account other macroeconomic policy objectives.

4. Evaluate a policy that can be used to correct an imbalance on the current a

5. Assess whether economic growth is compatible with sustainable developmer

6. State two ways in which a government's budget deficit could be financed.

> As of February 2017, the UK's national debt reached £1,699.7 billion, constituti
> It must be said, however, that although a debt-to-GDP ratio of 85.4% appears
> Western economies the UK is performing well, and far better than it has in the p
> a debt-to-GDP ratio of 250.4% in 2016.

7. Evaluate the consequences of the national debt.

4.1: International Trade and Exchange Rates

1. Explain what is meant by '*international trade*'.

2. Explain how *economies of scale* can be achieved through international trade.

3. Explain **one** disadvantage of international trade to a developing economy.

4. Trade liberalisation is often touted as the most successful anti-poverty policy the power to raise a country's living standards and reduce poverty, and at the economic efficiency

   Discuss possible *negative* consequences of international trade.

5. Explain what is meant by a country's *exchange rate.*

6. How are exchange rates determined in a *floating* exchange rate regime?

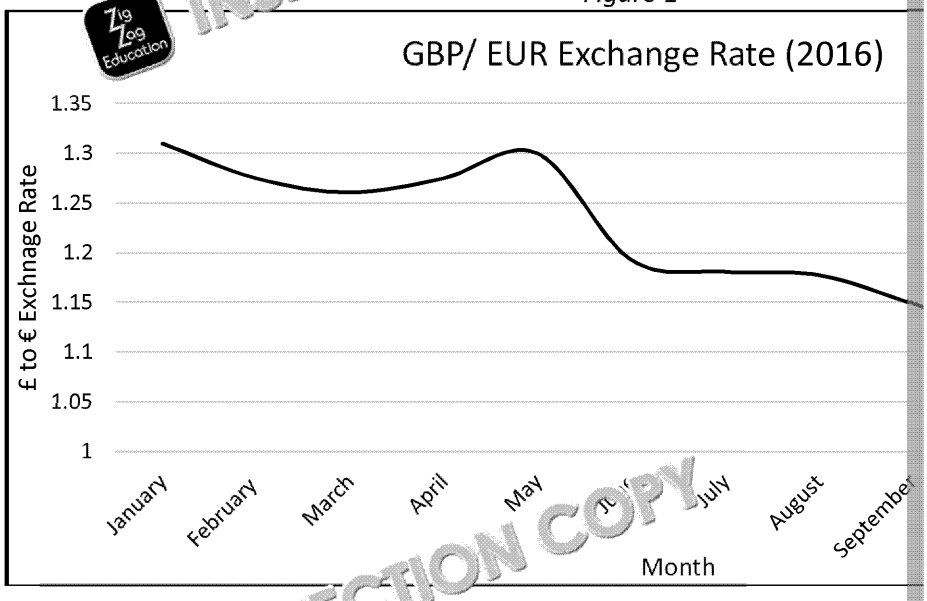
China has pegged its currency to the US dollar for a number of years. It has fixed between the dollar and yuan at an *undervalued* rate in order to influence and im competiveness, stimulating the exportation of Chinese products across the world

7. Explain how China's fixed-exchange rate regime functions in practice.

8. In June 2016, the value of the sterling fell to a 31-year low after the result of announced.

   Figure 1 shows information on the GBP/EUR exchange rate for 2016.

Figure 1



   Explain the trend in the GBP/EUR exchange rate.

9. Evaluate the causes of a domestic currency *appreciation*.

10. Imagine that the $/£ exchange rate fell from $1.25/£ to $1.05/£. Assess the li exchange rate movement on the UK's macroeconomy.

Answers

1.1–2: Circular Flow of Income and Aggregate Demand

1. National income can be calculated by counting the total output, expenditure, or i a specific timeframe. Now, the *expenditure-method* of calculating national income amount this is spent on final consumption and investment expenditure. Since all purchased either by consumers for consumption or by producers for investment expenditure-method must equal GDP. The *income-method* of calculating national total income received by households for their supply of the four factors of produ wages and salaries for their labour, interest for supplying capital, rents for suppl the risks involved in supplying entrepreneurship. Note that the income approach principle, total income should equal total expenditure. Finally, there is the *ou* national income which measures the market value of output produced within an be purchased by either consumers or producers, this measure will equal the exp measurements of GDP.

   [2 marks each for clear explanation of the different methods of calculating nationa explanation that is less clear but conveys the general meaning]

2. **C** – Exports are an injection into the circular flow of income because foreign cons the economy's output and so inject funds into the economy – this will increase na (Savings) and **D** (Imports) are withdrawals from the circular flow, and **B** (Vaccin misleading answer choice.

   [1 mark for correct response]

3. **C** – Taxes are considered a withdrawal from the circular flow of income because t economy – this will decrease national income. **A** (Investment), **B** (Government sp constitute injections.

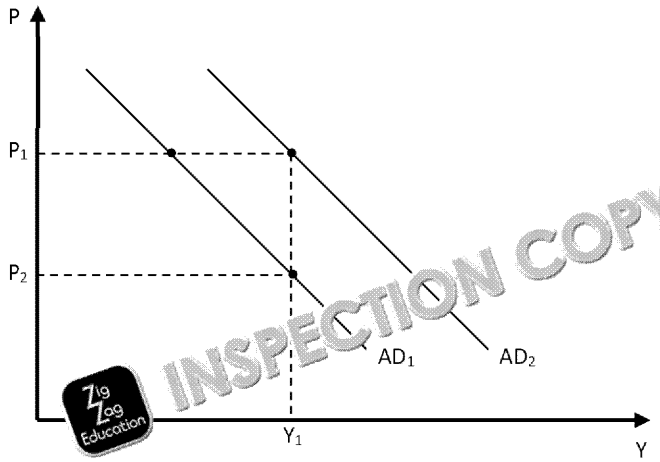
   [1 mark for correct response]

4. The 'circular flow of income' is a simplified model of an economy in which flows o connected between different sectors. Households supply their labour, and othe then convert these inputs into output. Households are then rewarded for their la and households can, in turn, use this income to purchase the output that firms pr not all income is spent on consumer expenditure, there is also a *financial market* any income that is not spent, and these savings can be lent to firms to finance inv income can also be expanded to include the government, which influences flows as well as by including trade.

   Note that since the 'circular flow of income' is a closed system, so that the flows n national income accounting.

   [2 marks for a clear explanation of the 'circular flow of income'; 1 mark for an expl conveys the general meaning]

5.



Movements *along* the AD curve are referred to as extensions of aggregate demand. changes in the economy's price level. The AD curve displays an *inverse* relationship 'total' amount of goods and services demanded within an economy in a given perio *microeconomic* demand curve displays such a relationship between price and quan falls from P_1 to P_2, there is an extension of demand since a greater quantity of outp

A shift of the AD curve is referred to as an increase in aggregate demand. A shift increase in any of the components of AD (C + I + G + X – M). It captures changes i is represented as an outward shift of AD from AD_1 to AD_2.

