

A Level in Economics H460/02 Macroeconomics Sample Question Paper

Date – Morning/Afternoon

Time allowed: 2 hours



You may use:

- a scientific or graphical calculator



First name										
Last name										
Centre number						Candidate number				

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Section A: Answer **all** questions in this section.
- Sections B and C: Answer **one** question in each of these sections.
- Write your answer to each question in the space provided.
- Additional paper may be used if required but you must clearly show your candidate number, centre number and question number(s).
- Do **not** write in the bar codes.

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **20** pages.

SECTION A

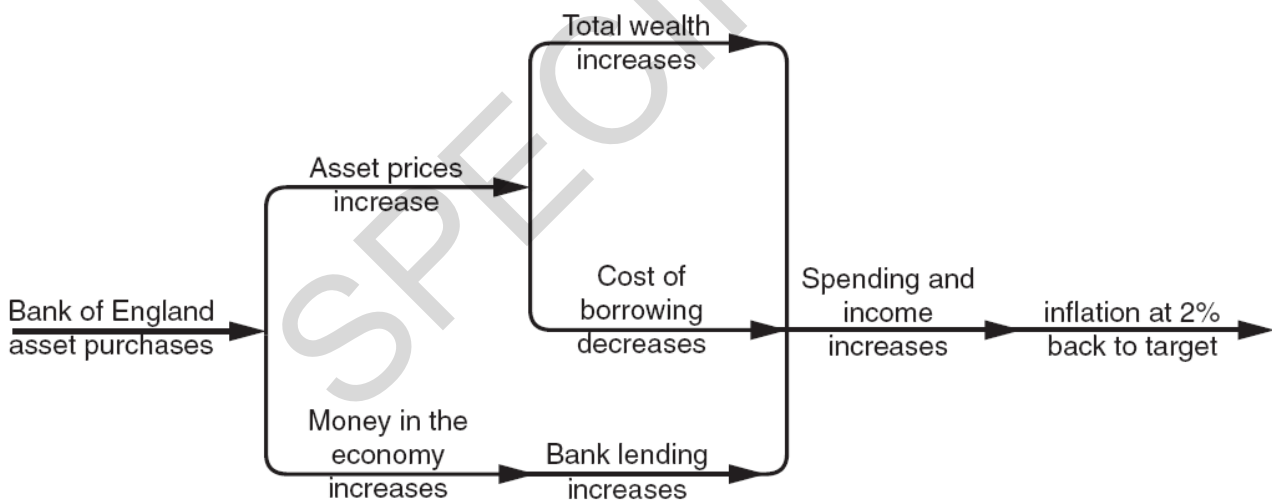
Read the following stimulus material and answer **all** parts of question 1 which follow in this section.

US and UK monetary policy and the 'Fragile Five'

The Fragile Five was a name invented in August 2013 by a banking analyst, James Lord, to describe Brazil, India, Indonesia, South Africa and Turkey. These emerging economies accounted for 12% of global GDP and 20% of global economic growth between 2009 and 2013. They had, however, a heavy reliance on external finance and were seen as the most susceptible to sudden changes in the direction of hot money flows. In early 2014 they had large current account deficits, slowing economic growth, inflation rates between 6% and 11% and were generally experiencing falling exchange rates.

One influence on the direction and volume of hot money flows to and from the Fragile Five is changes in the monetary policy measures of the US and UK. The US Federal Reserve Bank and the Bank of England had been using quantitative easing to increase the money supply (see Fig. 1). This monetary policy measure had been adopted because it was considered that nominal interest rates were already close to zero and that these very low interest rates were having little effect on aggregate demand. The Bank of England's monetary policy is influenced by its need to meet the government's inflation rate target.

Fig. 1 – The anticipated transmission mechanism of quantitative easing



Towards the end of 2013 and at the start of 2014 US and UK monetary policy changed. There was a reduction in the growth of the money supply in the two countries and the prospect of a rise in interest rates in the US. This led to a significant withdrawal of short term funds from the Fragile Five. In January 2014 all of the Fragile Five economies raised their interest rates to prevent an outflow of foreign funds and further falls in their currencies.

