

A LEVEL

Exemplar Candidate Work

ECONOMICS

H460

For first teaching in 2015

H460/03 Themes in economics Summer 2017 examination series

Version 2

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Introduction

These exemplar answers have been chosen from the summer 2017 examination series.

OCR is open to a wide variety of approaches and all answers are considered on their merits. These exemplars, therefore, should not be seen as the only way to answer questions but do illustrate how the mark scheme has been applied.

Please always refer to the specification (<http://www.ocr.org.uk/Images/170839-specification-accredited-a-level-gce-economics-h460.pdf>) for full details of the assessment for this qualification. These exemplar answers should also be read in conjunction with the sample assessment materials and the June 2017 Examiners' Report to Centres available on the OCR website <http://www.ocr.org.uk/qualifications/>.

The question paper, mark scheme and any resource booklet(s) will be available on the OCR website from summer 2018. Until then, they are available on OCR Interchange (school exams officers will have a login for this).

It is important to note that approaches to question setting and marking will remain consistent. At the same time OCR reviews all its qualifications annually and may make small adjustments to improve the performance of its assessments. We will let you know of any substantive changes.

Question 31

31 Using the information in Extract 1, explain how the problem of scarcity can be applied to the housing market. [2]

Response 1 - 0 marks

The houses ~~are~~ supply are limited which means there isn't enough houses to meet demand for them. So decisions have to be made on housing market.

[2]

Response 2 - 2 marks

In the housing market there is an increase in demand due to low interest rates and population growth, but there is also a fall in supply of housing as the rates of house building is falling significantly. Due to this there is excess demand reflecting the problem of unlimited wants vs. limited resources. so the price-

[2]

Examiner commentary

The candidate in Response 1 made the common mistake of attempting to explain the problem of scarcity through supply and demand. The market mechanism of supply and demand is used to address the problem of scarcity rather than explain the problem itself – the answer needs to be given in terms of the relationship between wants (unlimited) and resources (limited). Response 2 does this as well as offering a clear application of both elements from Extract 1 – unlimited wants arising from population growth and low interest rates and limited resources arising from the rate of house building falling.

Question 32

32 Using the data from Fig. 1.1, compare what has happened to house prices and average earnings between 2000 and 2014. [2]

Response 1 - 2 marks

Usually the average earnings growth fluctuated between 0 and 0.5% and was quite stable in comparison to house price growth. Also house price growth was always typically higher than the income growth except between 2007 and 2012 where it has been lower and at some point negative [2]

Response 2 - 2 marks

Average earnings have stayed relatively the same between 0% and 5% whilst house prices growth have seen rapid fluctuations with its peak being at 25% but also fell to below 0% to -15% in 2008 during the recession. However, house prices have remained above earnings growth ^{at the} start and end of ^{the period.} [2]

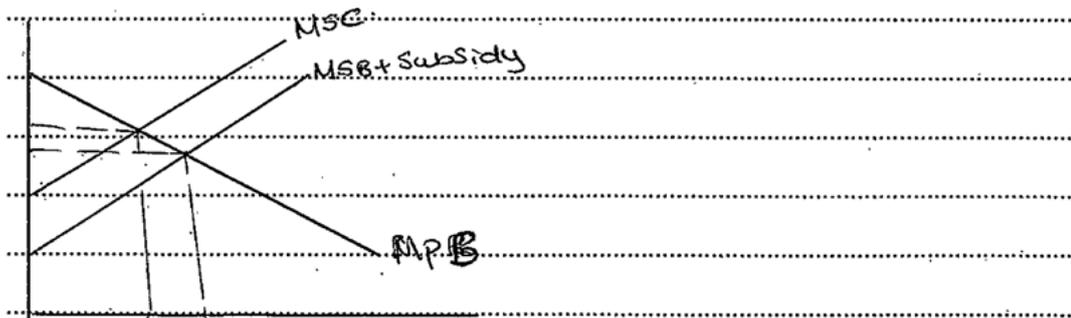
Examiner commentary

Two clear comparisons are offered in Response 1 – average earnings growth fluctuated less than house price growth and house price growth typically exceeded average earnings growth. Response 2 offers the same comparisons although benefit of the doubt is given on the first comparison – whilst there is an implicit recognition that average earnings growth was more stable with reference to the ‘rapid fluctuations’ in house price growth, the statement that ‘average earnings have stayed relatively the same’ is untrue as they were rising throughout the period.

Question 33

33 Evaluate, using an appropriate diagram, the extent to which the policy reforms outlined in Extract 1 are likely to improve the affordability of housing in the UK. [15]

Response 1 - 6 marks



In Extract 1 it is noted that there was an ~~extra~~ '3% additional Stamp duty rate'. This means that there was an extra 3% on Stamp duty as well as the Stamp duty already charged. This means that people who decide to buy a second house will have to pay a lot of money on Stamp duty. This in turn will scare potential buyers away and make them likely to buy another property. As a result of this measure, if ~~there~~ ~~consumers~~ ~~buy~~ ~~houses~~ ~~as~~ the ~~now~~ the number of 'buy to let investors' decrease the house prices will be more affordable, as there is a prevention of 'further upward pressure on house prices'.

