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OCR
Oxford Cambridge and RSA

AS LEVEL
Exemplar Candidate Work

ECONOMICS

H060
For first teaching in 2015

June 2016
Component 02
Macroeconomics

Version 1

www.ocr.org.uk/economics

Contents

A GRADE CANDIDATE

Q16a State one method, other than the output method, of measuring GDP [1]

16 (a) State **one** method, other than the output method, of measuring GDP.

measuring the nation's income

Commentary on the answer

Correct method given.

1 mark

Q16b Explain what is meant by 'GDP' per capita [2]

the amount ~~total~~ of gross domestic product per person in an economy. It is calculated by:

$$\frac{\text{GDP}}{\text{Population}}$$

Commentary on the answer

The candidate offers a partially correct answer. As per the mark scheme the formula was only credited with one mark.

A large number of candidates simply spelt out GDP as 'Gross domestic product' and 'per capita' as per head. The command word "explain" led the expectation that the concept of GDP would be explored, e.g. 'total output' and the mechanics of dividing by the population.

1 mark

Q16c Using Fig. 2, calculate Germany's unemployment rate in 2014. [2]

$42.75 + 2.25 = 45$

$\frac{2.25}{45} \times 100 = \boxed{5\%}$

Commentary on the answer

The candidate correctly calculates Germany's unemployment rate.

2 marks

Q16d Using information from the case study, compare how Germany and the UK are likely to be affected by a slowdown in the growth of the Chinese economy [4]

A slowdown in growth may lead to less Chinese investment in Germany and Britain. However as they are investing $4.8 billion in the UK, compared with $1.6 billion in Germany, the UK economy is going to feel this slowdown much more as a lack of investment can lead to decreases in Aggregate Demand, as it is a component of it, and in the long run a decrease in Aggregate supply. All of which reduce the real GDP level, and therefore growth. Germany will still feel its effect, but there will be less of a ~~~~ hole to fill, as the Chinese are investing less.

[4]

Commentary on the answer

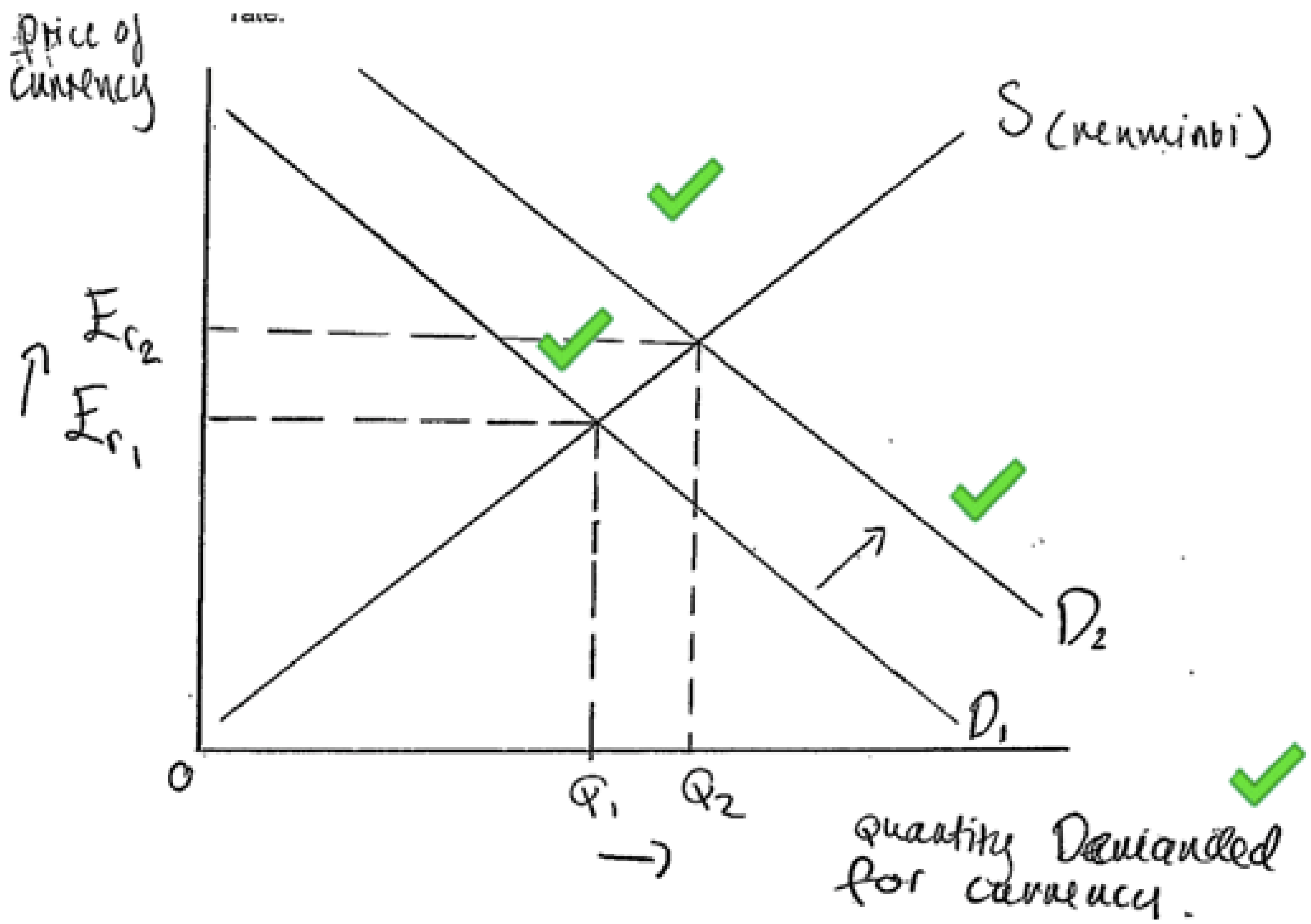
One mark for less Chinese investment

One mark for recognition that as China invests more into the UK than Germany this will harm the UK more

One mark for further explaining the impact on the UK economy but without sufficient comparison to Germany.

3 marks

Q16e Show, using a diagram, the effect of an increase in China's exports on China's exchange rate. [4]



Commentary on the answer

Commentary on the answer

One mark for correct labelling of the diagram

One mark for the original equilibrium

One mark for the rightward shift of the demand curve

One mark for the new equilibrium point

4 marks

Q16f **Using information from the case, explain one reason why total saving was expected to rise in the USA in 2016.** **[2]**

As the interest rate had been raised and therefore the reward for saving is ~~was~~ higher and therefore people have more of an incentive to save.

