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A LEVEL

Exemplar Candidate Work

ECONOMICS

H460
For first teaching in 2015

H460/02 Summer 2018 examination series

Version 1

Contents

Introduction

These exemplar answers have been chosen from the summer 2018 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 https://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 2018 Examiners' report or Report to Centres available from Interchange https://interchange.ocr.org.uk/Home.mvc/Index

The question paper, mark scheme and any resource booklet(s) will be available on the OCR website from summer 2019. Until then, they are available on OCR Interchange (school exams officers will have a login for this and are able to set up teachers with specific logins – see the following link for further information http://www.ocr.org.uk/administration/support-and-tools/interchange/managing-user-accounts/).

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 1 Stimulus material

SECTION A

Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

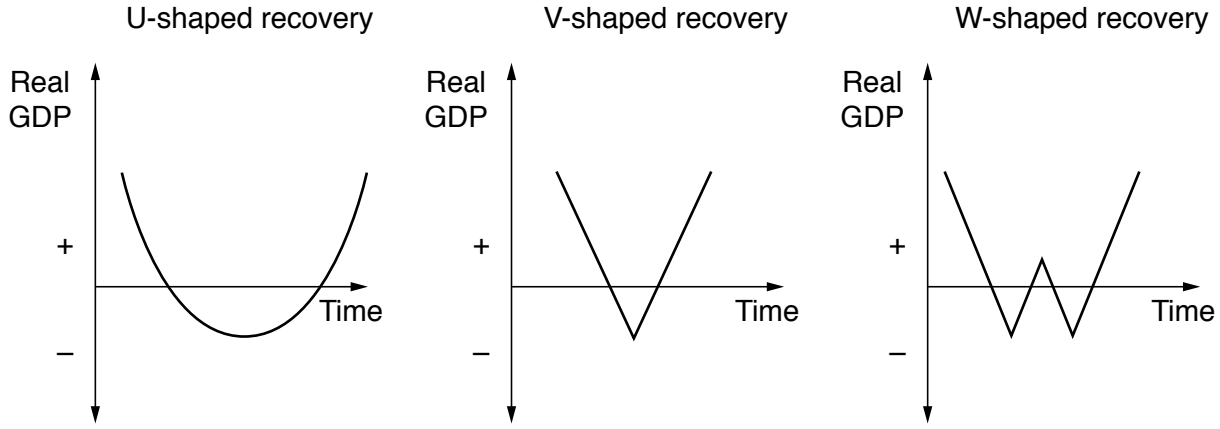
The recovery of the Icelandic economy

In the last two decades the Icelandic economy has experienced some significant changes in economic activity. One influencing factor has been changes in the standard rate of income tax. The rate was cut in a number of stages from 46% to 36% in 2006. Despite the lower income tax rate, government income tax revenue rose, allowing the government to spend more on the country's infrastructure. In 2009 and 2010 the income tax rate was increased.

In the period 2008 to 2011, the economy experienced a serious recession. The country's three largest banks were allowed to fail. It was the third largest bankruptcy in history and, according to the size of the economy, the biggest banking failure in history. The value of the country's stock market fell by 95%, the currency declined in value by 60%, unemployment increased by 8% and inflation rose to 12%.

From 2011 the economy has made a remarkable recovery. In 2014 its real GDP was US$14.85bn and it grew by 4% in 2015, one of the fastest rates in Europe. Economists have developed an 'alphabet' of recoveries with the three most common types shown in Fig. 1.

Fig. 1 Different types of economic recovery



In 2015 the Icelandic government was paying back its loans to the International Monetary Fund early. It had removed capital controls and had reformed the country's financial sector. A number of the country's industries were expanding, most noticeably its tourist industry. Income from tourism can fluctuate significantly. In 2015 the total contribution of Iceland's tourist industry to the country's GDP was 23%. The impressive growth of Iceland's tourist industry was contributing to a fall in unemployment due to a rise in hotel construction, and an increase in infrastructure, although this was also putting pressure on house prices as people were buying them to rent out to tourists. In 2015 the unemployment rate was 5.3%, which was lower than in many European countries, but it was predicted to rise in 2016.

For a small country with a population of only 0.33 million in 2014, Iceland has a relatively high HDI value. Fig. 2 shows some details of the HDI values of six countries.

Fig. 2 The Human Development Index of six selected countries

Country	HDI ranking 2014	HDI value 2014	GNI per capita (US$) 2014
Norway	1	0.944	64,992
Australia	2	0.935	42,261
Germany	6	0.916	43,918
USA	8	0.915	52,947
UK	14	0.907	39,267
Iceland	16	0.898	35,182

25 As Iceland's economy has grown, so has the country's aid for developing countries. In 2013, for instance, its foreign aid budget increased by 27.8%.

Question 1(a)

1 (a) Using Fig. 1, explain which type of economic recovery is likely to be most beneficial for an economy.

Exemplar 1 — 3 marks

U-shaped recovery.
There is no sudden change through the whole economy, therefore, households and firms could gradually adjust their expectations of the economy to adjust wages and returns. V-shaped may lead to a hyperinflation due to the low unemployment and government spending. W-shaped will lead to a low expectation of the households and investors due to the second failure. [3]

Examiner commentary

This response identifies the U-shaped recovery and explains why this is likely to be beneficial in terms of it not involving a sudden change and allowing households and firms time to adjust.

Exemplar 2

2 marks

The U-shaped recovery is likely to be the most beneficial for the economy because despite a longer recession period, GDP continues to rise afterwards. This is most similar the recession experienced from 2008-11 where countries such as Iceland, following the recession, experienced continuous increases in Real GDP. In 2014 Icelands real GDP was £14·85 bn and increased by 4% in 2015 ~~etc~~. Furthermore less... [3]

1	a)	fluctuations in economic growth means that following the recession, consumer and business confidence will rise leading to a multiplier effect.

Examiner commentary

The candidate provided a brief explanation, based on giving greater confidence, why a U-shaped recovery would be best.

Question 1(b)

(b) Using information from the stimulus material, including Fig. 2, calculate the difference between Iceland's real GDP per head and its GNI per capita in 2014.