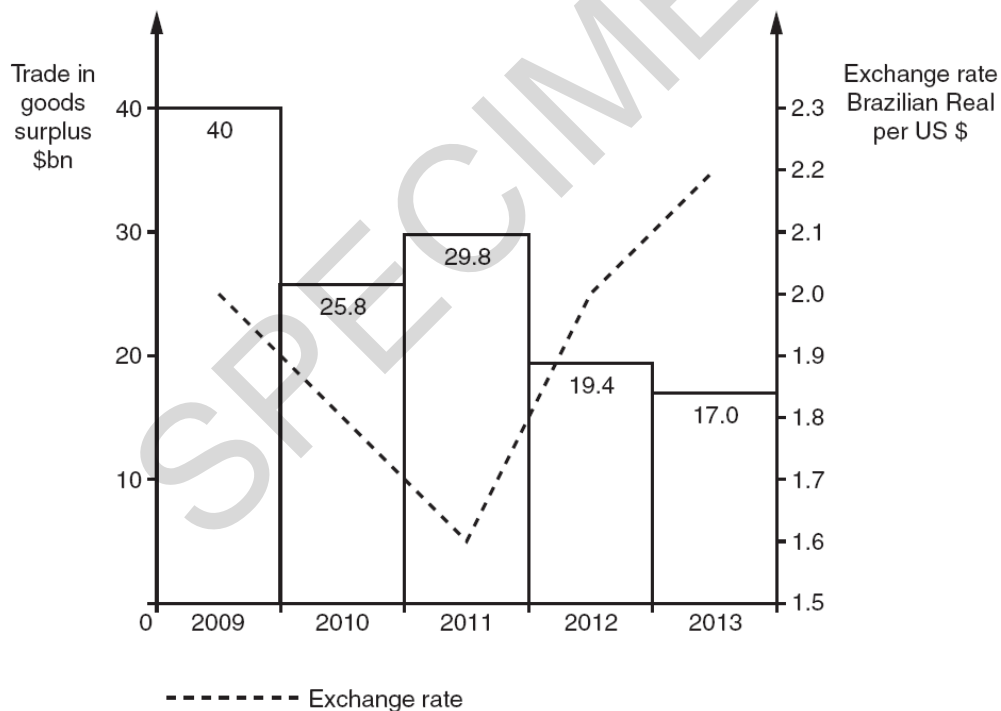
At an emergency midnight meeting the Turkish central bank raised the country's interest rate from 7.75% to 12%. Hot money flows finance more than 80% of Turkey's current account deficit. Turkey's currency, the Turkish lira, fell by 13% against the US dollar in January 2014. Table 1 provides details of changes in Turkey's export and import prices and volumes and current account position in recent years. Among these changes were that Turkey's terms of trade altered from 101 in 2011 to 98 in 2012 and 97 in 2013.

Brazil's trade balance and the value of its currency, which is called the real, also fluctuated over the period. Fig. 2 shows the change in Brazil's exchange rate against the US dollar and its trade balance between 2009 and 2013.

Table 1 – Turkey's export prices, import prices, export volumes, import volumes and current account position, 2009–13

Year	Index of export prices	Index of import prices	Index of export volumes	Index of import volumes	Balance on the current account of the balance of payments as % of GDP
2009	96	95	103	105	-2.5
2010	102	98	120	110	-8.0
2011	108	107	116	120	-10.0
2012	109	111	129	126	-7.0
2013	110	113	130	138	-5.7

Fig. 2 – Brazil's exchange rate and trade balance, 2009–13



35 The governments of Brazil, Turkey and the other three Fragile Five economies urged the US and the UK to continue with quantitative easing and not to raise interest rates. Janet Yellan, the Chairman of the Federal Reserve Bank, however, stated that US monetary policy will be influenced only by the US economy. This led to criticism by the governors of the central banks of the Fragile Five economies. Raguram Rajan, India's central bank governor, argued for greater policy cooperation between developed and emerging economies. He said that, 'We

40 would like to live in a world where countries take into account the effect of their policies on other countries and do what is right broadly, rather than what is right given the circumstances of that country.'

- 1 (a) Identify **one** piece of evidence in the stimulus material of the existence of the 'liquidity trap' and explain why it is an example of the liquidity trap.

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..... [2]

- (b) Using Table 1:

- (i) Calculate the change in Turkey's terms of trade between 2009 and 2010.

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..... [2]

- (ii) Explain what happened to Turkey's terms of trade over the whole period shown.

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..... [2]

- (c) Using Fig. 2:

- (i) Explain what happened to Brazil's exchange rate between 2011 and 2013.

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..... [2]

SPECIMEN

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...day June 20XX – Morning/Afternoon

A Level in Economics

H460/02 Macroeconomics

SAMPLE MARK SCHEME

Duration: 2 hours

MAXIMUM MARK 80

MARKING INSTRUCTIONS

PREPARATION FOR MARKING
SCORIS

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *scoris assessor Online Training*; *OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log-in to scoris and mark the **required number** of practice responses (“scripts”) and the **required number** of standardisation responses.