Commentary on the answer

The candidate correctly identifies a reason from the case study and explains it appropriately. They use good economic terms to concisely answer the question.

2 marks

Q16g Evaluate whether a large cut in direct taxes will always increase investment. [10]

Yes, you could argue that a large cut in direct taxes will always increase investment as: A cut in corporation tax will lead to higher post tax profits and therefore firms are more likely to reinvest this. Furthermore, a large cut in income tax will lead to higher post tax incomes, causing the level of consumption to rise. This rise in consumption boosts firms sales and therefore confidence, & encouraging them to invest.

However, you could argue that it doesn't as: if firms and consumers are low on confidence, because there is ~~economy~~ ~~is in recession~~ uncertainty about the economy and the level of inflation then firms will put off investing until it is more secure to do so. Finally it depends on the average propensity to save, if it is high then consumers will [10] save, not spend, that much more, and firms won't gain that confidence and therefore not invest.

Commentary on the answer

The candidate has correctly identified a direct tax and analyses the consequence of this for firms' profits and investment. They also analyse the consequences of a cut in income tax. A valid counter argument is given which weighs up both sides but no supported judgement is provided.

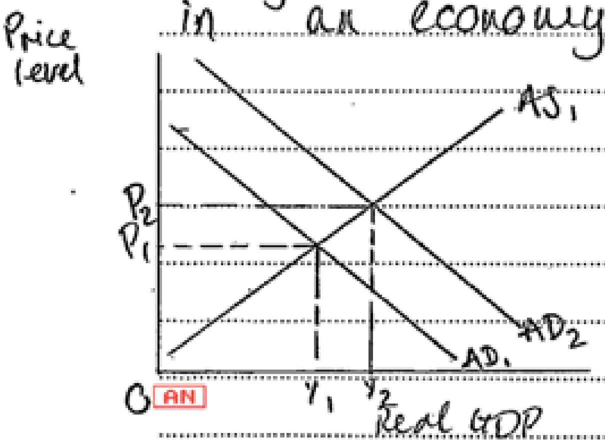
Level 3: strong analysis and good evaluation

8 marks

Q17 **In 2015, the Turkish economy experienced an unemployment rate of 9.3% and an inflation rate of 7.4%. Evaluate, using an appropriate diagram(s), the extent to which it is possible for a government to reduce unemployment without causing a rise in the price level. [20]**

The unemployment rate is the amount of the workforce that are out of work yet are able, willing and have been looking for work. Inflation is the general sustained rise in price levels across an economy.

Rising the level of Aggregate Demand (AD) in an economy is a possible solution to lower unemployment rates. However, as we can see from the diagram a rise in AD from AD_1 to AD_2 will cause growth, as real GDP increases from y_1 to y_2, indicating a drop in unemployment, but it will also cause demand-pull inflation. Therefore



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demand side policies such as fiscal and monetary policy are unlikely to work ~~and the~~ as they will cause demand pull inflation, this suggests that ~~the~~ governments should focus on Supply-side policies.

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For example, Policies such as increased spending on education and training, lowering unemployment benefits or upping the tax-free income would all be effective in shifting the Aggregate Supply (AS) curve to the right. The current conservative government

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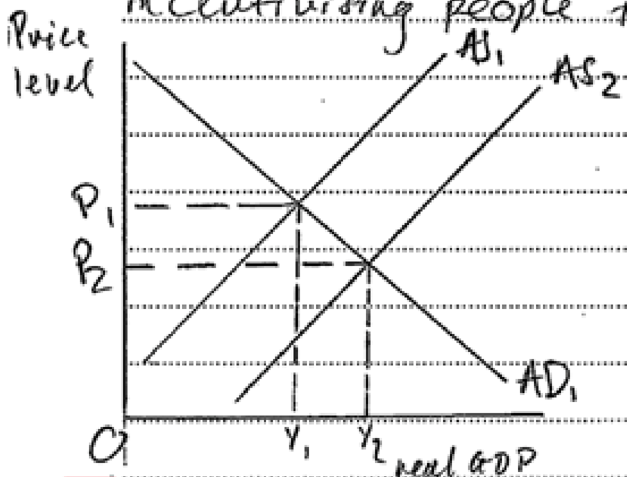
upped the tax free income to £11,000 incentivising people to get into work.



Take improvements to education and training as an example. Better educated people are more productive, and therefore, as we can see from the diagram AS would shift

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from AS_1 to AS_2. This causes unemployment to fall as a rise in real GDP indicates a rise in the national level of income and producers would be incentivised to invest as the cost of production has gone down due to more productive workers.

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And it also causes the price level to fall, easing inflationary pressures.

However, on the other hand, a rise in employment will also cause a rise in consumption,

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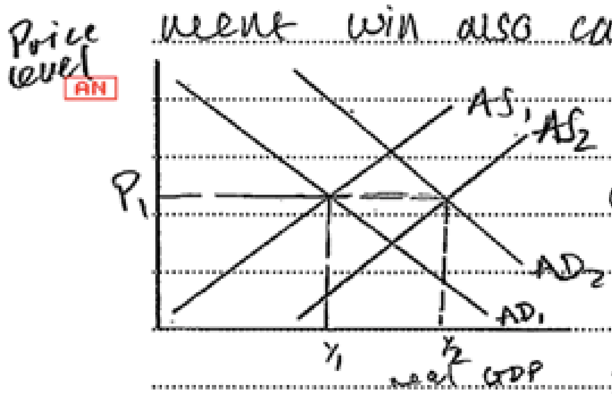
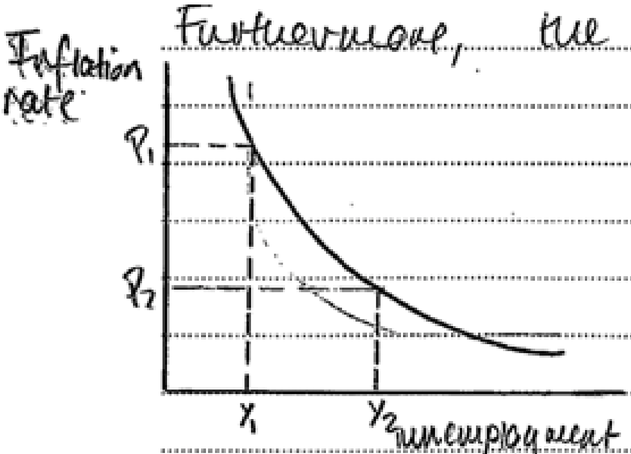
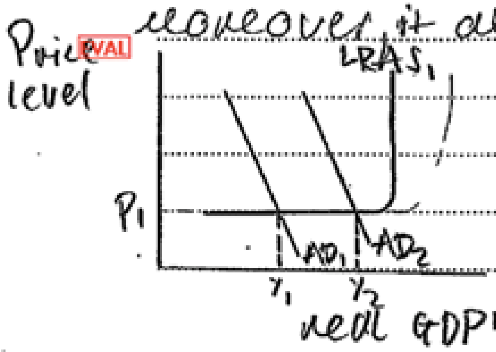