Exemplar 1 2 marks

Real GDP per head = $\frac{14.85\text{ bn}}{0.33\text{ million}}$ = 45,000

GNI per capita = 35,182

Difference = 45,000 - 35,182 = 9,818 (US $)

[2]

Examiner commentary

An accurate answer which reveals an understanding of GDP per head.

Exemplar 2 2 marks

GDP per capita = $\frac{GDP}{POP}$ = $\frac{14.85\text{ bn}}{0.33\text{ million}}$ = 45 000

GNI = ~~60000~~ 35,182 45000 - 35182 = $9818

[2]

14.85 14.850 000 14 850 000 000

14.850 000 850 000

Question 1(c)

(c) Using Fig. 2, explain why Australia had a higher HDI value than the USA in 2014.

Exemplar 1 2 marks

Although Australia has a lower GNI value than USA in 2014, the HDI value contains the development of education, life expectation and the GDP. Australia may have a better public health system or low income benefits than the USA. Also Australia may have a better public education system than the USA.

[2]

Examiner commentary

The answer might have been a little more precise but it does recognise that the difference in HDI between Australia and the USA might be the result of a better public healthcare system or public education system.

Exemplar 2 0 marks

The HDI is the human development index. Australia has a higher HDI value in 2014 (0.939) compared to the USA (0.915). This may be down to the fact that Australia has a smaller population therefore despite the US having greater Real GDP there may be more income inequality than in Australia. Therefore on the whole, Australias HDI value is greater because the average living standards are ~~great~~ higher [2]

Examiner commentary

The candidate's answer does not reveal an accurate understanding of the composition of the HDI.

Question 1(d)

(d) Identify one piece of evidence in the stimulus material of the relationship suggested by the Laffer curve and explain why it is an example of such a relationship.

Exemplar 1 3 marks

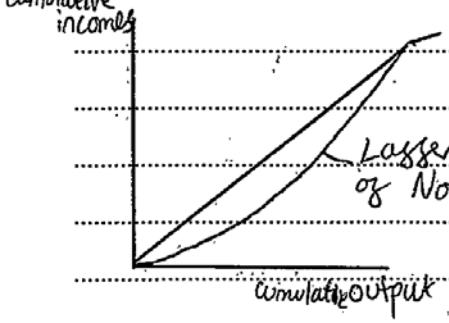
Iceland government cut the income tax rate from 46% to 36%, however, the government tax revenue rose in 2006. Laffer curve states than the relationship between government tax revenue and tax rate, it will proportionally increase at first, and then ~~takes~~ inversely relate to each other. This is because high tax rate lower the incentive to work, therefore, the total amount of income decreases leads to a low tax revenue. [3]

Examiner commentary

The answer starts by providing relevant evidence from the stimulus material. It then explains why this is an example of the Laffer curve by describing the relationship it shows and how this is influenced by the incentive effect.

Exemplar 2 0 marks

Norway has ~~a very high HDI value of~~ the greatest HDI value in the world, this suggests that it's lasser curve is very close to perfect equality (HDI value: 0.944). This can be seen in the diagram.



The closer the HDI value is to 1 the closer it is to perfect equality. [3]

Examiner commentary

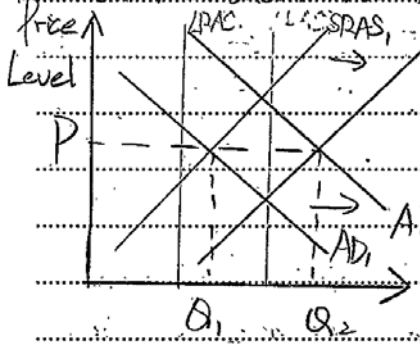
The answer confuses the Laffer curve with the Lorenz curve. As a result, unfortunately, the comments are not relevant.

Question 1(e)

(e) Using information in the stimulus material, evaluate whether Iceland would be likely to experience a recession after 2015.

Exemplar 1 8 marks

In 2015, the Icelandic government achieved to pay back its loans early. More government revenue could be used in government spending like education or infrastructures which will boost AD in the short run, and also potentially long-term productivity.



Throug more government spending, it will create more employment to build the infrastucture and also the people which are educated will have a higher skill and productivity which shifts AS to the right (Q1 to Q2).

Also the remove of capital controls will Let retail bank more likely to lend money to firms, which will boost investment and lead to a long-run productivity growth. On the other hand, the remove of capital controls may Let banks take higher risks investment like high risk mortgage. Along with the growing house prices, it may lead to speculation and house price bubbles in the housing markets, which could lead to a recession when bubbles break and financial crisis.

In conclusion, it is unlikely for Iceland to experience a recession after 2015 because of the long-run investment along with the GDP growth. As long as the government [8] invest in the education and regulate financial sector properly

Examiner commentary

The candidate gained full marks on this question. The effects of the government repaying its loans and the removal of capital controls are developed. It is a two-sided answer which are considers the risks that may arise from house price bubbles and greater bank lending. There is a thoughtful conclusion.

Exemplar 2 (Medium) 4 marks

Iceland ~~we~~ would be unlikely to experience a recession due to growth of many industries, especially the tourist industry. As Tourism grows this will lead to ~~an increase in Real GDP~~ a significant rise in Real GDP because in 2015 tourism accounted for 23% of ~~the~~ Iceland's GDP. Furthermore as ~~industry~~ Tourism grows, this will lead to a "fall in unemployment". Therefore it can be argued that Iceland is unlikely to experience a recession due to rapid GDP growth and reduced unemployment.

However, is Iceland become over-dependant on the Tourist industry than a natural event such as a volcanic eruption could cause a significant impact on their economy. The over-reliance on one industry increases the chance of a recession after 2015.

Despite this, is real GDP is growing, this additional national income could boost the aggregate demand in the economy therefore regardless of a decline in the tourist industry, Iceland will have greater AD so will be less likely to experience a recession after 2015.

[8]

Examiner commentary

The answer starts quite well, explaining how GDP is increasing because of the growth in Iceland's industries, including the tourist industry and recognising that there is a risk that the country may be over-reliant on the tourist industry. The answer then tends to run out of steam and there is repetition of the point about the economy growing.