[Up to 2 marks for an accurately drawn diagram, including correct labelling of the a clear distinction between movements along the AD curve and shifts of the AD cur less clear but which conveys the general meaning]

6. (i) Aggregate Demand (AD) = Consumption (C) + Investment (I) + Governme (Exports (X) − Imports (M))

[2 marks for stating the correct components of AD; 1 mark if a mistake is made

(ii) Not... a... demand (AD) curve shows the relationship between an to... and in all of its markets. From the AD curve we are able to calculat giv... level. Importantly, just as there is an *inverse* relationship betwe market (microeconomics), there is an inverse relationship between the gen aggregate economy. From microeconomics we know that when price decrea increases, which tends to stimulate consumption. In macroeconomics, the i level is that assets in *real* terms tend to be higher, and so there is a wealth e Next, there is the effect of prices on interest rates, when the price level is fal which can provide a stimulus to both consumption and investment. Finally, an economy's exports appear more cost-effective than the competition, and increase in foreign demand for exports and a rise in spending. Consumers i less because products appear cheaper at home and so there is an improvem prices are low. Hence, AD is downward sloping.

[3–4 marks for a clear explanation of the relationship between AD and the pri avenues through which prices can stimulate demand; 1–2 marks for an explan the general concept; 0 marks for responses that are off-topic]

(iii) Income is said to be the most important determinant of consumption – after difficult to consume anything without the financial resources necessary to d *income* which ... consumption because consumers must consider t be... ... transfer payments added. If disposable incomes rise, we – ... because most goods tend to be 'normal'. However, an important det ... marginal propensity to consume (MPC). If the MPC is low, consume consumption very much when their incomes increase. Conversely, if the MP would spend the majority of their additional income on consumption rather important evaluation of this relationship between consumption and income Economist Milton Friedman. Friedman suggests that people's consumption income, but instead consumers make expenditure decisions based on their

income they expect to receive in normal circumstances. Moreover, it's also s
smooth their consumption over a lifetime and so consumption tends to vary
which changes a lot according to one's age.

*[3–4 marks for a clear explanation of the relationship between income and co
conventional relationship with alternative theories; 1–2 marks for an explana
the general concept; 0 marks for responses that are off-topic]*

(iv) Wealth; interest rates; consumer confiden[illegible] changes in expectation ab
macroeconomy and/or their indivi[illegible]sit[illegible]on.

[1 mark per correct [illegible]as]

(v) Fi[illegible]er[illegible]ng in the post-2008 period are likely to have received lower p
ge[illegible]conomic activity. With less retained earnings it is natural that ther
because firms have less financial resources to invest. Firms might also have
future income streams in the post-2008 economy and so would delay their i
certain and the risk of investing lower.

[1 mark for identifying a potential factor]

(vi) Noting that the trade balance constitutes part of AS (X – M) reversing this ba
a surplus (X – M > 0) should have a positive effect on AD, therefore shifting i

[1 mark for correctly identifying the movement in AD in response to this shock

(vii) US government's response to the financial crisis was to reduce government
effect of decreasing AD and shifting the curve inwards.

[1 mark for correctly identifying the movement in AD in response to this shock

1.3–4: Aggregate Supply

1. Aggregate supply (AS) refers to the total (or, aggregate) supply of goods and serv
given period of time. AS relates to the total amount of goods and services supplie
price level.

*[2 marks for clear explanation of aggregate supply; 1 mark for an explanation that
general meaning]*

2. **A** – SRAS
B – LRAS
C – LRAS

[1 mar rr response]

3. Introducing the National Living Wage affects the cost curves faced by domestic fi
flexible in their production process – that is, firms can't switch from, say, employ
when there are changes in the relative cost of these inputs. Therefore, increasing
firms face. Generally, firms will then tend to choose to supply less output at any g
maintain profitability. SRAS will shift inward. *Note that the LRAS curve will not sh
the nature of an economy's resources haven't changed, only their relative prices.*

*[2 marks for clear explanation of how the NLW will affect short-run aggregate sup
is less clear but conveys the general meaning]*

4. LRAS effectively represents the productive capacity of an economy – it is the max
produced by employing an economy's resources fully and efficiently. LRAS is shif
economy's factor inputs. If an economy's inputs improve in terms of quantity (e.g
undercover oil deposit) then it is natural that a greater quantity of output could b
an economy's inputs improve in terms of quality – meaning that they can be used
greater quantity of output can be produced given th economy's inputs. Improvi
instance, because of the adoption of new techn logies could constitute an improv
production. Therefore, LRAS would shift outward when either of these factors ch
greater quantity of goods and services supplied at any given level of output. Obvi
quantity of an econo 's factors decreases, or there is a reduction in their quality

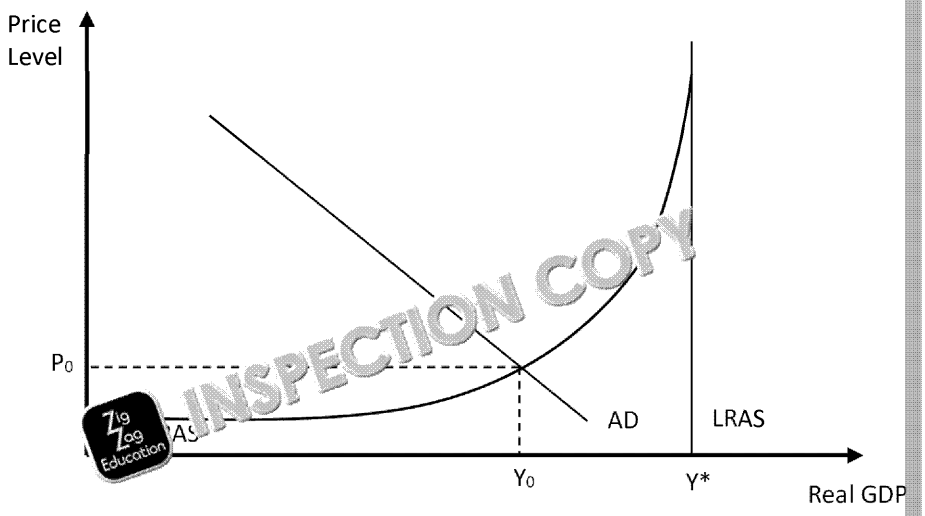
*Note th e these factors shift LRAS, they have natural implications for SRAS be
firm's c roduction]*

*[1 mark each for identifying factor which might shift LRAS; 1 mark each for explai
affect LRAS]*

5. Macroeconomic equilibrium is a state of the macroeconomy in which aggregate d
aggregate supply (AS) in the absence of any demand or supply-side shocks, AD=A
will be achieved at a specific pairing of aggregate price level and real GDP. Note,
equilibrium need not occur at the full employment level of output. In the short-ru
potential level of output and there would be spare capacity in the economy.

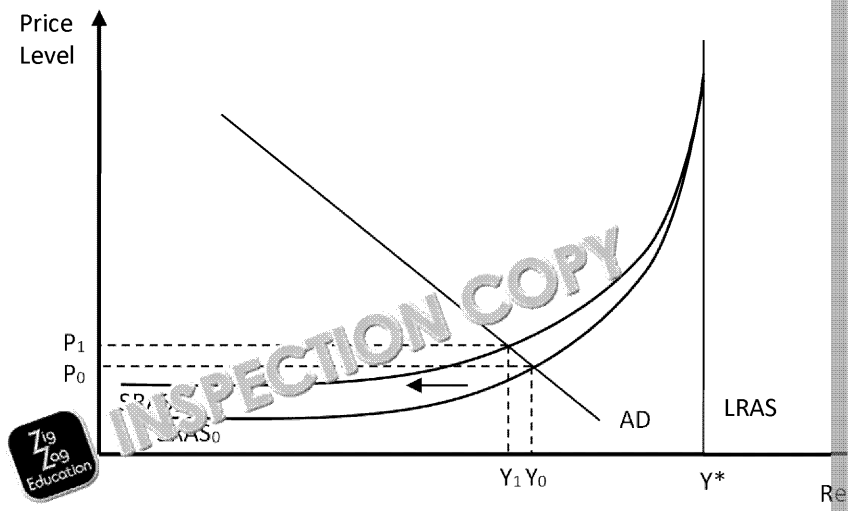
*[2 marks for a clear explanation of macroeconomic equilibrium; 1 mark for an expl
conveys the general meaning]*

6.