which will cause AD to rise as it is the largest component of it. As you can see from the diagram, a rise in AD may cancel out any drops in the price level, keeping inflation at ~~a consta~~ the same level.



Furthermore, the philips curve as drawn below indicates that as unemployment falls, inflation will rise meaning that to achieve the two objectives can be a challenge.



EVAL

moreover, it also depends on the level of spare capacity. If the economy is not at full employment then demand side will work and supply side policies won't

END OF QUESTION PAPER

Q17. As I said earlier I believed that to have both low unemployment and inflation, then supply side policies should be used. I believe this as it increases real GDP and lowers the price level, achieving both objectives. However, in the short run education and training are unlikely to work as it takes many many years to take effect. Therefore other supply side policies such as lowering ~~the~~ unemployment benefits as they increase the supply of labour, lowering their wage demands and ~~increasing~~ therefore increasing production ~~there~~ however, it depends on the type of unemployment. There may be structural, where people lack the skills or there may be an immobility of labour due to a poor transport network.

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Therefore, the government in question should apply the supply side policy most appropriate to their situation. To cause absolutely no inflation would be a challenge, however.

Commentary on the answer

The candidate provides a structured and logical answer. They address the reasons why government can lower unemployment without increasing the price level and then balance this with a strong counter argument.

Their analysis of how unemployment could be lowered includes an explained diagram and coherent links in their chain of argument. They use economic terms, such as demand pull inflation and macroeconomic policies, appropriately which adds substance to their analysis. They evaluate throughout the essay, initially by explaining the benefits of supply side policies instead of monetary or fiscal policies. This evaluation is supported and comprehensive.

The Phillips curve shows they have a strong understanding of the trade off between unemployment and inflation.

The final paragraph is saved from just being a summary by their consideration of which type of unemployment is in question.

Level 4: good knowledge, strong analysis and strong evaluation

20 marks

Q18 **The UK government planned to reduce the budget deficit of £87.3bn in 2014-15 to £75.3bn in 2015-16, mainly through reduced government spending. Evaluate, using an appropriate diagram, the effect of a reduction in the budget deficit on an economy. [20]**

A Budget deficit occurs when government spending exceeds tax revenue. This is yearly. There are two main reasons why a budget deficit occurs. Firstly there is a cyclical budget deficit arising due to automatic stabilisers in a recession. Secondly there is a structural budget deficit arising when the government cut taxes to stimulate the economy.

When a government runs a large budget deficit this needs to be financed usually in the form of borrowing. Of course this money needs to be paid back in the form of interest. When governments borrow large sums of money, it can put upward pressure on the rate of interest. This in turn means private sector firms face an increase in the cost of borrowing leading to crowding out. By reducing the budget deficit the government will need to borrow less. As a result government debt will fall. This will ensure future governments and generations are not left to bare the burden of the debt. Therefore by reducing a budget deficit, in the future as the government is not paying back large amount of debt, there is more money to spend on schools and building a

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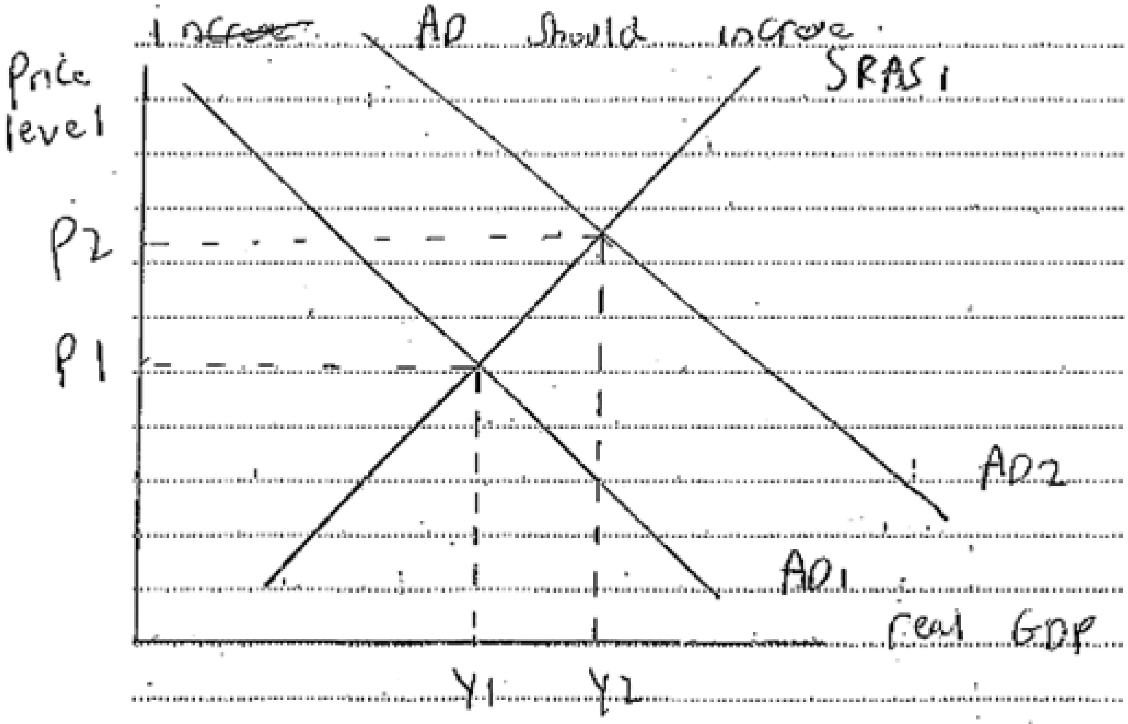
Strong health service.