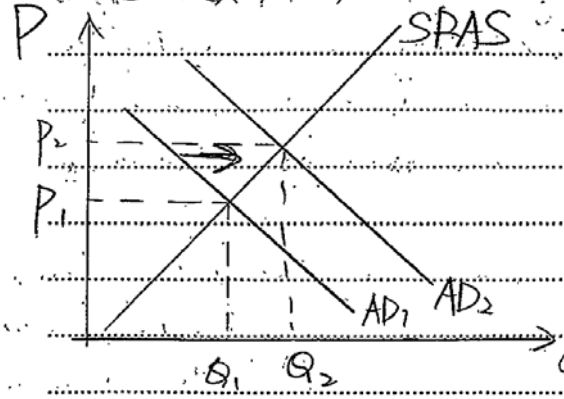
Question 1(f)

(f)* Evaluate whether an increase in the aid Iceland provides to developing countries would benefit the Icelandic economy. **[12]**

Exemplar 1 — 10 marks

The aid is the financial help provide to developing countries to help their growth.

On the one hand, aid could help Iceland growth. Through helping developing countries, developing countries could achieve a better economic growth with a higher income. Therefore, they can afford to consume more imports from Iceland. Whats more, the financial aid always will have agreements at the same time, for example, a trade preferencial ~~agreement~~ agreement. Both these two effects will increase the export revenue of the Icelandic economy and improve their ~~banlance of ca~~ current account situation. Through ~~better~~ current account suplus, net exports increases, it will also boost AD and lead to a bigher GDP growth due to a Larger demand for their exports. (AD = C + I + G + (X - M))



GDP increases from Q1 to Q2

It could be argued that the aid could fail to help the GDP growth of the developing countries. Less-developed countries usually have a less efficient government. If the financial aid can not transfer into better education or healthcare which increas

productivity, the income will not rise in those countries. Therefore, the export revenue of Iceland will not ~~also~~ increase.

Secondly, the financial aid is usually in politic objective but not in the economic objective. Government may use the aid for international votes but not use it in economic efficiency. Those aids can not turn into real economic benefits for the Iceland.

In conclusion, aid ~~provided~~ provided to developing countries could benefit the Icelandic economy because the Icelandic economy could generate more export revenue from that. As long as the developing countries' government could effectively use the aid on the Icelandic government make some restrictions on it, it will be better for both Icelandic economy and developing countries.

Examiner commentary

A clear and logical answer. Two relevant reasons are given for why Iceland's exports may rise. Higher exports are linked well to economic growth. There is relevant evaluation in terms of inefficiency but rather more economic analysis might have underpinned the evaluation.

Exemplar 2 10 marks

could lead to reduction ↑ of cheap goods

Government spending in Iceland ↓ ∴ AD shift in ↑ → unemployment

increased exports of raw materials

6

(f)* Evaluate whether an increase in the aid Iceland provides to developing countries would benefit the Icelandic economy. [12]

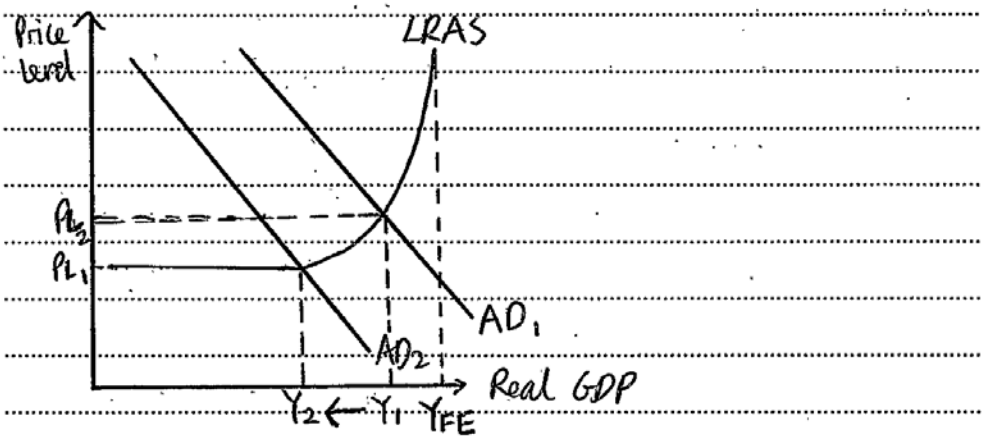
If Iceland increased the aid they provided to developing countries this could lead to an increase in foreign exports ~~of raw mat~~. For example, Nigeria is a developing country and ~~its economy~~ 75% of its GDP is accounted for in oil production. If Iceland were to increase its aid provided to Nigeria than ~~they~~ Nigerian factories may be able to increase investment in capital goods such as ~~the~~ larger oil trucks, this will lead to a reduction in

their costs of production therefore they are likely to produce more oil at a lower price. this will benefit the Icelandic economy because oil prices drop meaning that transport costs reduce therefore domestic disposable incomes will rise causing increased consumption.

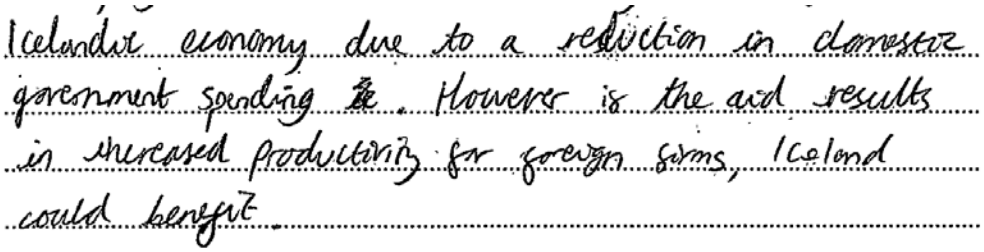
However there is no guarantee that this aid will result in increased productivity of these foreign firms. Many developing countries such as Nigeria experience high levels of corruption therefore the aid may result in increased wages for those in government, this will not benefit the Icelandic economy.

Increasing the level of foreign aid will mean that government spending in Iceland will reduce.

Government spending is a component of aggregate demand therefore as domestic government spending reduces it is likely that AD will shift in from AD_1 to AD_2. This will move the economy further from full employment therefore cause increased unemployment. As a result the Icelandic economy will decline as due to increased foreign aid.