The government also announced 'Lifetime ISA'. This aim was to incentive homebuyers to save up to £4000 a year for a new home by the government offering a ~~25%~~ 25% bonus on all money saved'. This reform would motivate homebuyers to save money, but also it would make house prices more affordable. For instance if a homebuyer saved £4000 a year they would receive £1000 from the government.

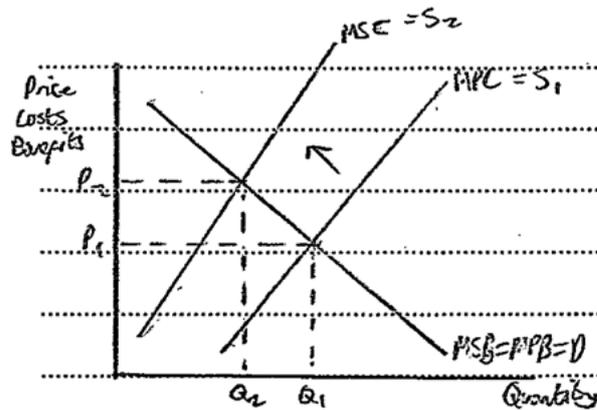
They was also 'access to a 20% equity loan from the government'. This would ultimately make it easier for homebuyers to get hold of some extra cash. ~~£1000~~ This would 'Make it significantly easier for first time buyers to secure the deposits they need'.

Therefore, this proves that the reforms are likely to ~~more~~ improve the ~~affordability~~ affordability of housing in the UK.

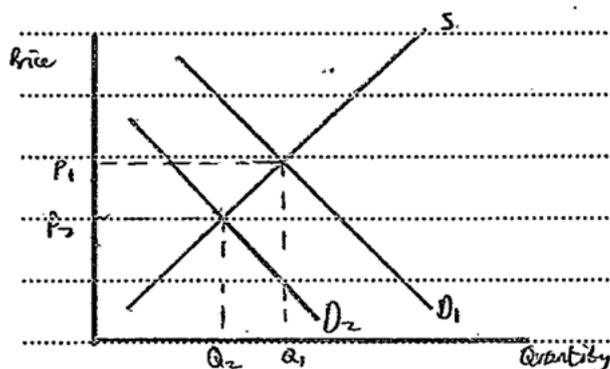
However, there is also the possibility that this also doesn't work. For instance, the stamp duty could mean nothing to those who are financially not phased by much. Also ~~More~~ those buyers who are financially...

Response 2 - 10 marks

Negative externalities of production are where there are external social costs inflicted upon a third party. Negative externalities exist in the buy-to-let housing markets because it makes it harder for first time buyers to afford their own home. There may be social impacts as children have to live with their parents for longer and the geographical mobility of labour may decrease. The 3% additional stamp rate aimed to reduce supply and shift the equilibrium to the socially optimal output.



Due to the increased costs of production, the supply of buy to let properties falls from S_1 to S_2 . The price increases from P_1 to P_2 and the quantity decreases from Q_1 to Q_2 . The negative externalities are internalised and the deadweight loss to society is eliminated.



Looking at the market for buying and selling houses, demand decreases ~~as~~ as there is less demand from people buying houses to rent out. This causes ~~the~~ demand to fall from D_1 to D_2 , the price to decrease from P_1 to P_2 and the quantity to fall from Q_1 to Q_2 . House prices fall, improving the affordability.

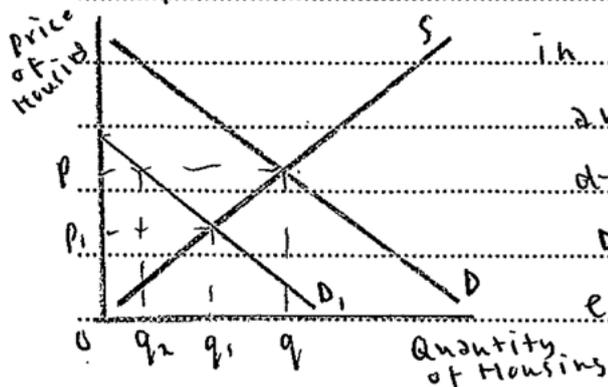
However, if immigration continues to increase, this could offset any decrease in demand for houses and cause a rightwards shift in the demand curve. This would mean that houses are even less affordable and would worsen the current situation.

Setting the stamp duty at the right level may be difficult as setting it too high would mean the supply of ~~the~~ buy-to-let housing is too low and setting it too low would mean the supply is still too high. It is difficult to quantify all the impacts of the externalities and government failure could occur.

In conclusion the government policies are unlikely to improve the affordability of housing as they only tackle one small part of the reason why house prices are increasing. Increasing stamp duty and introducing LHSAs will only be effective if they are combined with policies that increase the supply of housing and reduce other factors that increase demand such as population growth; on their own they are not enough.