[1 mark for correctly labelling the axes; 1 mark for correct drawing of AD; 1 mark
1 mark for identifying the point of equilibrium. Note that students might choo
employment level of output and so their diagram may vary slightly from the exam

7. (i)



Analysis:
If the price per barrel of crude oil increases, firms' short-run costs of produc
curve shifts inward. Note that this is unavoidable because there are few alte
production inputs, and firms are also unable to change their production pro
there are fixed factors of production. Naturally then, the economy's macroe
in response to such a supply-side shock.

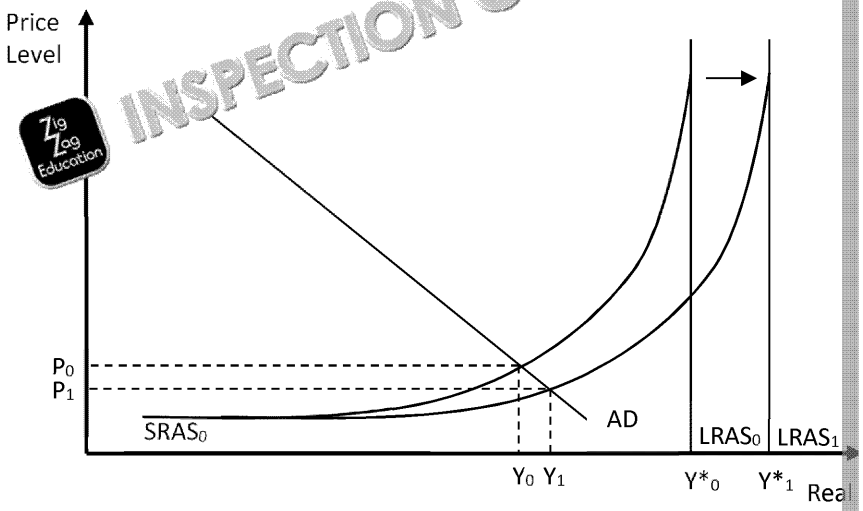
Equilibrium starts at the intersection of AD and $SRAS_0$ where real output is
Then, SRAS shifts *inward* as firms respond to the increase in their costs of p
amount of output they are willing to supply at the prevailing price level. At
the aggregate price level is bid-up as consumers compete to purchase outpu
will be reached at price level P_1 and real output Y_1

Therefore, the macroeconomic effect o th s sh k is a one-off increase in th
into an inflationary episode if th c creases of crude oil are maintained.
increase in the preser of a supply-side shock because firms are producing
hence, need le d nput. Finally, real GDP decreases because of the dec
he er gative economic growth – note that this doesn't constitute
ec s growth rate, but a short-run increase in the economy's level of s

Evaluation:

- Effect depends upon the *magnitude* of the price increase of crude oil – will have a substantially different effect to a £100 increase.
- Effect depends upon the significance of oil as part of firms' production assume that oil is an important part of firms' production processes in t be operating using strictly renewable resources, which would alter the
- Effect depends on whether the price increase is temporary or perman temporary, firms may absorb the increased cost of oil.

(ii)



Analysis:

If UK miners found deposits of rare earth elements, this would constitute an resources available that can be used as inputs in the production process. In productive potential of the economy and so the LRAS curve shifts to the right shifts to reflect this change. Naturally the UK's macroeconomic equilibrium increase in productive potential.

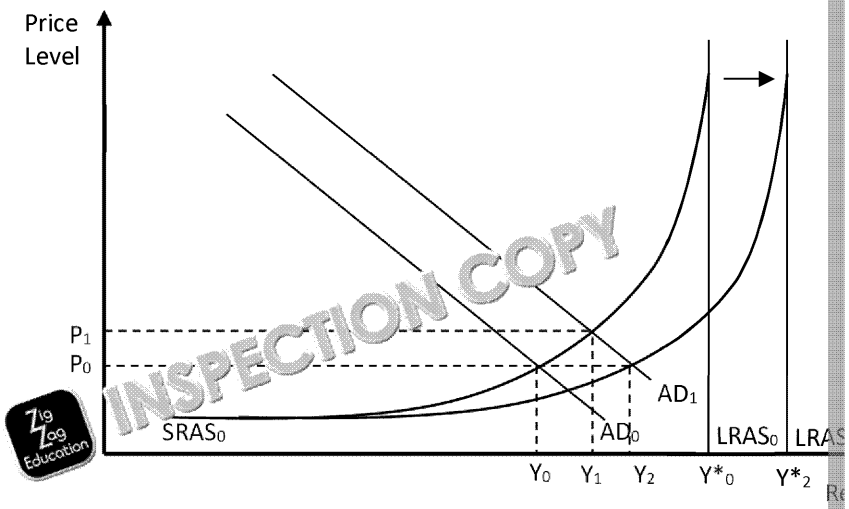
Equilibrium starts at the intersection of AD and SRAS where real output is Y The SRAS shifts *outward* as the productive capacity of the economy increa of inputs. The SRAS curve also shifts *outward* because the new-found im that firms' short-run costs also fall – anything that is in abundance t that are scarce. At P_0, SRAS will outstrip AD and so the aggregate price level consumers to purchase the glut of supply and restore macroeconomic equili equilibrium will be reached at price level P_1 and real output Y_1.

The macroeconomic effect of this shock is a one-off decrease in the price lev deflationary episode if firms' costs continue to fall – note that this type of de because it arises from improvements in the supply-side of the economy and should fall because firms are expanding their output in response to their de hire more workers in order to achieve this expansion. Finally, real GDP incr economic activity and hence economic growth is achieved– note that there economic growth in this scenario.

Evaluation:

- Effect will depend on the *magnitude* of the rare earth deposit that is fo all, they are *rare*) then the increase in productive potential and, hence, likely to be minimal.
- While this scenario has good implications for the key macroeconomic v that other factors such as inequality and the environment might worse elements are concentrated to wealthy owners of industry, o ages the environment.
- Since the UK is structured more so as a tertiary economy the effect of fi have demand-side implications – instead of possessing a larger numbe export these factors of production to manufacturing economies, and so LRAS will be less significant.