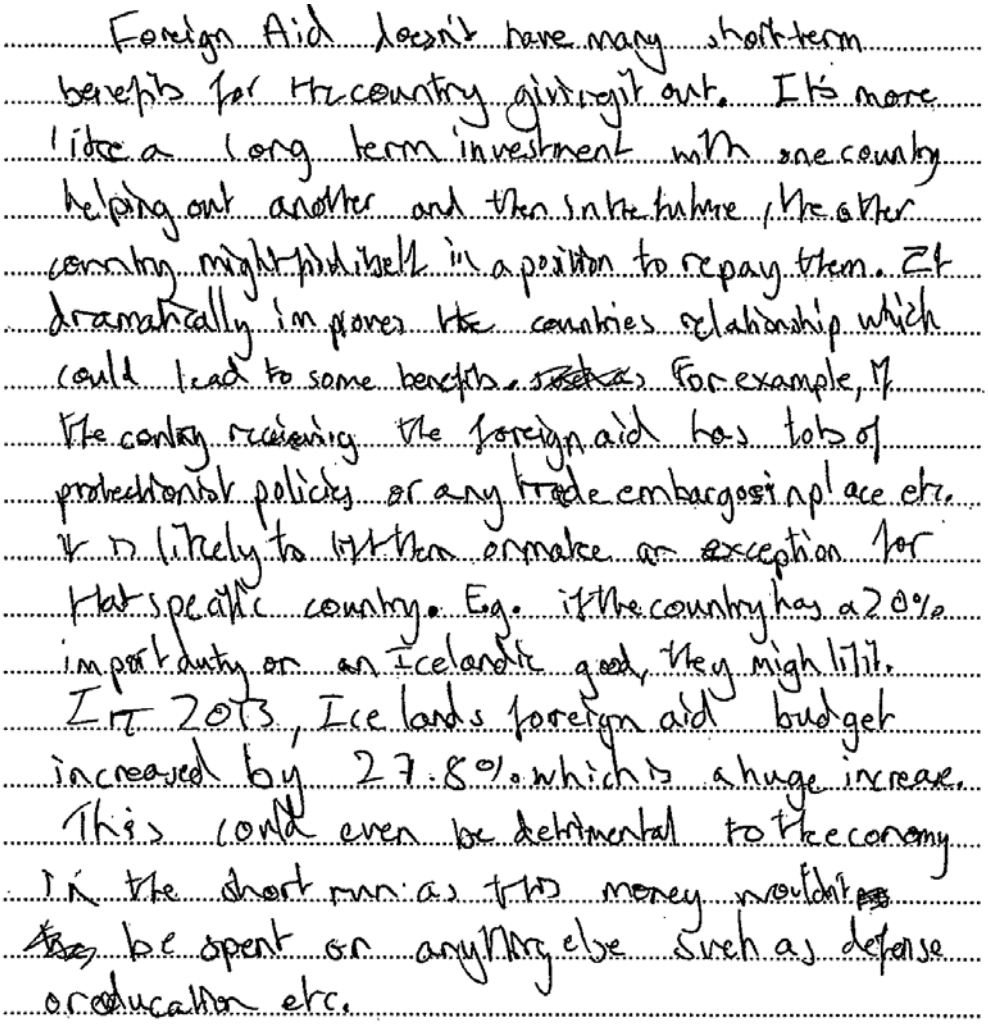
To conclude, an increase in foreign aid for developing countries is unlikely to benefit the


Icelandic economy due to a reduction in domestic government spending ~~&~~. However if the aid results in increased productivity for foreign firms, Iceland could benefit.

Examiner commentary

A well thought out answer with good analysis of the possible benefit that Iceland may gain from lower import prices. There is also some reasonable evaluation based on the risk of corruption and the opportunity cost of providing aid linked to economic growth.

Exemplar 3 (Low) 4 marks


Foreign Aid doesn't have many short term benefits for the country giving it out. It's more like a long term investment with one county helping out another and then in the future, the other county might find itself in a position to repay them. It dramatically improves the countries relationship which could lead to some benefits. ~~Benefits~~ For example, if the county receiving the foreign aid has lots of protectionist policies or any trade embargos in place etc. it is likely to lift them or make an exception for that specific country. Eg. if the country has a 20% import duty on an Icelandic good, they might lift. In 2013, Iceland's foreign aid budget increased by 27.8% which is a huge increase. This could even be detrimental to the economy in the short run as the money would ~~be~~ be spent on anything else such as defense or education etc.

Examiner commentary

A rather limited answer. The candidate provides some analysis of the benefit and there is some evaluation in the implied consideration of the opportunity cost.

Question 2

2* The fall in the value of the South African rand between 2012 and 2016 had an impact on the current account of the country's balance of payments.

Evaluate, with the use of an appropriate diagram(s), whether a fall in the value of a country's currency will always reduce a deficit on the current account of its balance of payments. **[25]**

Exemplar 1 — 23 marks

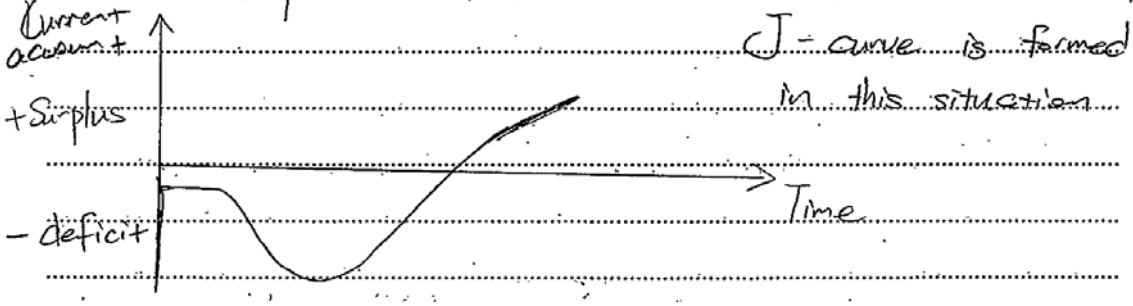
Question No ....2....

A fall in the value of a country's currency means that the domestic currency can exchange less foreign currency than before

On the One hand, it could reduce the current account deficit of the country. A fall in the exchange rate means their exports are more price competitive than other countries, they are cheaper in foreign currencies. Also the import will be more expensive, ~~hauda~~ households will reduce expenditure on import which reduces ~~creates a~~ current account deficits.