Response 3 - 14 marks

The policy reform outlined in extract 1 is the removal of tax relief on mortgage interest payments. This means that mortgages become more expensive. This causes a negative change



in facts for the consumer and so will cause demand to fall from D to D_1 . At the original equilibrium price, p , there

is now excess supply ^{q_2q} causing downward pressure on price. This causes a contraction in supply and extension in demand to reach the new, lower equilibrium price p_1 . Overall, this has caused a fall in the price from p to p_1 and a fall in the quantity demanded and supplied of housing from q to q_1 . Therefore, the policy reform has made housing more affordable as the price has been reduced.

However, this is only solving the symptom rather than the cause of the problem. Tax reliefs should only be a short term solution as they do not solve the cause of the problem - a limited supply of housing. Therefore the

limited supply of housing. Therefore the long term solution should actually be to build more houses.

Another policy introduced was the "lifetime ISA". This is effectively an incentive to save for buying your first home. As if you do, the government offer a 25% bonus on all the money saved. A scheme like this is necessary as people often suffer from myopia where they do not realise how much they need to save in order to buy their first house. Therefore this should correct the information failure and ensure people are saving enough which makes housing relatively more affordable to their savings.

However, schemes like this can only help those who can afford to save which are often not the same people who need help to get their foot on the ladder. Also, providing information may be seen as the solution but the information can easily be ignored and so it can just lead to government failure.

Overall, the schemes may help in the short term. But in the long term the real problem, a limited

supply of housing, must be solved.
 & in the first place.

Response 4 - 15 marks

33* Evaluate, using an appropriate diagram, the extent to which the policy reforms outlined in Extract 1 are likely to improve the affordability of housing in the UK. [15]

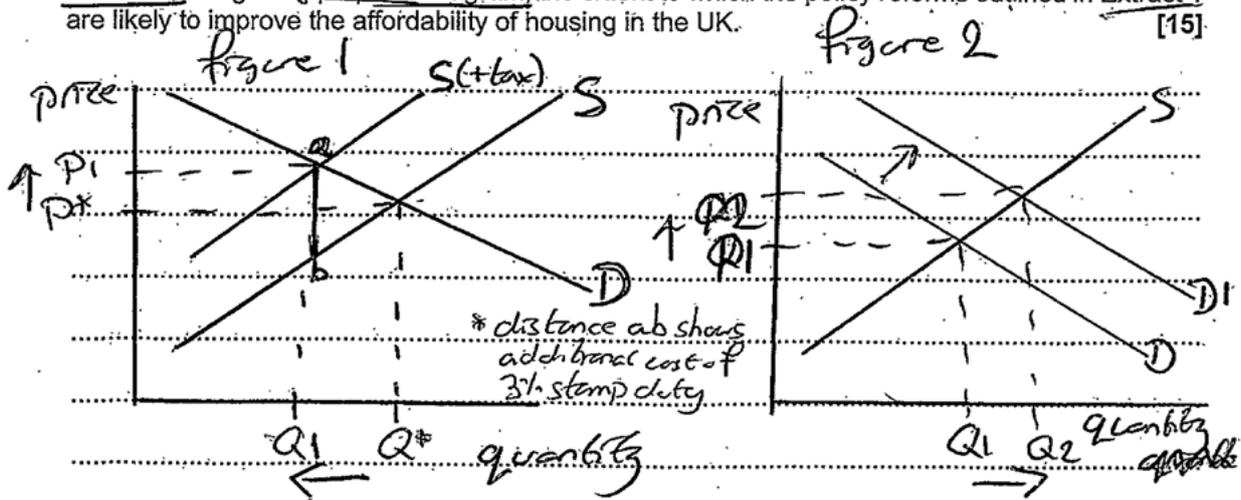


Figure 1 shows the effect of adding an additional 3% stamp duty on any property brought for to let (as used for second-home ownership). This acts ~~like~~ ^{as} an additional tax on landlords hoping to buy properties in the market to let out, by increasing the price from P^* to P_1 and hence reducing quantity from Q^* to Q_1 . This can be an effective policy in trying to reduce the amount of to let properties by reducing the supply of them and hence leaving more properties to be brought ^{for} appropriate home ownership. However, the effectiveness of this policy may be limited if the extra 3% stamp duty does not ~~raise~~ ^{would reduce the price of houses as supply increases} price much.