A reduction in the budget deficit will put downward pressure on rate of interest as the government will borrow less to fund the deficit and the PSNCR will be lower. This will mean private sector firms face a lower cost of borrowing and could lead to crowding in of the private sector. Private sector firms are crucial to the economy as they are profit driven so have an incentive to minimise costs and innovate to remain competitive. If interest rates are lower if lower the cost of borrowing means firms are more likely to borrow to fund investment. Investment is a component AN of Aggregate demand, so ~~investment should increase~~ AD should increase.



As shown in the diagram below as AD increases from AD1 to AD2 firms have an incentive to meet this demand and boost output. This caused real GDP to increase

18	H	from Y1 to Y2, thus leading to short term economic growth. Labour is in derived demand, derived from the demand for goods and services. As more goods are demanded unemployment will decrease ..... However a rise in AD puts upward pressure on existing factors of production causing the price level to rise from P1 to P2 this leads to demand pull inflation. But this may not happen as the UK currently has a -0.3% negative output gap meaning there is sufficient

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18	H	spare capacity for a rise in AD to be met by ~~inf to~~ demand side inflationary pressure. However a reduction in the budget deficit will not always benefit an economy. A lot will depend on how the deficit is reduced. The George Osborne and the current Conservative government are planning to do this by imposing austerity measures and making large cuts to government spending. The areas in which the spending cuts are planned is by lowering the welfare bill such

18 H long run as there will be a lower quality education meaning less people will have the skills and qualifications required to get a good job. As a consequence the long term productive potential of the economy may fall causing an inward shift of the PPC from PPC1 to PPC2.

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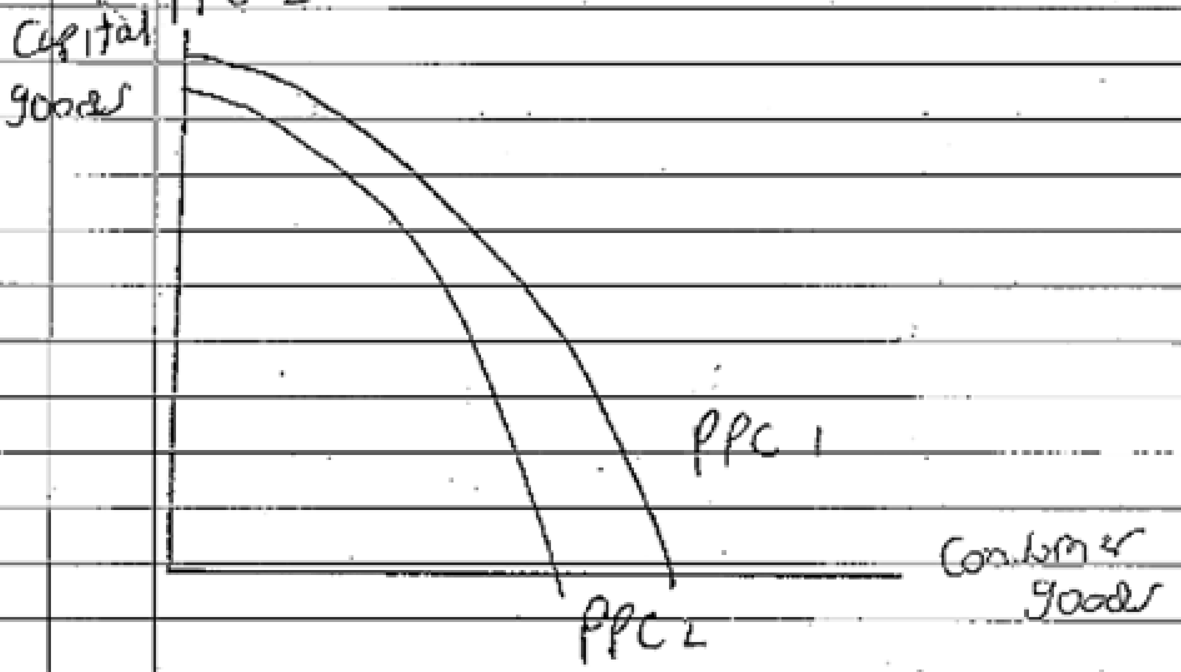

However a reduction in the UK budget deficit will be more beneficial to the economy if it was done by clamping down on tax avoidance ensuring by companies like Google

EVAL

18 H and Starbucks pay their taxes properly and do not avoid. By doing this total tax revenue will rise meaning the government doesn't need to impose such

strict austerity measures which could harm the poor and lead to further income inequality thus creating a society which doesn't benefit us all.

Overall a reduction in the budget deficit will benefit the economy as the government will not need to borrow as much which will reduce national debt. When national debt falls it ensures future generations are not burdened. Another main advantage of reducing the budget deficit is it will put downward pressure on the rate of interest leading to crowding in of private sector firms. This should help the economy grow and growing economies help to shrink debt as a proportion of GDP.

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18	ii	overall state of the economy. It is also important that the economy is growing at a stable rate with unemployment falling at a steady rate level. The government will also need to tackle the problem of low inflation with inflation at 0.5% as of March 2016 which is well below the bank's 2% target.

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Commentary on the answer

The candidate has a strong understanding of the term 'budget deficit' and they provide strong analysis of the benefits of a reduction in the deficit, recognising that it will free up finances to fund education and the health service.

They also analyse the PSNCR and the concept of crowding in which adds sophistication to their answer. An AD/AS diagram that is fully embedded into their explanation furthers analysis.

Their answer is balanced as they allow enough time for a thorough counter argument. They explain the consequences for income inequality and the long run consequences of less spending on education due to austerity measures.

The penultimate paragraph is a summary of previous arguments but there is sufficient strong evaluation throughout the answer to justify full marks.

20 marks

B/C GRADE CANDIDATE

Q16a **State one method, other than the output method, of measuring GDP.** **[1]**

16 (a) State one method, other than the output method, of measuring GDP.

Measuring standards of living eg wage rate /employment

Commentary on the answer

The answer is incorrect.