According to the Marshall-Lerner condition, in the short run, PED_x and PED_m are more price inelastic. Firms and countries need time to adjust with the exchange rate, and they are unlikely to change trade pattern in the short run.

Therefore, exports will not increase the quantity by much, ~~but at a lower price~~ by import will be more expensive and will not change the quantity by much. In the long run, with changing international trade partners, more exports will be sold with elastic PED_x and elastic PED_m which improves the current account ($PED_x + PED_m > 1$)



J-curve is formed in this situation

It could be argued that it depends on the reason of the devaluation. If the currency is devaluated by internal devaluation, for example, a higher productivity or lower wage inside the economy making the export cheaper, it could sustainably improve the current account. However, if the devaluation is because the central bank is selling domestic currency, it will lead to a inflation in the long run also ~~it can not~~ the faith of the currency will goes down, which will accelerate the devaluation because more people are trying to sell the currency. It is not benefited to the current account.

On the other hand, a fall in value may lead to a higher cost of production. The import material of production is more expensive, this may lead to a higher price for exports, for example ~~a~~ one of the mainly exports is table, but the importing wood is more expensive. It will worse the current account situation. In addition, Current account includes trade in goods and services ~~and~~, remittance and aid. Those households remittance could increase because they are earning foreign currency. However, for those investments into the foreign country. It is less profitable, domestic firms are unlikely to locate their industries into other countries due to the high cost from low exchange rate, less remittance will be paid back in the long-run.

Whats more, a low exchange rate might attract multinational firms into the economy because of low cost of building infrastructure and low cost of labour and material ~~due to~~ in foreign currencies. Those MNCs will purchase domestic materials and invest in the economy. Also governments could collect more tax revenue from them to invest in education and health-cares. Those investment will improve the

productivity in the long run and lower the cost of production which improves the competitiveness of exports.

It could be argued that the size of those effects depends on the size of devaluation and the relative exchage rate. If all of those mainly trade partners have same devaluation at the same time, it will have no significant effects. Also the exports price mainly ~~dependens~~ depends on the productivity of the firm, if the devaluation size is small, it will not have significant influence.

In conclusion, in the short-run, due to the inelastic PED$_x$ and PED$_m$, it is more likely to worse the current account situation. However in the long-run, it will reduce the current account deficits. As long as the ~~gover~~ PED$_x$ + PED$_m$ > 1, and governments ~~focus~~ on education development, use tax revenue from MNCs, it will be sustainable in the long-run.

Examiner commentary

A strong answer. There is good use made of the Marshall-Lerner condition and the J curve effect, with an accurate J curve diagram. The answer also distinguishes between the possible short run and long effects of a fall in the value of a currency. The answer does not, however, establish why higher productivity and cheaper exports would lead to a devaluation and is vague on the size of the fall in the value of the currency.

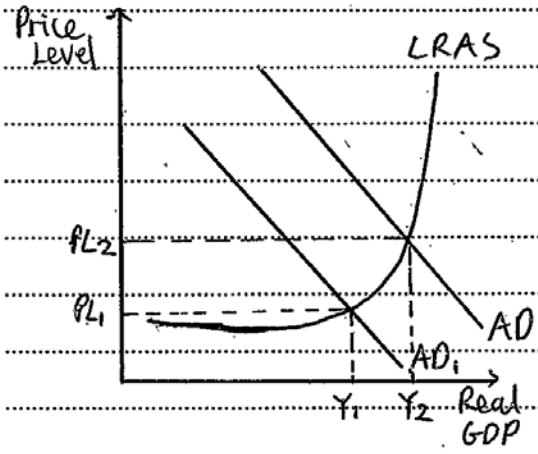
Exemplar 2 — 9 marks

Question No 2

the current account is a major component of the balance of payments, it predominantly accounts for the ~~the~~ value of imports and the value of exports in an economy. An exchange rate is the value of a country's currency in relation to the value of another countrys currency.

If there is a depreciation in the Exchange rate of a currency such as a fall in the South

African rand between 2012 and 2016 this should reduce the current account deficit of that economy. This is because, as the exchange rate falls from 10 rand to £1 to 20 rand to £1 this will make foreign imports more expensive. As the value of the currency falls relative to other currencys, imports will become more expensive therefore demand for these imports will fall and less imports will be consumed. Also, domestic exports will become cheaper to purchase for foreign countries therefore foreign demand for these exports will rise. Decreasing the value of imports and increasing the value of exports will reduce the deficit on the current account because the balance of trade = (exports - imports). As a result the aggregate demand curve will shift outwards from AD_1 to AD_2.



However, this depends on the competitivess of domestic exports. If exports from South Africa are not globally competitive then despite a reduction in the price of their exports there will not be an increase in exports sold. Therefore the depreciation in the value of the currency will not reduce a deficit on the current account.

But, in the globalised world demand for foreign products is high therefore imports will certainly reduce when they become more expensive. In this sense,

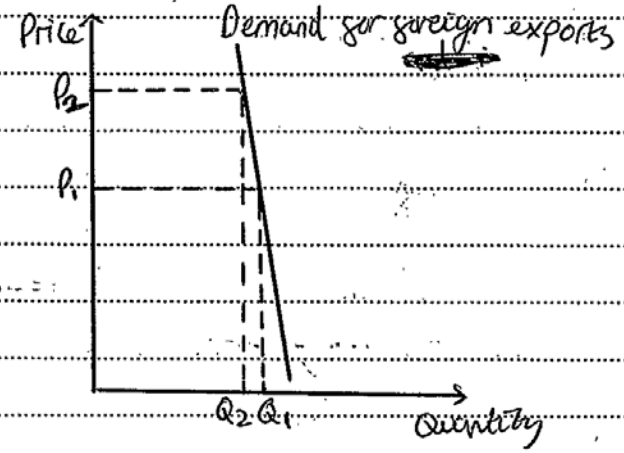
the deficit will be resolved.

If there is a depreciation in the Rand then this will make South African exports more competitive. This may incentivise domestic firms to improve their productive efficiency in order to obtain global sales and therefore increase profits. This will cause aggregate supply to shift outwards and result in increased exports, reducing the current account deficit.