(iii)



Analysis:
If the UK government invested in improving the NHS, the immediate effect o
the government expenditure component of AD – recall that AD is given by A
the effect of this is to stimulate AD and the AD curve will shift to the right, c
macroeconomic equilibrium will change in response to this demand-side sh

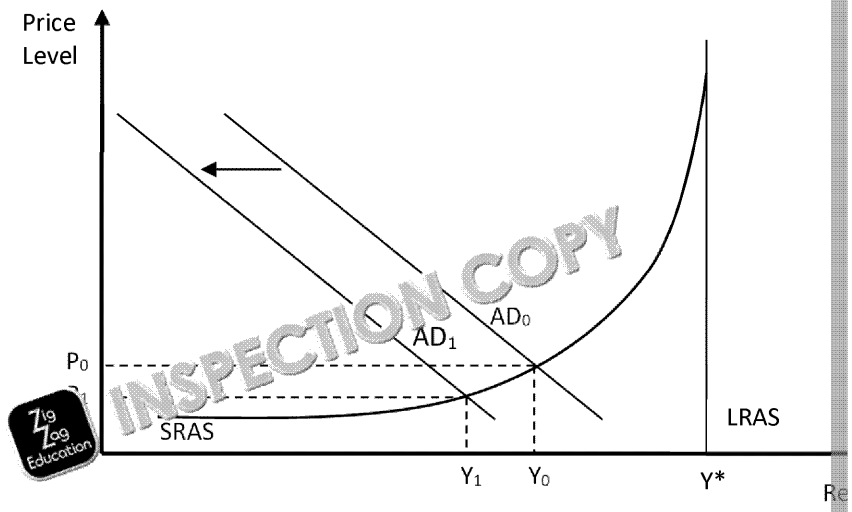
Equilibrium starts at the intersection of AD and SRAS where real output is Y
Then, AD shifts *outward* as the government stimulates demand through gov
increase in government expenditure causes AD to outstrip AS and so firms h
prices in order to improve their profitability. Eventually, the excess of dema
general price level increases and macroeconomic equilibrium is restored. Eq
level P_1 and real output Y_1.

The macroeconomic effect of this shock is a or[illegible]ncrease in the price leve
inflationary episode if AD continues to increase over time. Unemployment, h
government's investments in the NHS will require additional labour in vario
Finally, real GDP increases because government expenditure constitutes an
income – thus, economic growth of the short-run kind is achieved when gov
(not[illegible]at is the basis for the Keynesian policy of deficit spending in a recess

Evaluation:

- Primarily, the most interesting aspect to analyse about the governmen
  it has the potential to improve the long-run capacity of the economy. If
  general health of the British public, it can be considered that human ca
  will be more efficient as a resource. LRAS would, thus, shift to the right
  depend on the effectiveness of the NHS improvements. Note, however,
  time-lag between the investment in the NHS and improvements in heal
- Effect will depend on *how much* is invested in the NHS – the larger the i
  on the macroeconomy.
- Effect will also depend on the starting position of AS – if the economy h
  part of SRAS) then the increase in AD will tend to increase output with
  Conversely, if the economy is already at full employment, the effect of t
  inflationary – only a supply-side improvement will boost growth at this
- Effect will also depend on the size of the multiplier. Note that the diagr
  simple initial reaction of AD to an investment in the NHS. If the multipli
  investment will have far reaching and positive effects across the entire
  would represent this as a co[illegible]positive shock to AD.
- Finally, it's important to consider how the increase in government expe
  through taxation is it financed through debt? If financed through taxat
  then it will be offset by the tax. If financed through debt there will
  economic growth.

(iv)



Analysis:
If there was a decrease in firms' confidence in the post-Brexit economy, the
withdraw or reduce their investments until confidence is restored – this is k
Investment is a key component of AD, and so if this is reduced in any way th
output will be lower for any given price level. Naturally, the UK's macroecor
response to this demand-side shock.

Equilibrium starts at the intersection of AD and SRAS where real output is Y
Then, AD shifts *inward* as firms begin to retract investment in the post-Brex
investment causes AS to outstrip AD and so firms that produce capital good
output. Eventually, the excess of AD over AS is reduced as the general price
macroeconomic equilibrium is restored. Equilibrium will be reached at pric

The macroeconomic effect of this shock is a or decrease in the price lev
deflationary episode if AD continues to sh[illegible]r time. Unemployment sh
decrease in investment implies [illegible]ess need for labour inputs. Real GDI
investment, and hence [illegible], constitutes a withdrawal from the circu
negative econo[illegible] when investment falls.

Evaluation:

- [illegible]ect will depend on the *magnitude* of the fall in investment – the less
  post-Brexit economy, the more they will disinvest. In reality we know t
  leave the UK, and so the fall in investment is likely to be large in reality
- Effect will also depend on the multiplier – the multiplier effect works f
  demand-side shocks, so the fall in investment could have far-reaching e
  decreases in labour demand might imply falling wages, and so consum
  invest less, etc.)
- If the economy is close to full capacity the decrease in the price level w
  contribute further to unemployment if wages are 'sticky'.

[Maximum 24 marks. 5–6 marks each for a strong analysis of these shocks on
performance – analysis will set out the impact of the shocks using economic th
students should evaluate the extent to which the shocks will effect macroecon

2.1: Economic Growth

1. Economic growth refers to increases in the real GDP of an economy over time. Im
between short- and long-run economic growth, where short-run growth refers to
output and long-run growth refers to changes in the *potential* output of an econo
between short- and long-run economic growth when looking at rates of change i

*[2 marks for a clear explanation of the concept of econo[illegible]owth; 1 mark for an
conveys the general meaning]*

2. (i) **B** – **B** is the recessionary st[illegible] th[illegible]conomic cycle because it is on the do
diagram – where it i[illegible]m[illegible]ard-sloping the rate of GDP growth must be *ne*
the recessio[illegible]ge of the economic cycle as the level of GDP would be fa
th[illegible]on[illegible]'trend' rate of GDP growth, it is the turning point, or trough,
no[illegible] at this point.

[1 mark for correct response]

(ii) **D** – **D** is the 'boom' stage of the economic cycle because it is on the upward-
where it is upward-sloping the rate of GDP growth must be *positive.* Therefo
expansionary stage of the economic cycle as the level of GDP would be incre
while **A** is above the economy's 'trend' rate of GDP growth, it is the turning
neither be rising nor falling at this point.

[1 mark for correct response]

3. **D** – Only **D** is the correct definition of a recession. Recessions are sustained decli
more *consecutive* quarters. Importantly, these quarters must be consecutive, whi
in Q1 of 2016 and another decline in Q4, for instance, wouldn't constitute a reces
longer than two consecutive periods they need not, which, therefore, makes **C** an
because it doesn't take into account time span at all.

[1 mark for correct response]

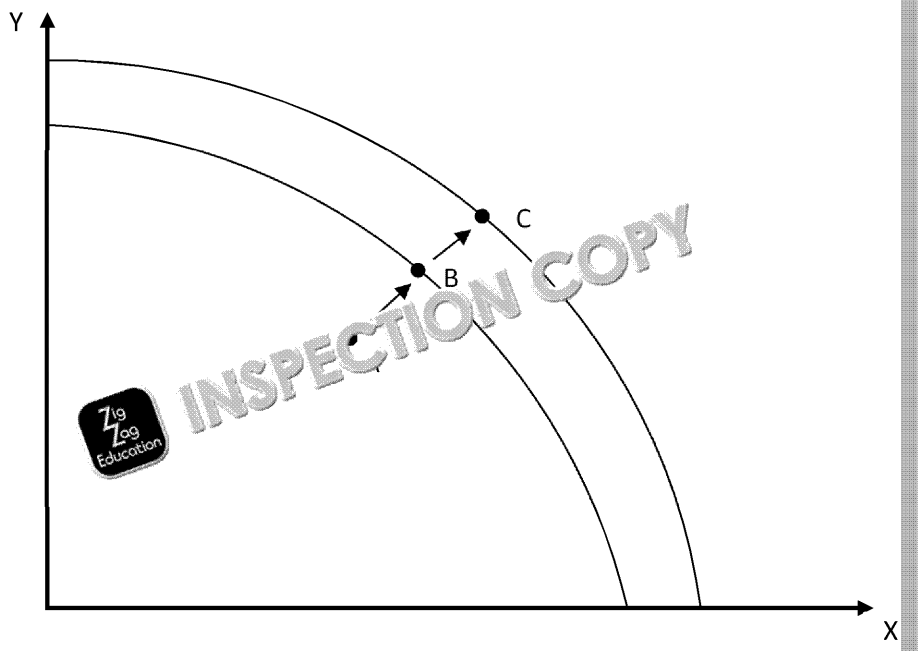
4. Nominal GDP measu[illegible]e[illegible]tal value of output in *current prices* that is produce
within a[illegible]n p[illegible]time. Real GDP however adjusts nominal GDP for the effe
'base' y[illegible]rices.