a cost to home lenders meaning they will continue buying to let homes if it will continue out profitable. The increase in price of to let homes may also ~~reduce~~ ^{prevent consumers renting homes} from being able to save up for a home later in life as the cost of renting has been increased reducing their disposable income and hence ability to save up for a new home in the future. However, this could be counteracted by the Help to Buy Equity Loans schemes making it easier for people to secure deposits needed to buy a home. There could also be an increase in supply of housing for private consumers to buy, helping reduce its price as supply has increased making it easier for first time buyers to enter the property market. Lifetime ISA incentive to save can also make it easier for people to save up and buy a new home. These policies help to increase ~~and~~ demand for housing, shown by figure 2 which shows a shift from $D1$ to $D2$ and therefore, this shift will also cause an increase in house prices as more people are able to take out loans and it has become easier to save for housing. ^{causing demand and hence price to rise from $P1$ to $P2$} Therefore, the attempts to help increase demand may be ineffective if the supply of housing does not significantly increase. Therefore it depends if the additional stamp duty is enough to reduce the supply of housing

for renting which could be supplied for buying instead. AFA requires the supply of housing to increase to meet rising demand as the price of houses has increased due to lack of supply. Therefore policies used to increase peoples ability to save and to let houses may be ineffective if supply of housing does not increase. Therefore, Additional stamp duty on property ^{and second home owners} needs to be high enough to discourage people from buying multiple houses as rising prices is due to shortage of supply and rising demand.

Examiner commentary

Commentary: Candidates generally began their answers by considering the impact of an increase in stamp duty on second home purchases. In Response 1 the candidate offers Reasonable analysis of why an increase in stamp duty for buy to let investors will deter second home owners, decreasing house prices and therefore making houses more affordable. A diagram to illustrate this would have strengthened this analysis.

This diagram is offered in Response 2, where the candidate correctly shifts the demand curve to the left as a result of reduced demand from buy to let investors. However the link to improved affordability of housing is vague – greater credit would have been awarded for recognition that those purchasing houses for residential purposes are the people who benefit from increased affordability. The same is true of Response 3, which uses the alternative policy of the removal of tax relief on mortgage interest payments to argue that demand for second homes will fall.

In Response 1 the candidate goes on to offer brief analysis of the other two policies which is largely lifted from the extract – that the Lifetime ISA scheme will incentivise saving (an argument which could have been strengthened if it was linked to individuals developing funds for a deposit, a key barrier to house purchasing at the moment) and that the Help to Buy scheme will make it easier for first time buyers to get on the ladder. The analysis does not take the answer into ‘Good’ analysis because ultimately none of the policies have been explained using a diagram – a key element of the question. In Response 3 there is a much clearer explanation of why incentivising saving is so essential, with an explanation that individuals are myopic. Because this analysis is offered in addition to the diagram used

to support the first policy analysed the answer is awarded Strong analysis.

These scripts illustrate a number of evaluative routes taken by candidates:

- The stamp duty increase may not deter second home owners. This is made on a Limited level in Response 1 where the candidate says some buyers are ‘financially not phased by much’.
- If the population continues to rise then demand for housing may carry on rising even if the demand for second homes falls. This is made on a Limited level in Response 2.
- The Lifetime ISA is only effective if individuals can afford to save (Response 3).
- Disincentivising buy to let purchases will push up the price of rented accommodation, which will ultimately make it harder for individuals to save for a deposit as most individuals who buy a house have first of all rented. This is Good evaluation in Response 4 as it is one of the few scripts that understands the linked nature of the rental and purchase market.
- The Lifetime ISA and Help to Buy Scheme will increase the demand for housing, pushing house prices up and worsening affordability. In Response 4 this is supported by an accurate diagram. This means that across the answer multiple policies have been analysed, one with an accurate diagram, with well developed criticisms offered. This is enough for the answer to be awarded full marks.

Examiner commentary continued

A popular judgement offered is that the policies are only likely to be effective if carried out alongside policies to improve the supply side of the market. Response 2 does this but is held back by there being a lack of preceding high quality evaluation, meaning this judgement only takes the evaluation up to Reasonable.

Some candidates wasted time by considering elements of market failure that are more relevant for Question 35 than Question 33. An example is in Response 2, where the first page of the response is not relevant to the question.

Question 34

34 Using the data from Fig. 2.1, calculate the price elasticity of supply of new housing in 2014.

[2]

Response 1 - 0 marks

Handwritten work for Response 1:

$$\frac{\% \Delta \text{ change in qs}}{\% \Delta \text{ change in price}} = \frac{9.620}{93.5}$$

Answer = ~~0.103~~ 0.08

$144,970$	$189,002$
$135,350$	$174,444$
$\frac{9,620}{135,350}$	$\frac{14,558}{174,444}$

[2]

Response 2 - 2 marks

Handwritten work for Response 2:

25 ΔQ Supply
 Δ price

34 Using the data from Fig. 2.1, calculate the price elasticity of supply of new housing in 2014.

$$189,002 - 174,444 = 14,558$$

$$144,970 - 135,350 = 9,620$$

$$\frac{9,620}{135,350} = 0.071 \text{ supply price}$$

$$\frac{14,558}{174,444} = 0.083$$

$$\frac{0.071}{0.083} = 0.85$$

0.85 shows supply is price inelastic [2]

Examiner commentary

The candidate in Response 1 offers the correct formula for price elasticity of supply but both marks were on offer for the calculation, which was not performed accurately here. This is done correctly in Response 2, where correct calculations of the percentage change in quantity supplied and the percentage change in the price level have resulted in the right answer being arrived at.