However, Marshall Learner suggests that unless the Gini coefficient is greater than 1, ie the price elasticity of demand for exports and imports is elastic, than the depreciation in the currency will not solve a current account deficit. This is because if demand for exports and imports is price inelastic than despite a reduction in export price and increase in import price, demand will remain the same. This is true especially for countries such as the UK that rely on ~~imported goods~~ a high level of imported goods to run the economy, even if the price of banana's increases due to a depreciation of the pound, demand will remain the same.

~~Despite this a depreciation in the Rand could~~

~~To conclude,~~



The diagram shows that the demand for foreign exports is very price inelastic therefore despite a large increase in price, the quantity demanded will barely ~~chan~~ reduce.

To conclude, a fall in the value of a country's currency will usually reduce a deficit on the current account of it's balance of payments because ~~exports become~~ exports become cheaper and imports become more expensive However, this depends on the PED of exports and imports, as well as the competitiveness of domestic exports

Examiner commentary

The answer starts off reasonably well but then points needed to be established in more depth and with greater clarity. It is, for instance, not made clear why more competitive exports would 'incentivise domestic firms to improve their productive efficiency'. The candidate may have been thinking about incentivising them to increase their productive capacity. The candidate then reveals some confusion about the Marshall-Lerner condition by referring to the Gini coefficient and about inelastic demand by writing 'demand will remain the same.'

Question 3

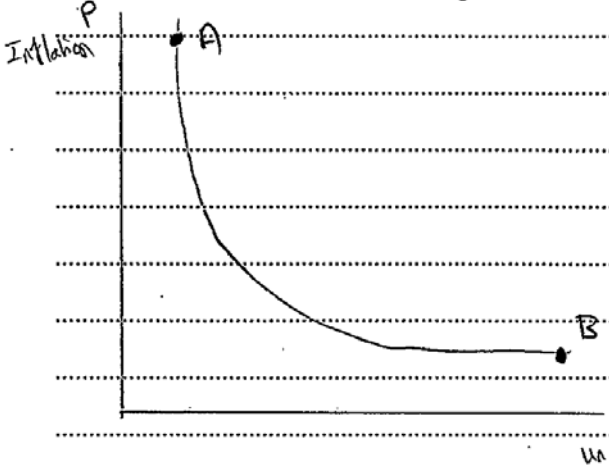
3* Japan's macroeconomic performance in recent years has been influenced by its experience of deflation.

Evaluate, with the use of an appropriate diagram(s), whether deflation always harms a country's macroeconomic performance. **[25]**

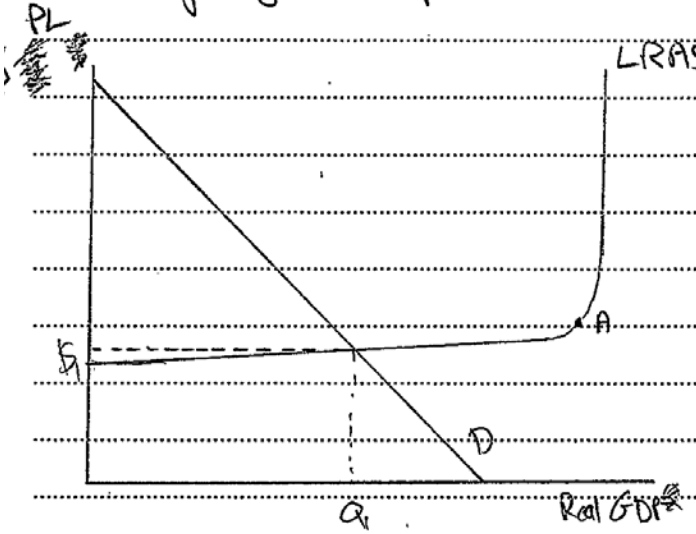
Exemplar 1 — 3 marks

Question No ..... 3 .....

Deflation is negative inflation. When prices are falling. ~~Deflation~~ This is not very good for the economy. There only a few benefits. Firstly the Phillips curve shows the trade-off between inflation & unemployment. It shows that when



Inflation is high, unemployment is low (point A) and that when unemployment is high, inflation is low (point B). It is very unlikely for both inflation to be relatively low and for unemployment to be low also. This means that if there is deflation it is likely that unemployment will be astronomically high which would have many negative impacts.



This diagram is a Long Run Aggregate Supply Curve. It shows the countries Real GDP compared to ~~Inflation~~ Price level. Point A is the best place to be on the

LRAS as here you have the maximum possible economic growth and real GDP without hyper inflation. The only better position would be to use supply-side policies to shift the LRAS to the right even more. Because the economy is experiencing extreme deflation, it cannot have a very large Real GDP figure as well and with the low level of unemployment mentioned earlier. Deflation always harms a countries macroeconomic performance, as shown here in Japan.

Examiner commentary

The candidate draws a Phillips curve but does not show deflation on it. It is stated that unemployment will be high but it is not explained why. The second diagram does not show deflation occurring and there is a demand curve rather than an aggregate demand curve.

Question 4

4* Some economists argue that attempts by the Greek Government to reduce its budget deficit have contributed to the rise in the country's unemployment rate.

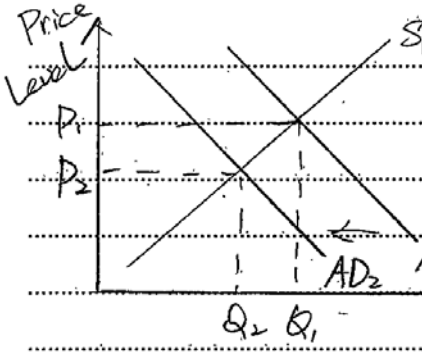
Evaluate the extent to which government policy measures to reduce a budget deficit will increase unemployment. **[25]**

Exemplar 1 — 19 marks

Question No 4

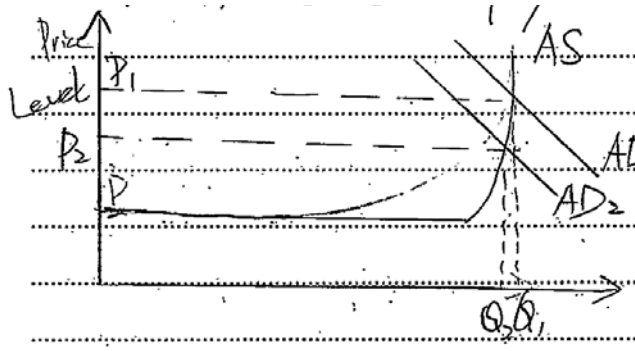
Reducing Government budget deficit ~~is~~ mainly depends on contractionary fiscal policies. By increasing tax rates and reducing government spending, the budget deficit could be improved.