*[2 marks for clear distinction between nominal and real measures of GDP; 1 mark f
but conveys the general concept]*

5. **A** – If an economy's growth rate falls but is still *positive* (e.g. a change from 10% t
increasing. If an economy's output was £100 million at the beginning of 2016, th
would be £108 million – hence output has increased.

[1 mark for correct response]

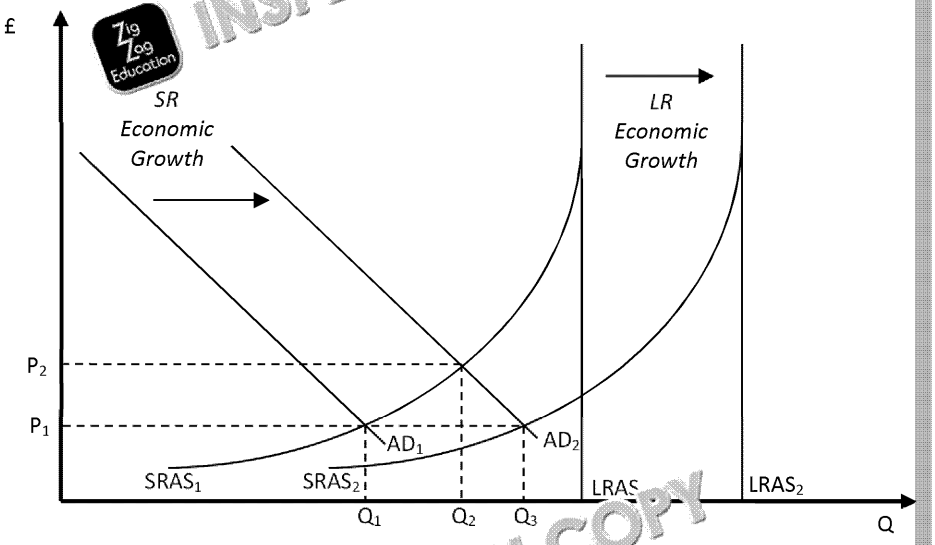
6.



Long-run economic growth can be thought of as an outward movement in an eco
as an increase in the potential capacity of an economy. Graphically, this would be
point B to point C. Since the PPC represents the productive potential of an econo
efficiently employed, anything that enables society to produce a greater number
will shift the PPC outward and bring about long-run economic growth. Conversel
be thought of as a movement from within the bounds of the PPC to a point that is
from A to B is an example of short-run economic growth because actual output is
capacity in the economy is used up – within the PPC an economy is failing to effic
available, and employing these resources will lead to an actual increase in GDP.

*[Maximum of 2 marks for an appropriate labelled diagram; a further two marks a
of the difference between short-run and long-run growth]*

7.



*[Maximum 4 marks. 3–4 marks for a correctly labelled AD/AS diagram, illustrating
short-run and long-run economic growth. 1–2 marks for a correct illustration; how*

8.

Benefits	
Improvements in standards of living can be brought about by increases in the availability of resources (e.g. higher incomes)	Inflation – if economic nature, then there will output expands.
Poverty can be reduced via economic growth – e.g. if it increases employment, or if it frees up resources to spend on education and healthcare.	Economic growth coul booms are followed by unsustainable, volatile
Government is likely to receive higher revenues from taxation and spend less on benefits.	If incomes are increasi more products – part will be on imports, wh account deficits.
Investment is likely to increase when an economy is growing because it is most profitable to do so during these periods.	It could damage the en lead to pollution and t environment. Environ the present (e.g. by cre reducing quality of life future generations fro by depleting non-rene sustainability).
Growth might provide the means for research into socially beneficial things such as the development of renewable energies or ways to reduce inequality.	It can cause increases demographics, sectors economic growth and that benefit the most f

[Maximum 6 marks. Students should evaluate the relative importance of the costs a relation to the experience of India and China – e.g. is economic growth still benefici increasing inequality, or should there be more dedication to ensuring that people's l pursuing high-growth policies? Note that the costs are explicitly given in the prompt of thought, marks should be awarded for students' knowledge.]

9. Improvements to either the quantity or quality – that is, the efficiency, or produc resources will bring about an increase in its productive capacity. Therefore, migr or the discovery of a new deposit of natural resources would improve the produc increase the *quantity* of inputs – it is natural that more output can be made wh increasing. However, improvements in the quality of resources could be brought research and development, capital, education, etc.

[3–4 marks for a clear explanation of sources of long-run economic growth, disting quality improvements, and using examples; 1–2 marks for an explanation that is le general meaning – e.g. only recognising efficiency changes as a source of economic short-run factors]

10. Between 2007 and 2010 the UK economy was experiencing a recessionary phase has been a sustained period of negative economic growth (and, hence, declining Recessions have the consequence of increasing unemployment because firms are commercial activity. If workers are unemployed for long periods of time they mig depressed, which would constitute a decrease in the productive capacity of an ec face declines in tax receipts and increased government expenditure if there has b has the potential to cause a *budget deficit*, increasing the national debt, and limiti conduct expansionary policy. If recessions are prolonged there might be long-te of investment during the period, this could lower an economy's trend rate of GDP

[3–4 marks for a clear explanation of the consequences of a recession, expanding effe offering examples where applicable; 1–2 marks for a discussion that is app engaged and analysis; 0 marks for answers that are off-topic]

11. (i) *Nominal* GDP Growth = % Change in Nominal GDP = $\frac{1{,}940{,}000-1{,}873{,}000}{1{,}873{,}000} \times 1$[illegible]

[1 mark for correct answer; 1 mark for showing working]

(ii) $Real\ GDP\ (2016) = 1.8\%\ increase\ in\ Real\ GDP\ (2015) = 1{,}832{,}000\ \times 1.$[illegible]

[1 mark for correct answer; 1 mark for showing working]

(iii) $Nominal\ GDP\ per\ capita = \frac{Nominal\ GDP}{Po\ldots}$ = [illegible] = £29,846

[1 mark for correct [illegible] mark for showing working. Note that a commo[illegible] not converting [illegible] figure into the same units]

12. (i) GDP [illegible]easured because it gives an indication of an economy's size – it me[illegible] by productive activities within an economy during a given period of time. G[illegible] of an economy's health and citizens' living standards. It, therefore, facilitate[illegible] e.g. it allows economists to measure trends in economic growth. Furthermo[illegible] economists to compare an economy's size to other economies – GDP is a we[illegible] by most countries so measuring it is an important step in assessing the rela[illegible] Measures of GDP can then also be used to inform policies – e.g. if GDP falls f[illegible] Economists would know that it should use expansionary policies to counter[illegible]

[2 marks for clear explanation of why Economists would measure GDP; 1 mar[illegible] clear but conveys the general meaning]

(ii) Possible difficulties of measuring GDP include:

- Inability to measure the informal sector – GDP only measures transact[illegible] activities are, therefore, excluded from GDP but nevertheless contribu[illegible] and other self-doing activities of similar nature [illegible]e also unrecorded, b[illegible] consider this informal work valuable. [illegible], in LEDCs many pe[illegible] farmers – if they don't trade their [illegible] then this will not show up i[illegible] nevertheless output.
- GDP includes 'bads' as well as 'goods' – e.g. if large numbers of the pop[illegible] mass exp[illegible] healthcare, this would contribute positively to G[illegible] [illegible] of life.
- [illegible]stical error – it's unlikely that all transactions can be measured co[illegible] [illegible]ely to be some statistical noise in GDP calculations.
- Living standards – measuring an economy's GDP does not include if th[illegible] worsening of living standards within the country and therefore canno[illegible] are better or worse off even if GDP is increasing.