Question 35

35 Evaluate, whether there is evidence of market failure in the market for house building.

[8]

Response 1 - 0 marks

There can be some interpretation of market failure in the market for house building, the most prominent being ~~that~~ the inverse relationship between ~~houses~~ ~~houses~~ built and house prices annually. The amount of houses built per year dropped from 158,370 in 2009 to 144,970 in 2014. By contrast ~~house~~ ^{average house} prices rose ~~from~~ from 162,116 to 189,002 through the period. This is a clear example of mass loss in consumer welfare. Also the fact that planning regulations ~~and~~ have been weakened, and this has still occurred raises questions about the developers of houses. It is thought they may be purposely be failing to build new houses in order to artificially keep house prices high. This is an example of market failure through negative externalities in ~~the~~ production.

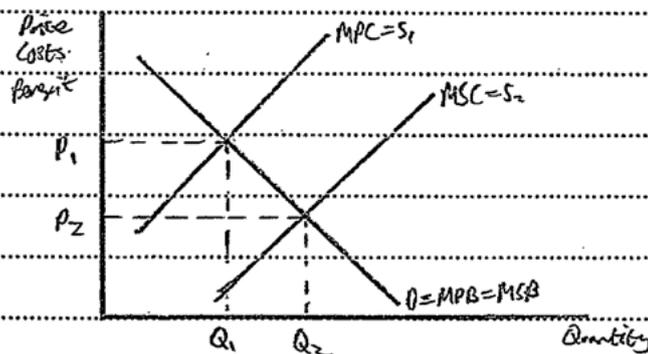
By contrast it is also argued the continued slow growth rate of house building is actually beneficial. This is from an environmental angle as the slowing of

35 house building prevents greater urbanisation and the loss of green land. This also prevents greater pollution and emissions. It can therefore be argued that to increase house building would be to actually implement market failure. However this is countered by the fact that there could be long term environmental benefits from building on green spaces, due to more people living in "modern, well-insulated and energy efficient accommodation".

Overall it is clear that ~~there~~ there is market failure in the market for house building, mainly due to potential artificially manufactured high prices by developers. Although the correction of this could potentially result in worse environmental conditions. Under evaluation and in the long term it would be better to correct the current market failure and build more houses at a faster rate.

Response 2 - 7 marks

Positive externalities of production are where a third party benefits from the production of a good or service. House building has positive externalities such as increased geographical mobility of labour when it's easier to move house and possibly increased productivity if workers feel safer and less stressed when they have their own homes.



Market failure exists as houses are underproduced.

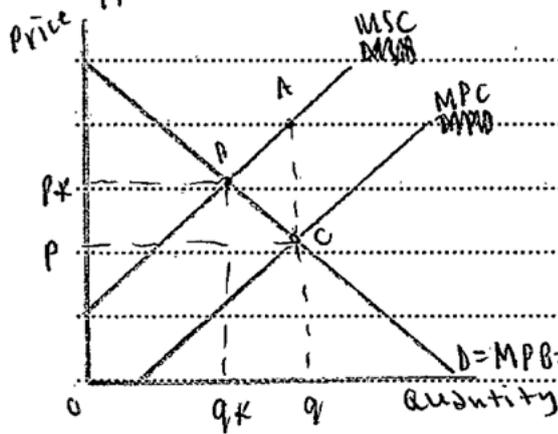
The marginal private cost is greater than the marginal social cost so

there is a deadweight loss to society. The socially optimal equilibrium is at P_2, Q_2 where $MSC = MSB$. There is market failure as the free market does not build enough houses. However it could be argued that there are actually negative externalities of production. This could be because of the negative effect on green belt areas and the impact of urban sprawl so houses may actually be overproduced. In conclusion, there is evidence to suggest there is market failure in the market for house building but the type of failure would have to be determined by analysing all of the externalities which exist.

Response 3 - 7 marks

Market failure is where the free market mechanism fails to achieve economic efficiency.

Market failure exists in the market for house building in the form of negative externalities of production; when actions of a producer have harmful effects on a third party. ^{eg: those who work in countryside} This causes



market failure as the house building firms only consider their private costs and ignore the external costs. Therefore the price the consumers pay is too low. The market

produces q_k , whereas the social optimum is $q_k < q$. ^{ie the goods overproduced.} This means there is a misallocation of resources, the market is allocatively inefficient and there is a net welfare loss of ABC. Therefore, market failure

26 (*) at end of booklet

occurs. The evidence for this is the reduction of green belt land in the UK, causing loss of countryside ^{to the environment}

However, there are also benefits, such as people living in energy efficient, well insulated homes which could offset the external costs and mean that the market is not failing. This is because in the long run the modern homes will benefit the environment and so may reduce the (*)

35. market failure.