On the one hand, those contractionary fiscal policy could ~~reduce~~ increase unemployment. By reducing government spending on building public projects, it will directly create less job available through the Project building like managers and workers. Also reduce government spending through the whole economy like unemployment benefits and ~~eat~~ subsidies to households, less income for those people which leads to less consumption. Due to AD = C + I + G + (X − M), Less aggregate demand will occur.



The total output of the economy decreases from Q_1 to Q_2 which leads to fewer job positions ~~to~~ creating unemployment.

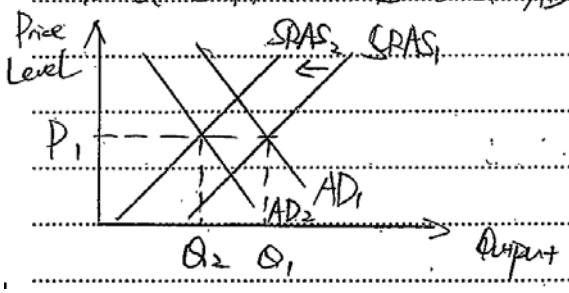
It could be argued that it depends on the situation ~~of~~ the economy. If the economy is operating at the full capacity, the decreasy demand will not reduce employment. If the economy is



running at full capacity there is no space to produce more output, a reduction in AD will only reduce inflation, ~~to others~~

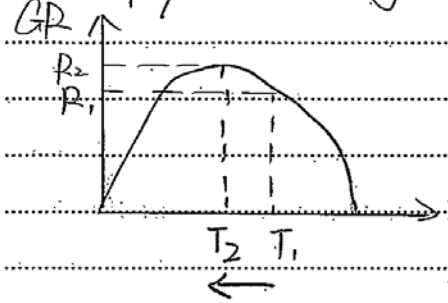
~~On the other hand, reducing increasing~~

In addition, increasing tax rates ~~may~~ will also increase unemployment. It will reduce the disposable income of households, and also less incentive to work. The total labour force will decrease and lead to a shift in AS and AD. and productivity.



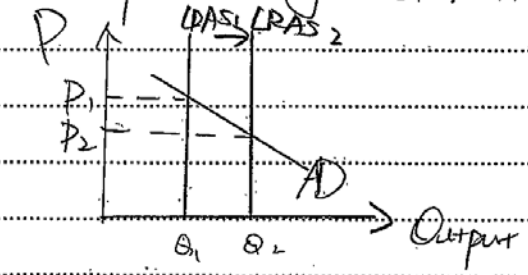
The total output reduces from Q1 to Q2 and causes less employment

It could be argued that reduce tax rate could also improve budget deficit. According to Laffer's curve, too high tax rates will lead to less government tax revenue because it reduces incentive to work. If the tax rates reduce, it will increase both employment and government revenue. It creates more incentive to work and also lower ~~high~~ costs for firms making it available to provide more job positions.



Alternative methods could be supply side policies. The government could spend most of their spendings on education ~~and~~ system. It improves productivity of the economy and improves the occupational mobility of labour, they could provide a higher output, therefore higher tax revenue in the long-run to

improve budget deficit. Also along with higher GDP, more job positions will be provided.



In conclusion, if the Greek government is seeking to reduce the budget deficit in the short-run by increasing tax rate or reducing government spending, it is more likely to have an increasing unemployment due to the decreasing AD. However, supply side policies which improves productivity could achieve a higher tax revenue and less unemployment in the long-run.

Examiner commentary

The answer analyses contractionary fiscal policy in a clear way. There is relevant use of the Laffer curve, linking it to incentives and firms' costs. There is evaluation in terms of the level of capacity. There is also reference to supply-side policy but analysis of how such a policy might increase employment would have been useful. There is also some confusion of the effect of a fall in employment on the size of the labour force.

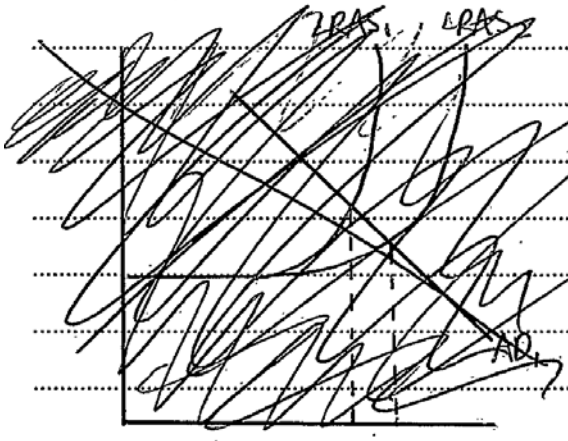
Exemplar 2 12 marks

Question No 4

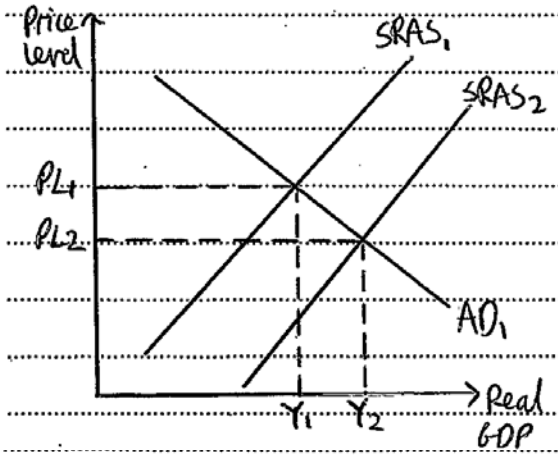
A Budget deficit is when government spending exceeds the revenue generated through taxation therefore the country is forced to borrow large sums of money. Greece has had an increasing budget deficit especially over the last 10 years and has been forced to borrow from other European countries such as Germany and France. The unemployed is the total amount of people that are out of work but are ~~The Greek gov~~ willing and able to find work.