0 marks

Q16b **Explain what is meant by 'GDP' per capita.** **[2]**

growth output in accordance to population and positioning of people in a certain area

Commentary on the answer

The candidate has some understanding that it is output per person but hasn't explained GDP.

1 mark

Q16c Using Fig. 2, calculate Germany's unemployment rate in 2014. [2]

(c) Using Fig. 2, calculate Germany's unemployment rate in 2014.

the number of people in the country.

~~2.25 x 100 = 22.5%~~

2.25 % ÷ 42.75 x 100 = 5.2%

22.5%

Commentary on the answer

The candidate has used the incorrect figure for the labour force; they have divided the number of unemployed in Germany by the number of employed rather than initially adding the two pieces of information to provide the figure for the labour force (45m).

0 mark

The calculation of the rate of unemployment produced a wide range of solutions with around half the candidates answering correctly. Centres may wish to develop candidates' understanding of how the economic data from countries is derived.

Q16d Using information from the case study, compare how Germany and the UK are likely to be affected by a slowdown in the growth of the Chinese economy. [4]

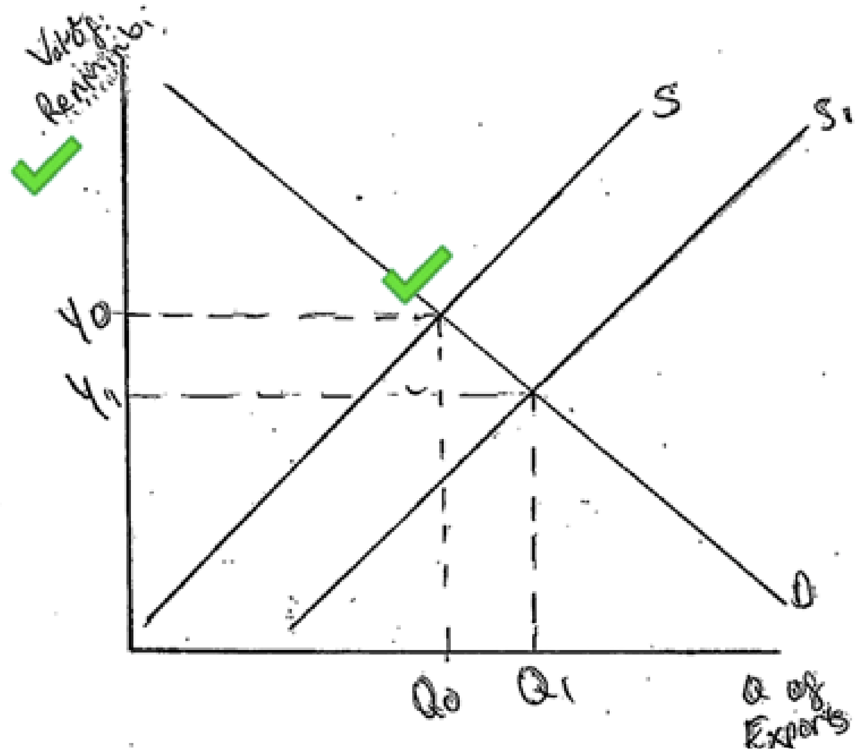
China contributes 12.2% to global GDP so if the economy slows down, the global GDP will be greatly affected. Germany and the UK trade with China so if China's economy slows down, Chinese people won't buy as much of our exports and their imports may become more expensive for us to buy.

Commentary on the answer

The candidate explains that the Chinese slowdown will reduce demand for UK exports but there isn't any comparison between the UK and Germany or an explanation of why the UK will be affected more than Germany.

1 mark

Q16e **Show, using a diagram, the effect of an increase in China's exports on China's exchange rate.** **[4]**



as supply of China's exports increase, the value of the Renminbi goes down while demand for exports extends

Commentary on the answer

One mark for a correctly labelled diagram (quantity of exports was credited with BOD)

One mark for the original equilibrium

2 marks

Q16f Using information from the case, explain one reason why total saving was expected to rise in the USA in 2016. [2]

Interest rates were raised so the
reward for saving increased, giving
Americans incentive to save

Commentary on the answer

The candidate correctly identifies the reason (increase in interest rates) and explains (with good use of economic terms) the consequence for savings.

2 marks

Q16g Evaluate whether a large cut in direct taxes will always increase investment. [10]

Direct taxes are taxes on income, businesses
have to pay corporation tax which is
a direct tax.
If there is a tax cut, firms will
AN ~~need to~~ have more profit which ~~they~~ it can
invest in elsewhere or in its own firm
by increasing wages or buying new machinery.
~~The~~ A cut in taxes also increases disposable
AN income so consumption goes up, increasing
AN firms profit which it may choose to invest. However the firm
may not invest it and may keep the
EVAL profit. Ceteris paribus might not apply,
and a decrease in tax may just
accomodate a rise in the cost of
EVAL production such as oil prices rising
or minimum wage being increased.
Perhaps a large cut is more likely

to bring about investment because it means more expensive technology could

Commentary on the answer

Due to the initial definition it is assumed that the candidate understands that firms will experience a cut in corporation tax and households a cut in income tax.

There is good enough analysis with some developed links of the consequences of a cut in indirect taxation.

The candidate makes an attempt to evaluate but it is a series of statements rather than really weighing up both sides and there isn't a supported judgement.

Level 3: good analysis and good evaluation

7 marks

Q17 In 2015, the Turkish economy experienced an unemployment rate of 9.3% and an inflation rate of 7.4%. Evaluate, using an appropriate diagram(s), the extent to which it is possible for a government to reduce unemployment without causing a rise in the price level. [20]

Unemployment is when people are willing and able to work but are unable to find a job. This may be due to imperfect information about available jobs or because the economy is in a downturn and there is a lack of demand for goods and therefore labour ~~supply~~. Occupational immobility leading to hysteresis may occur. Policies which don't cause inflation are supply side policies. These aim to increase the quality or quantity of ~~production~~ the factors of production. ~~These~~ This includes training programmes to reduce occupational immobility, grants to workers to help them move to areas where work is available. This way, GDP increases without causing inflation.