Overall, in the short run there is definitely evidence ^{of} ~~for~~ negative externalities of production. However, this could be offset in the future by the building of energy efficient homes, hence reducing, or even completely reversing, the market failure.

Examiner commentary

No marks are awarded to Response 1 because the answer does not go beyond lifting material from the extract. There is reference to market failure arising from developers deliberately restricting the supply of housing but no link to why this represents market failure (for example, monopoly firms exploiting their market power or oligopolists colluding). This is also the problem with the reference to the long term environmental benefits which could be derived from house building – had the candidate linked to the theory of positive externalities of production marks could have been awarded.

This link to the theory of market failure is clearly present in Response 2, where a clear explanation of why house building creates positive externalities of production, applied to increased geographical mobility of labour, is offered. For the evaluation to be Strong further development – such as a clear explanation that third party benefits are derived (such as taxpayers having to fund less unemployment benefits) or a link to allocative inefficiency – would be needed. This additional development is offered in Response 3, where the greater depth including the link to allocative inefficiency takes the answer to Strong analysis. Response 2 then offers the reverse argument to suggest that the market failure may in fact be caused by negative externalities of production in evaluation. A judgement considering which side of the argument is stronger would help take the answer to Strong evaluation.

Question 36

36 Using the information in Extract 2, explain the impact on the government's budget position in the short run and the long run of the HS3 rail project. [4]

Response 1 - 0 marks

Due to an increase in the government budget in tax it is now evident that the short run of the HS3 rail project will significantly benefit 'young professionals' travelling to London as it will cause an increase in the number of jobs therefore an increase in standard living standards in the long run. However, however, with an increase in migration housing prices will increase making it more difficult for people to take loans to start businesses.

[4]

Response 2 - 4 marks

HS3 is a taxpayer funded rail project. In the short run the budget should be in a surplus however due to increased government expenditure the budget will move towards/go to a budget deficit in the short run. In the long run the government should see the benefits of the project. In figure 2.2 we can see that unemployment will decrease in most cities. This will mean more people are paying and less benefits is needed to be spent by the government. This should move the governments budget position to a surplus or lead to an increased surplus in the long run. [4]

Examiner commentary

Response 1 shows a lack of understanding of what is meant by the government budget, with no reference to tax revenue or government expenditure. The answer instead considers broader economic impacts of the HS3 rail project, which are not relevant to the question.

In Response 2 there is a clear explanation that the increased government expenditure will lead to a budget deficit in the short run, followed by an explanation that in the long run a decrease in unemployment caused by the HS3 rail project will result in a budget surplus.

Question 37

37 Economic theory would suggest there is a positive correlation between economic growth and the quality of housing. Explain whether the data in Fig. 3.1 supports this view. [2]

Response 1 - 0 marks

Although the figure suggest a higher % of the population homeless or on poor quality housing with GDP growth. The housing quality may have improved it may be not affordable or individuals may not see the need to spend more on quality housing. [2]

- disagree (e.g. Peru)

Response 2 - 2 marks

This theory is not supported in Fig 3.1 because for example in Peru where their average GDP growth rate in 2010-2019 has been 6.70%, however their percentage of total households homeless or living in low quality housing is 72%. In Mexico where GDP growth rate is 1.95%, their % of total household in low quality housing or ^{homeless} ~~or homeless~~ is 34%. This shows that it does not support the view. [2]

Examiner commentary

The answer in Response 1 is unclear and would benefit from reference to the data in Figure 3.1. Although the words 'disagree – e.g. Peru' are written on the script these cannot be credited as it is not clear what the candidate means by this in the context of the rest of the answer, where there is a lack of focus on the correlation between economic growth and the quality of housing and instead a more general consideration of what might have happened to the quality of housing (it is not clear how this is/isn't linked to economic growth).

The answer in Response 2 is much clearer as it immediately reaches a position – that the theory is not supported – and supports this with evidence from Fig 3.1, comparing Peru and Mexico.

Question 38

38 Using the information in Extract 3, evaluate the relationship between economic growth and economic development.

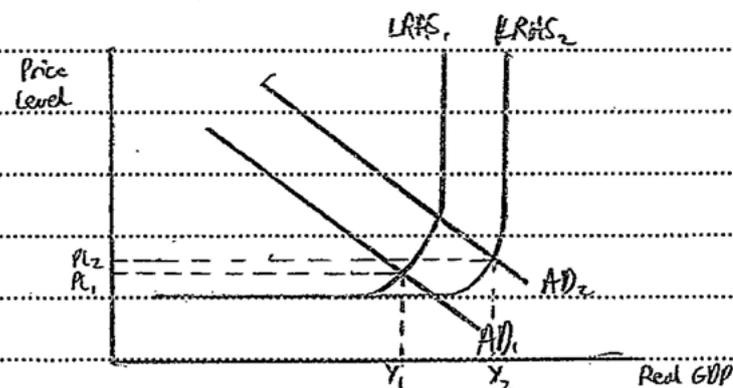
[15]

Response 1 - 4 marks

Economic growth is considered a rise in real GDP and economic development is considered to be an improvement in the standards of living. From fig 3.1 we can see that all 6 countries have experienced a positive growth rate of GDP which represents economic growth but in the extract we are told that this economic growth has not been matched with economic development. We are told in the extract that in many Latin American cities 66% of established households that year go to live in informal housing such as shacks. Also from fig 3.1 we can see that a very high % of population of every country live in poor quality housing or are homeless, especially in Peru with a shocking 72% of households. Usually we would believe that economic growth would straight lead to economic development but extract 3 proved us wrong. In order for it to lead to economic development there needs to be governmental will which will be able to allocate its resources efficiently and this is what many Latin American countries are lacking.