The Greek government may choose use supply side policies in order to reduce the budget deficit. They may choose to increase government spending in educational facilities such as universities. They could

do this by providing grants to universities, the universities could then increase the number of lecturers therefore increasing the supply of higher education. This may lead to an increasing number of Greek people acquiring higher level qualifications therefore accessing higher paid jobs. As more people gain higher incomes the amount of tax revenue generated from income tax will rise leading to a reduction to the budget deficit. Also this should lead to a reduction in unemployment because more people have the skills required to do high skilled jobs.



This will shift out the LRAS curve as there is an increase in the quantity of



This will shift out the SRAS curve as there is an increased utilization of the available labour. As a result Real GDP will rise and unemployment will fall.

However, this assumes that the government spending is utilised effectively, it could be that the grant for universities results in an increase in the wages of lectures therefore the supply of higher education will not rise and unemployment will rise.

The Government may choose to use expansionary monetary policy such as reducing ~~income tax~~ corporation

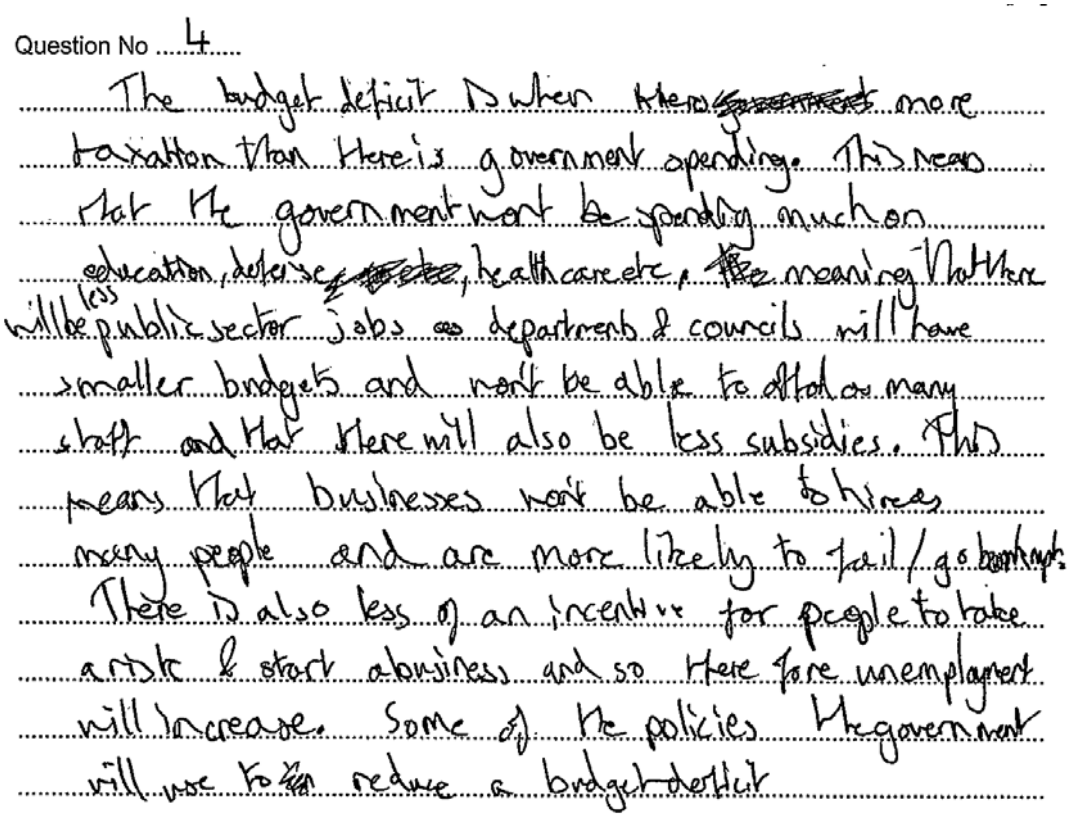
interest rates. A reduction in interest rates such as the UK's reduction following the 2008 recession from 5% to 0.5% ~~aims to see~~ makes saving less desireable and incentivising borrowing. Therefore the level of consumption in the economy should rise because more people are borrowing and not saving. This will boost the aggregate demand in the economy and should reduce unemployment because firms will need to employ more labour to meet the increased demand in the economy. However following the recession, consumer and buisness confidence is very low therefore despite a rapid reduction in interest rates consumption is likely not to rise. Also unemployment may increase because firms ~~[illegible]~~ will not want to take on new employees when there is high levels of uncertainty in the economy ~~[illegible]~~

To conclude, government policy measures such as ~~subsidies supply side policy and expand~~ increasing grants for universities and reducing interest rates to to reduce a budget deficit is not likely to increase unemployment because the supply of higher education will rise and demand in the economy for goods and services will also rise. However, there is no gaurantee that the grant will lead to increased supply of higher education and ~~there~~ may be a lack of higher skilled jobs in the economy. Furthermore during a recession when buisness ~~and~~ and consumer confidence is low, unemployment will rise.

Examiner commentary

The answer starts by providing some reasonable analysis on supply-side policy measures and later there is a relevant reference to the role of confidence. Some of the rest of the answer is rather vague and lacks depth. The comments about raising lecturers' wages do not take into account the possible impact on the quality of education provided. The comments on reducing interest rates might have been linked more firmly to reducing the budget deficit and more might have been made of 'a lack of higher skilled jobs in the economy.'

Exemplar 3 (Low) 3 marks



Question No 4

The budget deficit is when the ~~government~~ more taxation than there is government spending. This mean that the government won't be spending much on education, defence, healthcare etc. The meaning that there will be (less) public sector jobs as departments & councils will have smaller budgets and won't be able to afford as many staff and that there will also be less subsidies. This means that businesses won't be able to hire as many people and are more likely to fail / go bankrupt. There is also less of an incentive for people to take a risk & start a business and so therefore unemployment will increase. Some of the policies the government will use to ~~to~~ reduce a budget deficit

Examiner commentary

A short answer which provides some straightforward analysis of a cut in government spending. The candidate seemed uncertain about what else to include.

The small print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