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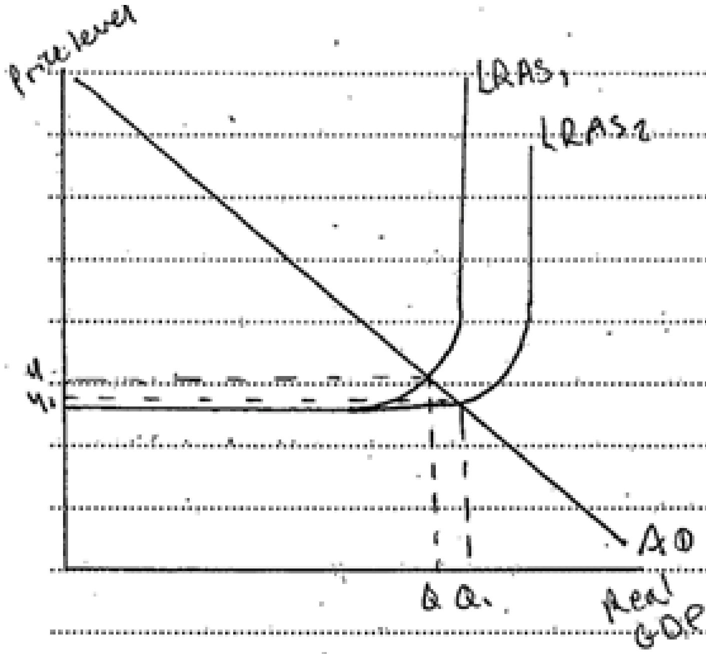

LRAS1 is the curve which shows where the economy is working at before the implementation of any supply side policies. LRAS2 is LRAS when the government has implemented policy. It shows a movement along the AD curve ~~also~~ so has a positive impact when trying to achieve the objective of real sustainable growth. However it also shows a decrease in the price level so deflation occurs.

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Deflation means the objective of a low and stable inflation rate is not achieved. Deflation also causes consumption to decrease as consumers put off buying things as they believe prices will become lower. In the long run, this does not increase AD and may shift AD left. Supply side policies such as training are not always immediately effective as there may be a time lag. If schools are training ~~kids~~ students to increase opportunity and 14 decrease occupational immobility, the students will not enter the job market straight away, so training and education is only a long term solution. As our goods become less expensive, our exports may go up, lessening the balance of payments deficit. The objective of low unemployment is achieved however. Policies such as an expansionary fiscal policy may decrease unemployment through an incentive to work as there are lower taxes. However fiscal policy causes inflation as it shifts AD to the right. Monetary policy may be used to devalue the pound and increase the derived demand for labour through an increase in demand for labour, however, this would also cause inflation as consumption would increase due to the incentive to borrow from low interest rates. (X-M) would also increase, shifting AD and causing inflation and also uncertainty.

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Overall if the government uses supply side policies, it can reduce

17 unemployment without causing inflation however there is a trade off with objectives. low unemployment and growth is achieved at the expense of a low and stable inflation rate and ~~an~~ surplus or ~~balanced~~ an equal balance of payments. The amount of growth and

employment may also depend on the size of the shift in LRAS and We know that the economy is not at full capacity so the supply side policies will have an effect on the rate of unemployment.

L2

Commentary on the answer

The candidate understands that supply side policies increase the long run aggregate supply curve and shouldn't result in an increase in the price level. They have provided reasonable analysis of this although it lacks economic vocabulary (referring to supply side policies generically rather than choosing specific ones) and a comprehensive chain of reasoning. They provide reasonable evaluation on deflation, recognising that this will miss the objective of low and stable inflation – however this is a little off the point of the question.

There is some further, limited, analysis on fiscal policy and there is an attempt at evaluation as they understand that a reduction in taxes could increase AD and cause inflationary pressure.

Their analysis of monetary policy misses links, there is no explanation of why a devaluation of the pound will increase demand for labour and therefore this remains as reasonable analysis.

The candidate's final paragraph includes evaluation as they consider both sides of the argument but there isn't a sense of weighing things up or a supported judgement.

Level 2: reasonable knowledge, reasonable analysis, reasonable evaluation

10 marks

Q18 The UK government planned to reduce the budget deficit of £87.3bn in 2014-15 to £75.3bn in 2015-16, mainly through reduced government spending. Evaluate, using an appropriate diagram, the effect of a reduction in the budget deficit on an economy. [20]

18. The Exchange Rate is the value of a currency in comparision to another currency (i.e. 1.4$ USD is equal value to £1 GBP)

Inflation is the increase in the general price level of an economy, and Real GDP is the total national output of all goods and services.

A reduction in the budget deficit can be achieved by a cut in Government spending; as Government Spending is a component of Aggregate Demand (C + I + G + (X – M)), a decrease in it will cause a leftward shift in AD from AD1 to AD2. This leads to a fall in real GDP from Y1 to Y2, and a fall in the general price level from P1 to P2. As a result, the level of employment decreases in the economy and deflation occurs; and a new macroeconomic equilibrium is achieved at E2 from the previous position at P1

A fall in government spending to reduce the budget deficit leads to an appreciation in the exchange rate, causing the relative value of the pound to increase against other currencies (such as the dollar). As the value of the pound will increase, the price of imports from other countries in pounds will decrease, while the price of exports from the UK will increase, resulting in an increase in demand for foreign imports and a fall in demand for UK exports. Though this would lead to an increase in material standards in the economy (as goods from abroad are cheaper i.e. electronics from china), this could also lead to a fall in price competitiveness and an increase in the deficit of the balance of trades and furthermore a worsening in the situation of the current

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account, harming the balance of payments within the UK economy. However, this fails to account for the concept of non-price competitiveness – the idea of consumers in other countries pursuing exports from other countries due to their quality.

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The effect of a reduction in the budget deficit in the UK depends on the spare capacity of the economy – should the economy be at maximum productive capacity a fall in real GDP would not be as harmful to the economy as being at a lower productive capacity, which may lead to a fall in the price level in the UK with a lower fall in real GDP; this would encourage consumption in an economy and increase aggregate demand – potentially negating the leftward initial shift.

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In addition, this is under the assumption of using only a reduction of government spending; in order to reduce a budget deficit, then the government could also implement higher direct taxes in the form of either regressive, progressive or flat taxes; this would decrease consumption and cause further decreases in aggregate demand and should this be levied on firms as corporation tax, it may cause a fall in the profits of a firm; as a firms primary economic goal is profit, they perhaps could choose to increase their prices in order to maintain their profit levels – this is known as cost-push inflation. The effectiveness of a direct tax is also debatable based on the marginal propensity to save/consume – if the MPC is low compared to the MPS then then AD may not be impacted as much as the level of consumption will not fall at the same level; consumers may opt to reduce their savings in place of reducing their expenditure.