[Maximum 6 marks. 1 mark for each correctly identified difficulty of measuri[illegible] explanation as to why it is a difficulty.]

2.2: Development

1. (i) *Primary* – The lumber industry is a 'primary' industry because it is concerne
this case, timber – from the earth. Note that the primary sector is a primary
natural resources are obtained or provided for conversion into consumer m

(ii) *Secondary* – The steel production industry is an example of a 'secondary' ind
natural resources – in this case, iron and other meta[illegible] are converted into c

(iii) *Primary* – The oil extraction industry is another example of a 'primary' indu
resources are being extracted from the environment.

(iv) *Tertiary* – The rest[illegible]industry is an example of a 'tertiary' industry beca
provided to consumers.

[1 mark per correct response]

2. HDI is constructed from indicators of (i) life expectancy, (ii) education and (iii) p

[1 mark per correct response]

3. 'Economic' development refers to improvements in economic well-being brought
tends to encompass progress made in a society in terms of improving the 'quality
improving a population's health and nutrition, enhancing education, etc. 'Sustain
economic development that meets the needs of the present – and, especially, the
without compromising the ability of future generations to meet their own needs.
between economic and sustainable development is that the latter adopts a long-t

*[2 marks for a clear distinction between economic and sustainable development; 1
clear but which conveys the general meaning]*

4. If a government has the macroeconomic policy objective of 'sustained' economic
wants to achieve economic growth constantly from period to period, rather than
'sustainable' economic growth suggests that the government is seeking a rate of
engender significant economic problems either in the short- or long-run. If growt
there are important trade-offs between growth and inflationary pressure, and ou
However, in the long run, too rapid growth now might impede future generations
own ways and lifestyles, e.g. if it creates environmental problems.

*[2 marks for a clear explanation of the objective of 'sustained and sustainable' econo
explanation that is less clear but conveys the general meaning]*

5. - Economic growth is a prerequisite for economic development, but it is not s
astonishing rate of economic growth highlights the importance of distinguis
development. While China has grown to become the second wealthiest natio
hasn't brought about equal improvements in development indicators.
- It would be impossible for a country to develop without having also achieve
– after all, it would be difficult to finance improvements in education, sanita
increasing a country's productive potential.
- China's experience shows that economic growth can occur without equal ga
sections of society benefit from it. In China's case, the urban population has
because manufacturing and trade tends to be concentrated in these areas, w
is impoverished. If, however, China's new-found wealth was distributed eve
would be more likely that development would have occurred.
- Since GDP measures expenditure on goods (e.g. military expenditure) as we
economic growth doesn't necessarily mean that development will occur. If a
investing heavily in welfare while leaving education and healthcare by the
argue that development is improving – it could, in fact, be worsening.
- GDP growth can be usually be thought of as an organic process – although in C
development is the outcome of planning. It's important that governments plan
healthcare, because these are things that don't tend to be sufficiently provided

*[Maximum 8 marks. 6–8 marks for a strong, well-supported evaluation. A well-reas
between economic growth and economic development; 4–5 marks for a reasonable
support for arguments between the relationship of economic growth and economic
limited attempt at evaluation, likely to be unsupported.]*

6.

	GDP per capita	Hum
Advantages	GDP per capita is easy to understand – it is simply a measure of the 'average' income of a country's citizen. It is far easier to understand than other development indicators – e.g. the Genuine Progress Indicator. GDP is an internationally established measure of income. Therefore it is beneficial in the sense that adopting GDP per capita measure of economic development can facilitate comparisons between countries with relative ease.	HDI is develo includ to hum measu educat Incom as a m than g
Disadvantages	GDP captures production. It doesn't measure variables that could be considered to bring about genuine progress. GDP of course will include investments in education, nutrition, etc. within a certain time frame, but it tells us little about how these investments are affecting the population. Essentially, GDP doesn't measure variables that affect a country's standard of living. GDP is a poor measure for many LEDCs because it excludes flows of income from foreign countries. LEDCs receive foreign aid as well as remittances from its citizens abroad, and these should be included because they do in fact improve a country's welfare. *GNI would be a better indicator for this reason.* GDP per capita obscures inequality by stating that all members of the population earn the *same* average income – inequality is a development impediment in itself and should be dealt with.	HDI do econor and th comple stage o gender malnut other t analys Focusi obscur of ecor econor HDI als the GN noted t insuffi

[Maxim... marks for a clear and consistent evaluation, comparing both of GDP per capita and HDI; 4–5 marks for a reasonable evaluation, lacking supportin... limited attempt at evaluation may be only loosely related to the question or missing s...

7. *For:*

Primarily, the environmental Kuznets curve would suggest that economic growth outcomes to be improved, and is, therefore, an essential factor in achieving susta... evidence for the Kuznets curve would suggest that for some pollutants, there is a... GDP passes a certain threshold – e.g. sulphur dioxide emissions tend to decrease... Therefore, if the Kuznets curve stands up to empirical testing, this would suggest... for sustainable development.

If a country's GDP is higher, there should be more resources that can be dedicate... outcomes. Naturally, after alleviating poverty and covering the basic necessities ... nations should be able to use resources for improving the natural environment. ... invest in providing renewable sources of energy – this is an investment that wou... governments that must focus on providing their populations with the basics. Mor... should have higher discretionary income and these allow consumers to absorb t... associated with products produced to environmental standards.

Furthermore, wealthier economies have more resources in which they can invest... effect of improving efficiency so that more output can be produced with less reso... would, therefore, reduce a country's strain on natural resources in the present, al... benefit from these resources equally. LEDCs don't tend to have a high level of sav... spent on attaining life's basic necessities – this necessarily means that they litera... invest in more efficient, pollution-reducing technology.

Finally, political institutions in wealthier countries tend to function more effectiv
often corrupt, and policies often benefit special-interest groups. Therefore, in we
a better ability to impose taxes and regulations that can be used to improve envi

Against:
However, there is also evidence that the Kuznets curve doesn't hold true. CO_2 em
strictly increase as GDP increases, which would suggest that economic growth ca
polluting at increasing rates – the US for instance has one of the highest levels of

Moreover, economic growth that is based on non-renewable – and, therefore, fi
itself be sustainable because the resources will run out at some point end. Once it runs out
resources to meet the needs of the present, let alone the needs of future generati
becomes scarcer and its price increases as a result, production might shift to mo
resources. Whether this is possible depends on how rapidly these alternatives c

Finally, even if alternatives are developed, the effects of a current consumption o
terms of climate change might have long-lasting effects on future generations. Ec
renewable and polluting resources would not be sustainable in this sense.

*[Maximum 8 marks. 6–8 marks for a strong in-depth evaluation, with sound well-re
against economic growth towards sustainable development; 4–5 marks for an adeq
in depth analysis and detail; 1–3 marks for a limited attempt at evaluation, may be
question, or missing sufficient reasoning.]*

2.3: Employment

1. Employment, naturally, is the opposite of unemployment. It is all those people th
and are currently employed. It includes all those who are employed by firms and
those that declare themselves self-employed.