Response 2 - 11 marks

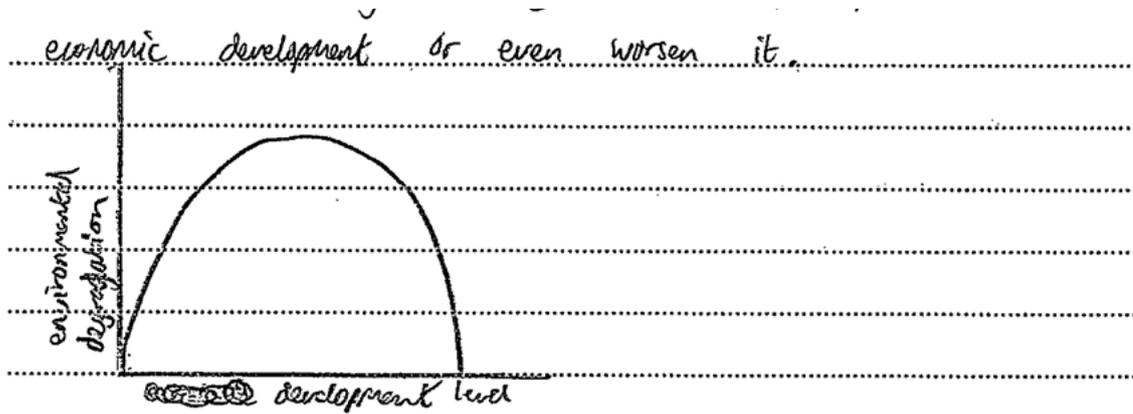
Economic growth is an increase in a ~~country's~~ country's real GDP whilst economic development is an increase in the overall economic wellbeing of a population. One way of measuring economic development is the human development index. This looks at GDP per capita, health factors and education factors giving a score between 0 and 1 with 1 being the most developed.



Economic growth is an increase in the productive capacity of an economy. An increase in the quantity and quality of the factors of production causes an increase in LRAS from LRAS₁ to LRAS₂. An increase in consumption, investment, government spending and net exports causes AD to shift from AD₁ to AD₂. The price level increases from P₁ to P₂, output increases from Y₁ to Y₂ and employment increases.

Assuming all ~~other~~ other factors stay the same, an increase in economic growth will increase economic development as GDP per capita is a component of HPI and can increase people's material standard of living. Chile has the second highest average growth rate in fig. 3.1 and the highest HPI value which suggests there is a positive correlation.

However, economic growth may have little impact on



The Kuznets curve suggest that economic growth and an increase in ~~economic growth~~ the development of a country will have negative environmental impacts up to a certain point. This could have negative effects on health and worsen life expectancy which would reduce the HDI value.

Inequality is a ~~big~~ major issue, especially in developing countries. If economic growth only favours the rich and income inequality increases then overall economic development is unlikely to increase as average education and healthcare don't improve. Peru has the highest average growth rate of 6.7% and the second lowest HDI value of 0.737 which shows that economic growth doesn't always lead to high economic development.

In conclusion, there is a weak positive relationship between economic growth and economic development. On its own, an increase in real GDP will improve measures of development such as HDI. It depends on the level of inequality as high inequality will reduce economic development and on the environmental and health impacts of economic growth.

Response 3 - 14 marks

Economic growth is when the overall performance of the economy such as GDP and GDP per capita increases which increases the overall productive capacity of the economy.

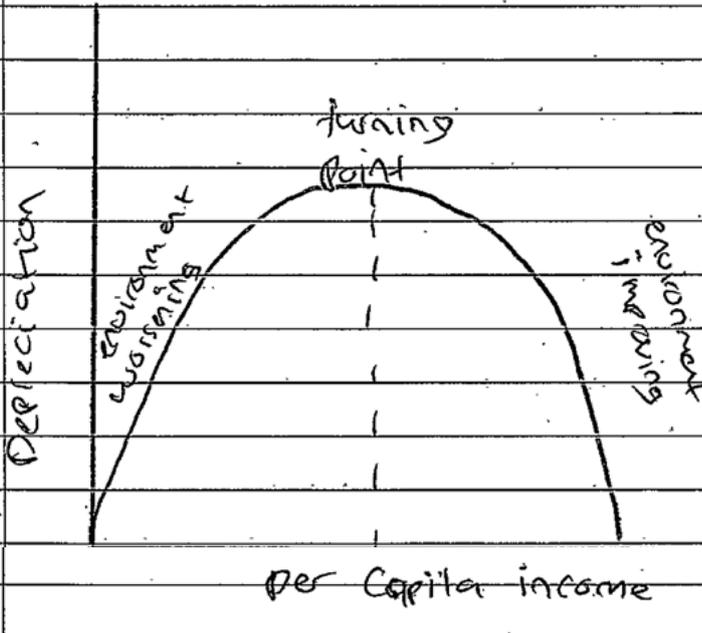
Economic development focuses more on the standard of living, economic environment and literacy rates of the human population and focuses more on ~~human~~ human development.