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Overall, a reduction in the budget deficit via reduced government spending should lead to a fall in the real GDP in an economy, in addition to the general price level (causing a worsening in the position of the balance of payments and the current account), as long as there is (to an extent) spare capacity

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within an economy, though should there be no spare capacity and high levels of demand pull inflation then a decrease in government spending would have

EVAL very little effect on real GDP and cause a drastic fall in the price level; benefitting consumers in the long run though having a negative impact on the trade deficit, the current account deficit and the balance of payments.

Commentary on the answer

The candidate takes a little time to get into the question but they do provide reasonable analysis of the reduction in government spending on unemployment.

Unfortunately they lose focus of the question at times (diverging to exchange rates) however, they bring it back to the topic of budget deficit reduction and provide sufficient analysis and evaluation to justify level 3.

There is reasonable analysis in the fourth paragraph, they produce a nice explanation of how an increase in direct taxation could reduce the deficit and offer reasonable evaluation of the consequences for those on lower incomes. There is a little further evaluation at the end, they recognise the significance of how much spare capacity the economy has.

Level 3: good knowledge, good analysis, good evaluation

13 marks

D/E GRADE CANDIDATE

Q16a State one method, other than the output method, of measuring GDP. [1]

State **one** method, other than the output method, of measuring GDP.

CPI

Commentary on the answer

Commentary on the answer

Incorrect answer

0 marks

Q16b Explain what is meant by 'GDP' per capita. [2]

Explain what is meant by 'GDP per capita'. (line 6)

~~The amount a country earns eat~~

The average one person earns from the GDP.

~~of the~~ ~~allowing an understanding of the~~

~~number of people~~ Total amount of GDP divided by the number of people in the country.

Commentary on the answer

The answer is credited with one mark for the formula as per the mark scheme.

1 mark

Q16c Using Fig. 2, calculate Germany's unemployment rate in 2014. [2]

(c) Using Fig. 2, calculate Germany's unemployment rate in 2014.

labour force ÷ unemployed = 20

$\frac{\text{unemployed}}{\text{labour force}} = 0.05$

Commentary on the answer

The candidate has made an attempt to use the correct formula but hasn't fully understood how to elicit the correct data from the case study.

0 marks

Q16d Using information from the case study, compare how Germany and the UK are likely to be affected by a slowdown in the growth of the Chinese economy. [4]

TV

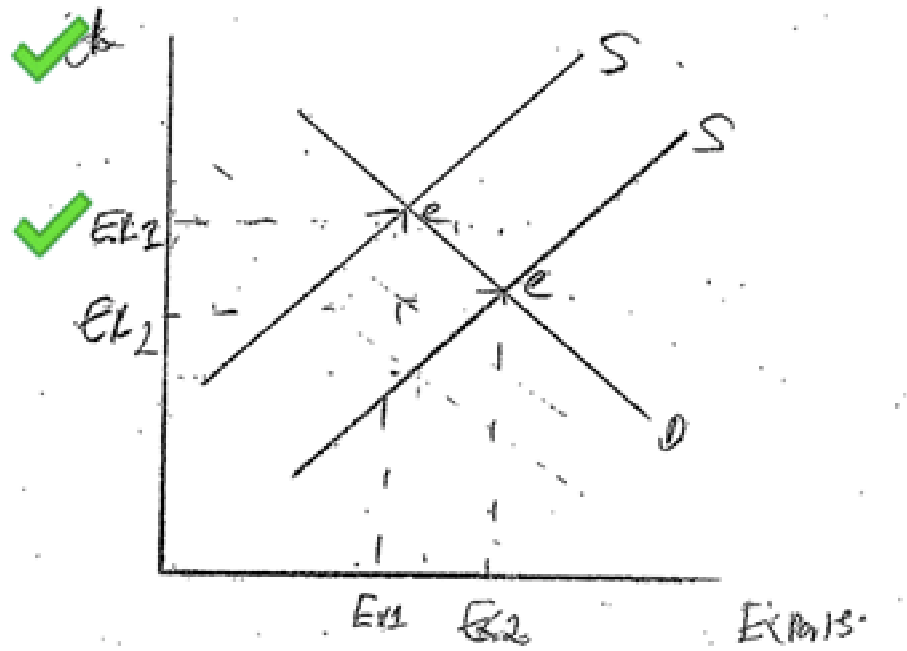
Germany and the UK will be affected as if China is unable to provide similar exports then the two countries are unable to have spend the same amount. If there is a decrease in spending then there ~~are tax~~ is less money provided (through tax) towards the government. This decreases their GDP.

Commentary on the answer

The beginning of the answer is too vague, the candidate doesn't clearly answer this question. The final sentence recognises that there will be a fall in GDP for Germany and the UK – enough for one mark.

1 mark

Q16e Show, using a diagram, the effect of an increase in China's exports on China's exchange rate. [4]



Commentary on the answer

One mark for the labelling of the diagram (BOD for exports)

One mark for the original equilibrium

2 marks

Q16f Using information from the case, explain one reason why total saving was expected to rise in the USA in 2016. [2]

The total saving was expected to increase as the rate of interest increased, this causes ~~less people to spend on~~ consumer spending to decrease and more people will save.

Commentary on the answer

Correct identification of the reason but the explanation is too vague.

1 mark

Q16g **Evaluate whether a large cut in direct taxes will always increase investment. [10]**

A large cut in direct taxes often lead to investment, this is because with the profit that is being made, the factors
AN of production are able to increase. ~~this is due to the fact that~~ However, it could not always lead to an increased in investment because firms may use this as
EVAL an attempt in gaining profit for themselves. ~~This may be because the firms are profit will be used on~~ ~~As well as this, an cut in taxes could lead to not too lead to an investment because there may be a decrease in the amount of raw materials provided. With this, the~~ Moreover, a decrease in direct taxes could lead to an increase in other taxes disallowing
SEEN the ~~govt~~ firms to increase investment.

Commentary on the answer

There is basic analysis (one chain in their reasoning) of the link between a cut in direct taxation and investment and a limited evaluative point about why investment may not occur.