*[2 marks for clear explanation of the meaning of employment; 1 mark for an expla
the general meaning]*

2. (i) The claimant count measure of unemployment is a measurement that uses t
unemployment-related benefits (i.e. Job Seeker's Allowance and National In
the calculation of the unemployment rate. Unemployment is, therefore, calc
of claimants as a percentage of the total labour force.

*[2 marks for a clear explanation of the claimant count measure of unemploym
that is less clear but conveys the general meaning]*

(ii) Difficulties (claimant count):
- The UK government has changed the conditions regarding eligibility fo
benefits a number of times since their introduction, making it difficult
unemployment over time using this measure;
- People might be claiming unemployment-related benefits without truly
they wouldn't be considered unemployed by conventional definitions;
- The claimant count excludes a number of people that aren't eligible to
(e.g. those that are under the age of 18, anybody seeking part-time or v
women that are looking to return to work, women looking to return to
have too-high a level of savings to apply for JSA, etc.);
- The claimant count might include those that are fraudulently claiming
'black market' or undeclared employment;
- Sometimes it is possible to have part-time work and also claim unempl
people would be counted twice).

*[1 mark each for identifying a suitable difficulty associated with the claimant
mark each for an explanation about how this difficulty will affect the measure*

3. (i) The measurement of unemployment is an alternative to the claimant count m
from the *Labour Force Survey* in order to determine the unemployment rate
private residences and asks questions relating to employment activity. It th
unemployment according to the ILO's definition of unemployment and expr
people according to this definition as a percentage of the total labour force.

*[2 marks for a clear explanation of the ILO measure of unemployment; 1 mark
clear but conveys the general meaning]*

(ii) The ILO's definition of unemployment are those people 'without a job, want
in the last four weeks and are available to start work in the next two weeks'
have found a job, and are waiting to start it in the next two weeks'.

[2 marks for the correct ILO's definition of unemployment; 1 mark if only a pa

4. $$\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Labour Force}} \times 100 = \frac{\text{Unemployed}}{\text{Full-time + Part-time + Unemployed}} \times 100 =$$

[1 mark for correct answer; 1 mark for showing working]

5. Difficulties (ILO):
- ILO measurement of unemployment is based on the evidence from the *Labour Fo*
and statistical issues that can arise from choosing an incorrect sample
ILO measure of unemployment is rarely likely to be the *true* unemployment
- It can be hard to distinguish if somebody is actively seeking work via a surv
better measure in this regard because Job Seeker's Allowance requires clai

*[1 mark each for identifying a suitable difficulty associated with the claimant coun
mark each for an explanation about how this difficulty will affect the measure]*

6. **B –** 'Frictional' unemployment is the time spent *searching* for employment, or th people have between leaving a job and starting a new one. **A** is referring to the c **C** 'structural', and **D** 'seasonal'.

[1 mark for correct response]

7. 'Structural' unemployment is unemployment that exists because of the changing activity. It occurs because of changes in industrial orga on (e.g. the decline o because of foreign competition and shifts towa e tiary sector) or becaus automation of labour).

[2 marks for clear explan of 'structural' unemployment; 1 mark for an explan the general mean

8. **C –** Paul tion is a classic example of 'seasonal' unemployment. Since the dem there is no need for Santa Claus impersonators in any other period of the year othe choice because seasons could be thought of as cyclical, but cyclical unemployment cycle and deficiencies in demand. There is nothing to suggest that Paul's situation i

[1 mark for correct response]

9. In this question students should attempt to evaluate the differing types of unem Students should use theory and evidence to support their decision.

e.g. Students might argue that *structural* unemployment is the most concerning f presence of it suggests there is a serious mismatch between skills that are suppli in the labour market – this is something that is likely to be incredibly difficult to Furthermore, technological change that brings about the automation of work is a that must plan-ahead for periods in which machines will replace much labour. Fr comparison, is totally unavoidable, and would exist even if skills were perfectly Frictional unemployment, therefore, is likely to be l a oncern for Economis

[Maximum of 6 marks. 5–6 marks for cl ly evaluating each cause of unemplo understanding of the economi ues. 3 marks for adequate analysis, might be u 1–3 marks for unsupp relevant evaluation]

10. **A –** Un ment refers to the situation in which people are *willing* and *able* to employ but are unable to find work. **B** is incorrect because not being part o you are unemployed – some people don't participate in the labour force because retirement, or people on paternity or maternity leave). **C** is incorrect even thoug redundant can constitute part of unemployment. Importantly, the focus is on peo people aren't they are considered to be *inactive* and don't constitute part of the l incorrect because even those that are able to work aren't unemployed unless the

[1 mark for correct response]

11. Literally, full employment would mean that all those who are willing and able to employment, therefore, might be considered a situation in which the unemploym unlikely to ever be the case in an economy because there will always exist some because of people searching for employment, or those that are moving between j employment as the make-up of an economy changes over ime. Hence, full emplo cyclical or demand-deficient employment (no *dem* ocs) but allows room f unemployment.

[2 marks for clear explanati of fu mployment; 1 mark for an explanation that general meaning]

12. Individual;
    - Forgone earnings – this engenders a decline in living standards, might affect
    - The need to rely on systems of social security – however, the Greek youth do might find themselves in a worse position of having no income;
    - Depression and other mental health issues – this is particularly important in t suicide is rife (note that this also has macroeconomic effects because depressi and suicides decrease the productive potential of an economy by reducing the

    Economically;
    - Multiplier Effect – industries that [illegible] would typically spend income o see a knock-on effect due to [illegible] unemployment.
    - Loss of GDP – wh[illegible] employment is so high GDP will be well below its being [illegible]. Essentially, these levels of youth unemployment mean that the ca[illegible]an [illegible], therefore, not using society's resources efficiently. If some of t lab[illegible]rket permanently then there will be long-term effects on the produ
    - Fiscal Costs – the government must pay out unemployment benefit and also fall in tax revenue, although this is unlikely to be such a large problem for th youth don't tend to receive social security payments.
    - Social Costs – e.g. poor health, crime, inequality – these are things that gover

    Evaluation: It is possible to argue that the severity of the consequences of unemplo unemployment is occurring. It is possible that the consequences are far more insid unemployment because occupational and geographic immobility are difficult to an government's ability to counteract it – unlike in a situation in which unemploymen deficiency or cyclical. Greece's situation is difficult because there is likely to be an e structural factors. Consequences of unemployment also depend on how prolonged e.g. in the case of Greece there has been high youth unemployment for almost 10 y effects on a generation's productivity, or even a long-term reduction in the labour s effect. Where unemployment is low or only for a short term, the consequences are

    [Maximum 6 marks. 5–6 marks for sound, well-rec[illegible]a[illegible]lysis, evaluating the cons have been applied accurately to the questio[illegible]sin[illegible]pporting data where needed. 3- but poor evaluation. 1–3 marks for [illegible]fly [illegible]ax answer with little evaluation of the

2.4: Inflation

1. **C –** Inflation refers to sustained, or persistent, increases in the aggregate price le
period of time. Importantly, the focus is on the price increase being *sustained*. If t
fluctuation then Economists wouldn't usually consider the movement to be infla
according to this definition.