When there is economic growth the economy experiences a rise in GDP and GDP per capita which tells us that output of the economy has increased and overall wages has increased. When wages increase there is more disposable income for people to spend on necessities such as food, clothes & shelter and other wants which in turn reduces the levels of absolute ~~and~~ relative poverty in the country, this in turn increases the overall standard of living and improves HDI. However the statistics in figure 3 show otherwise. Peru who has experienced the highest level of

GDP between 2010 and 2014 of 6-70%. also experienced the highest level of poor quality housing of 72% and the second to lowest HDI value of 0.727. This may be down to the level of corruptness there is in ~~the~~ this developing country. The Government may hide money from the public and use it for self interests rather than improve fiscal dividends such as health care and education and so a ^{rise} ~~drop~~ in economic growth may not always reflect in economic development.

Moreover, Economic growth tends to lead to globalisation ~~and more~~ and more economic integration between nations. This brings in the benefit of free trade and allows nations to specialise in the production of the lowest opportunity cost and allows them to pursue comparative ~~advantage~~ ~~the~~ whilst still being able to trade with other countries for vital resources such as oil and food. ~~It~~ However, globalisation and trade between nations will lead to damage in the environment due to a rise in pollution, CO₂ emissions, destruction of landscapes

and so on. However, in the long run
 as economies begin to grow and
 expand they are able to produce and
 invest in more green equipment ~~and~~
 and economically and environmentally friendly

38	<p>technology and equipment which in turn will boost economic growth whilst also reducing environmental damage and impact, this is shown by the Kuznets curve.</p>
	 <p>The graph shows an inverted U-shaped curve representing the Kuznets curve. The vertical axis is labeled 'Depreciation' and the horizontal axis is labeled 'Per Capita Income'. The curve starts at the origin, rises to a peak labeled 'turning point', and then falls. The left side of the curve is labeled 'environment improving' and the right side is also labeled 'environment improving'.</p>
	<p>Therefore in the long run nations are able to achieve economic growth as well as economic development</p>
	<p>furthermore, Economic growth and the benefit of specialisation will lead to firms being able to achieve economies of scale Scale which means they are able to keep costs down while also increasing output increasing</p>

		<p>this in turn will allow firms to achieve supernormal profits which could then be used to innovate and invest in research & development. There hence achieving dynamic efficiency, this will lead to better quality of products, reduction in prices of goods and services which will increase consumer surplus and increased wages for employees meaning more disposable income. However, economic growth leads to economic growth tends to lead to income inequality and so the poor get poorer while the rich get richer which will widen the gap and see an increase ^{an} ^{increase} in poverty and so in this case an increase in economic growth has not improved economic development.</p>
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Examiner commentary

The candidate in Response 1 uses evidence from Extract 3 to demonstrate there is no relationship between economic growth and economic development, pointing to the rising homelessness in Peru despite economic growth occurring. This would take the answer beyond Limited if there was some consideration as to why economic growth may worsen living standards in this way (for example, as a result of rural-urban migration). This consideration is given in Response 2, where the candidate suggests rising inequality caused by growth may explain a negative relationship between economic growth and development such as that seen in Peru. Response 3, on the other hand, argues the inverse relationship may have occurred because of corruption.

In Response 1 the candidate further argues that the link between economic growth and development is only effective if there is a strong system of governance. The answer is missing any real consideration of why there might be a relationship between economic growth and economic development – a two sided answer is essential for high marks in this question. This is present in Response 2, where the candidate recognises that GDP per capita is a component of HDI and then provides evidence

from the extract (quoting Chile) to support the relationship between economic growth and economic development. The chain of analysis is best developed in Response 3, where the candidate links rising growth to rising real disposable income to rising material standards of living to HDI.

Many candidates wasted valuable time when answering this question explaining in great depth how to measure economic growth and economic development when the question requires an exploration of the relationship between the two variables. This is the case for the first part of the answer in Response 2 and Response 3.

In order for answers to secure top marks a judgement is needed. This is attempted in Response 2 although only in the most basic sense, where the candidate says there is a weak positive relationship between growth and development without explaining why they believe this relationship is weak. It is the lack of a judgement that prevents Response 3 securing full marks.

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