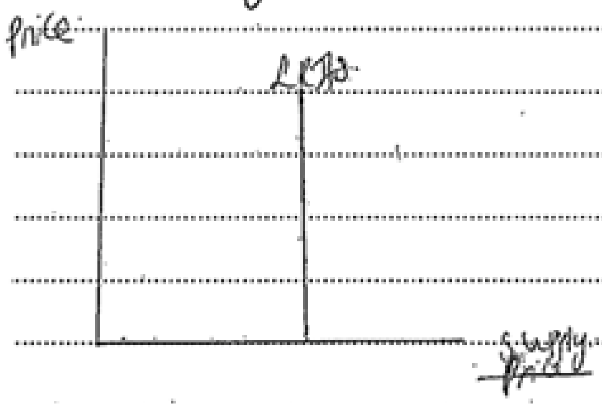
Level 1: limited analysis and limited evaluation

2 marks

Q17 **In 2015, the Turkish economy experienced an unemployment rate of 9.3% and an inflation rate of 7.4%. Evaluate, using an appropriate diagram(s), the extent to which it is possible for a government to reduce unemployment without causing a rise in the price level. [20]**

Unemployment ~~is the no~~ rate is the ~~number~~ of amount that a country does not have employed. It ~~occu~~ ~~the~~ includes those who are actively unemployed. Inflation is the increase of price of goods and services ~~of~~ which has occurred over two quarters.

Unemployment could ~~be reduced in many ways.~~ occur in many ways. For example, seasonal unemployment occurs with the ~~f~~ changing of inflation. ~~As well as this,~~ ~~so~~ strategies to reduce unemployment would be the through supply side policy ~~Removing~~ with cuts/subsidies. If the government increases its spending on the number of ~~traing~~ training and education provided the unemployment rates will ~~rise to~~ decrease in the long run. Therefore the number of unemployed would decrease immensely, and this would ~~cause~~ not cause a shift in the ~~amount of~~ price ~~cons~~ ~~too~~ levels due to the fact that the



would be a long period in which the price level adjusts to the unemployment rate. ~~However, this there is a possibility of this not happening. This is because~~ Moreover, ~~the~~ with ~~more~~ an increase in the number of ~~to~~ employed people, the efficiency of the firms will increase allowing more to be produced and the prices of products will stay the same or decrease.

However, this is likely to not occur as, ~~ttttt~~ remaining ceteris paribus ~~it~~ an increase in efficiency will cause labour force to demand for ~~more~~ higher wages. Another if ~~there~~ firms must provide higher wages then there will be an increase in unemployment. because they are unable to provide for both.

In addition, fixed exchange ~~a~~ rates could ~~to~~ allow ~~a~~ ~~the~~ price level to stay the same. With the increase in employment and efficiency, the exports could increase, however if they change their exchange rates from floating ~~E number of currency~~ (comparing two currencies based on the amount used on the foreign exchange market). to a fixed exchange rate. & The price levels of certain goods will stay the same.

However, this ~~could~~ could not occur

if there is a fixed exchange rate which is determined expensive, then ~~it~~ countries ~~[illegible]~~ will not have an incentive to ~~[illegible]~~ consume due to the fact that there could be an opportunity cost. If there is a decrease in exports the government would have to put taxes on certain goods in order to ~~sustain the~~ avoid a deflation.

SEEN

Commentary on the answer

The candidate has a muddled understanding of unemployment, price level and supply side policies. Their point about fixed exchange rates isn't answering the question.

There is a very basic attempt at analysis only.

Level 1: limited knowledge, limited analysis, no evaluation

2 marks

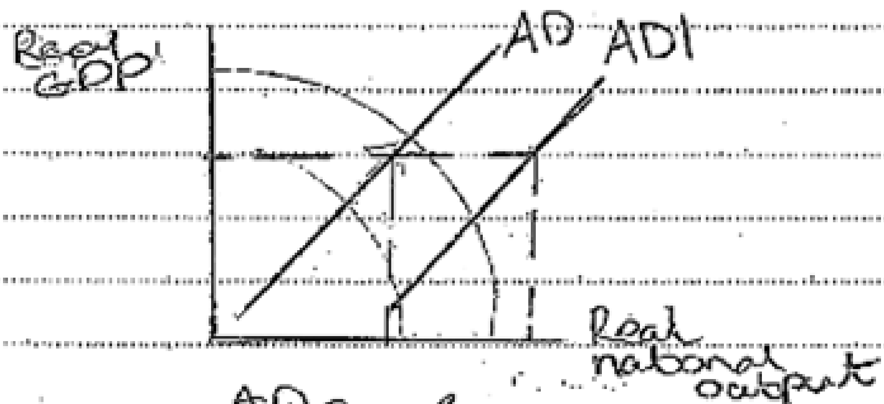
Q18 **The UK government planned to reduce the budget deficit of £87.3bn in 2014-15 to £75.3bn in 2015-16, mainly through reduced government spending. Evaluate, using an appropriate diagram, the effect of a reduction in the budget deficit on an economy. [20]**

The budget decifit is how much an economy is in debt. This may be because of lending to other countres or the EU or because ~~t~~ the economy borrowed to much from other countries.

The government receives revenue from taxes. However as the UK has a mixed economy the government provides public services. These cost alot of money to function, more than the government gets from tax revenue. Therefore this increases the budget deficit, ~~so~~ the economy is unable to cover the current debt ~~so~~ so they have to make it bigger inorder to pay some of it back.

Government Spending is a component of aggregate demand. Aggregate demand is Consumption + Investment + Government Spending + (Exports - Imports). If Aggregate demand increases it shows economic growth.

NAQ



This AD curve shows how the productive size of the economy has increased.

If the budget deficit is reduced then it would mean the population may suffer. A reduction in government spending means less funds going towards hospitals, emergancy services, a reduction in benefits

AN

which will reduce the standard of living and a reduction in funds towards protection eg the army.

In order to reduce the budget deficit the UK could stop lending out mony to other countries which is why the government has suggested leaving the EU. We pay in more than we get out which increases our budget deficit

EVAL

however this may harm international relations

Commentary on the answer

There is some, limited, analysis of the consequences of a reduction in government spending on education and health care and they understand the opportunity cost of some government spending which is enough for limited evaluation. However, the candidate has a basic grasp of the concepts and there is little use of economic terminology to aid a coherent chain of reasoning.

Level 1: limited knowledge, limited analysis, limited evaluation

4 marks

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