[1 mark for correct response]

2. **D –** *Hyperinflation* refers to a situation in which the economy is experiencing exce
and these rates tend to accelerat[illegible] the problem of hyperinflation take
tend to define hyperinfl[illegible] episodes as periods where the inflation rate exc
of hyperinflation [illegible] engender highly *volatile* rates of inflation, **A** doesn't qui
hyperi[illegible]. **B** could occur at any inflation rate, and **C** is the opposite of hyperi

[1 mark for correct response]

3. Deflation is a situation in which there is a sustained decrease in the aggregate pri
given period of time. It can also be thought of as a *negative* rate of inflation. If the
1, £99 in Year 2, and £98 in Year 3, for instance, it can be said that deflation has o
is simply a reduction, or slowing, in the rate of inflation. Simply, if the inflation ra
Year 2 one could say that disinflation had occurred. Disinflation is usually though
economic agents tend to prefer lower rates of inflation. Deflation, however, is usu
thing. Note, that disinflation could lead to deflation if the inflation rate is particul

*[3–4 marks for a clear distinction between disinflation and deflation; 1–2 marks for
but conveys the general meaning; 0 marks for content that is unrelated to the ques*

4. If a government has a macroeconomic policy objective of 'low and stable' inflatio
wants to minimise sustained increases in the aggregate price level (in the Bank o
should be 2.0% over a given time period), but also to [illegible]se the volatility of in
shouldn't fluctuate too much around the desire[illegible]el of inflation. 'Low' inflation

[*2 marks for a clear explanation [illegible] stable' inflation; 1 mark for an explan
the general meaning]*

5. The Co[illegible] Price Index (CPI) is a *weighted* price index of a representative bu
ONS co[illegible]ata on thousands of individual price quotes of the sample of repres
time frame. Next, the price level of the individual items in the sample are weighte
importance to households in the UK by using information from the *Household Fi
Expenditure* survey – e.g. if petrol is a more important expense than, say, tinned f
weight in the index. Note that these weights will change over time according to th
Inflation can then be calculated by working out the rate of change in the level of p

*[3–4 marks for a clear explanation of CPI and its use in calculating inflation; 1–2 mar
clear but conveys the general meaning; 0 marks for content that is unrelated to the q*

6. (i) $Inflation_{2011-2013} = \frac{110.117-104.484}{104.484} * 100 = 5.39\%$

[Maximum 2 marks. 1 mark for correct answer. 1 mark for showing calculatio

(ii) $Inflation_{2014-2015} = \frac{111.842-111.786}{111.786} * 100 = 0.05\%$

[Maximum 2 marks. 1 mark for correct answer. 1 mark for showing calculatio

7. The CPI and RPI [illegible] the sample of goods and services that are included in th
mortg[illegible]re. payments – since the interest rate will affect the cost of mortg
measu[illegible]tion according to RPI. CPI excludes this type of payment from its c
misleading. RPI also includes different demographics in the survey than CPI. RPI,
households and high-income households which likely have different consumptio

*[3–4 marks for a clear explanation of the difference between CPI and RPI; 1–2 mar
clear but conveys the general meaning, or only partially correct (e.g. by focusing on
RPI and CPI; 0 marks for content that is unrelated to the question]*

8.

Advantages	Di
Indices are an established way of calculating inflation, and having a clear methodology allows governments to produce statistics that are comparable over time – that is, certain items are included in CPI and these are measured continuously, rather than choosing the basket of goods on a case-by-case basis.	Indices such as CPI are *quality* of products whi increases in price – e.g. new technology, rathe
Indices such as CPI are useful because they've been adopted as measures by numerous economies which calculates the international comparison of inflation.	Indices such as CPI als effect of consumption. alternatives, and price consumption to the ch index's weight isn't al overstated. (Note that an annual basis in ord
Indices help governments forecast and this analysis can help determine fiscal or monetary policy.	If the weights of indivi index are calculated fr statistical errors that weight the importanc
Indices make it easy for consumers and businesses to plan their behaviour – e.g. workers might be able to demand *fair* salary increases by highlighting movements in the price index.	It is important to cons 'base' year – if the bas economic situation tha way) then future calcu might engender a misl economy's health.

[Maximum 6 marks. 5–6 marks for a careful and balanced evaluation of the relativ using an index to measure inflation, specifically referencing CPI. 3–4 marks for a li missing sufficient reasoning and evidence. 1–3 marks for identifying a few concepts absence of thought behind the advantages and disadvantages of using an index to

9. Inflation can be caused by demand-side factors, supply-side factors, or changes i brought about by demand factors it is called *demand-pull inflation*. Increases and this effect is likely to be marked when the economy is operating close to full capac increases in demand can allow producers to charge higher prices for their produc potential factors. If inflation is brought about by supply-side factors. Economists inflation as *cost-push inflation*. Whenever a firm's costs increase, these costs will form of higher prices in order for the firm to maintain profitability – costs for firm say, if there was a natural disaster, an increase in the world's price of oil, or work However, the important evaluative point here is that while both of these factors price level, inflation is a *sustained* increase in the price level. It is suggested that when there are increases in the money supply. If too much money is chasing too these goods is increased as firms respond to excesses in demand brought about b increasing purchasing power.

[Maximum 6 marks. 5–6 marks for accurate and balanced evaluative comments of supporting a rounded conclusion that pertains directly to the question. 3–4 marks f inflation, partially linked to the question but displays incomplete or basic reasonin few causes, but inconsistently, and with inaccurate or absence of thought behind th

10.

Inflation	
Inflation has menu costs – this is the cost of firms having to update their price lists. However, th[ese] are insignificant when inflation is stable. Th[erefore] we would expect this to be a prob[lem] in the Venezuelan economy but not in the [UK]	In Japan's experience it deflation has been *who* because deflation caus[es] services to fall, and so [firms] competitive in internat[ional] economies. Japan has b[een] export prices in the pe[riod] deflation (it has a trad[e] Moreover, if deflation i[s] and productivity gains [are] of goods and services, [this] as positive and an indi[cator]
Inflation also involves 'shoe leather costs' – this is the time and effort and wasted resources spent by people trying to counteract the effects of inflation (e.g. making continuous trips to the bank to reduce cash holdings). Again, this is more of problem when inflation is high!	Deflation can be consid[ered] discourages consumer [spending] falling, consumers tend [to delay] until they can purchas[e] future. Deflation, there[fore] of low consumer exper[diture] aggregate demand. However, an evaluation [is] direction of causality is [not] falling AD that brings a[bout]
Inflation redistributes income from lender to borrowers by reducing the *real* value of one's borrowings – e.g. if you borrowed £100, but the p[rice] level doubled, you would be able to pay th[e] back by giving up half as much income as before	Deflation can increase [the] increasing real interest [rate] larger proportion of th[eir] mortgages etc., while fi[rms] investment. Again, the
Inflation when it is high [tends] to also be volatile – this is problematic b[ecause] it creates uncertainty and make[s] financial planning and economic decision-makin[g] difficult. Firms tend not to invest as they will be unsure about future revenue streams. Consumers tend to hold back on consumption. However, this is less likely to be a problem for the UK who anchor inflation around the 2.0% target – when inflation is targeted people can make decision based on expectations that the target will be achieved.	If the interest rate is cl[ose] to the case of Japan, then [the] interest rate positive. U[nder] central bank's monetar[y] trapping the economy i[n]

[Maximum 10 marks. 8–10 marks for displaying very accurate knowledge of the ec[onomics] question very clearly with relevant examples. Analysis is well reasoned and logical[ly]. knowledge but only partially linked to the question and not comparing the three ec[onomies]. basic reasoning skills, but may focus too much on one side of an argument. 1–3 ma[rks] evaluation, not addressing the question consistently with little to no comparative k[nowledge] and missing sufficient reasoning.]