YOU MUST MARK 10 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

TRADITIONAL

Before the Standardisation meeting you must mark at least 10 scripts from several centres. For this preliminary marking you should use **pencil** and follow the **mark scheme**. Bring these **marked scripts** to the meeting.

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the scoris 50% and 100% (traditional 50% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone, email or via the scoris messaging system.

5. Work crossed out:
- where a candidate crosses out an answer and provides an alternative response, the crossed out response is not marked and gains no marks
 - if a candidate crosses out an answer to a whole question and makes no second attempt, and if the inclusion of the answer does not cause a rubric infringement, the assessor should attempt to mark the crossed out answer and award marks appropriately.
6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there then add a tick to confirm that the work has been seen.
7. There is a NR (No Response) option. Award NR (No Response)
- if there is nothing written at all in the answer space
 - OR if there is a comment which does not in any way relate to the question (e.g. 'can't do', 'don't know')
 - OR if there is a mark (e.g. a dash, a question mark) which isn't an attempt at the question.
- Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).
8. The scoris **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**
If you have any questions or comments for your Team Leader, use the phone, the scoris messaging system, or e-mail.
9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.
10. For answers marked by levels of response:
- To determine the level** – start at the highest level and work down until you reach the level that matches the answer
 - To determine the mark within the level**, consider the following:

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

11. Annotations

Annotation	Meaning

12. Subject-specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section B or Section C.

If a candidate has written two answers for Section B or Section C, mark both answers and award the highest mark achieved.

Levels of response – Level descriptors

	Knowledge and understanding/ Application	Analysis	Evaluation
Strong		An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of

candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:

A INDIVIDUAL ANSWERS

- 1 The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Using 'best-fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
 - **Highest mark:** If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
 - **Lowest mark:** If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
 - **Middle mark:** This mark should be used for candidates who are secure in the band. They are not 'borderline' but they have only achieved some of the qualities in the band descriptors.
- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B TOTAL MARKS

- 1 Transfer the mark awarded to the front of the script.
- 2 The maximum mark for the paper is **80**.
- 3 The quality of the extended response is assessed on the parts of the question paper which are identified with the use of an asterisk (*). The assessment of this skill is embedded within each of the levels of response and it must be considered when determining the mark to be awarded within the appropriate level.

SPECIMEN

Question		Answer	Marks	Guidance
1	(a)	One mark for the identification of a piece of evidence and a further one mark for an explanation as to why it is an example of the liquidity trap.	2 (AO2 x 2)	The stimulus material refers to: <ul style="list-style-type: none"> • interest rates in the US and UK being close to zero (1) so no room to cut them further (1). • low interest rates having little impact on aggregate demand (1) so difficult to use to stimulate economic growth (1).
1	(b) (i)	Up to two marks: Two marks for correctly calculating the change. One mark for calculating 101 and 104.	2 (AO1 x 1 AO2 x 1)	Supporting evidence: 2009: 101 2010: 104. The terms of trade rose by three (index) points.
1	(b) (ii)	Up to two marks: One mark for recognising what has happened. One mark for supporting evidence in terms of relationship between export and import prices.	2 (AO1 x 1 AO2 x 1)	The table shows: <ul style="list-style-type: none"> • the terms of trade deteriorated over the whole period • export prices rose by less than import prices.
1	(c) (i)	Up to two marks: One mark for recognising nature of the change. One mark for supporting evidence.	2 (AO1 x 1 AO2 x 1)	It fell/depreciated/devalued. A higher value of real had to be sold to buy a US\$.
1	(c) (ii)	Up to two marks: One mark for expected change. One mark for reason.	2 (AO1 x 1 AO2 x 1)	Fall in trade surplus would have been expected to have reduced the exchange rate. Demand for the currency would have fallen/supply of the currency risen.
1	(d)	Level 2 (5–8 marks) Good knowledge and understanding of how an increase in the money supply may affect the inflation rate. Strong analysis of the links between changes in the money supply and the Bank of England's inflation rate target. Strong evaluation including a supported judgement on	8 (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)	<i>Indicative content</i> Reasons why it may: <ul style="list-style-type: none"> • Fig. 1 shows that an increase in the money supply raises bank lending • more money increases retail banks' liquid assets/reserves resulting in credit creation • credit creation may lead to a rise in consumer expenditure and investment/aggregate demand

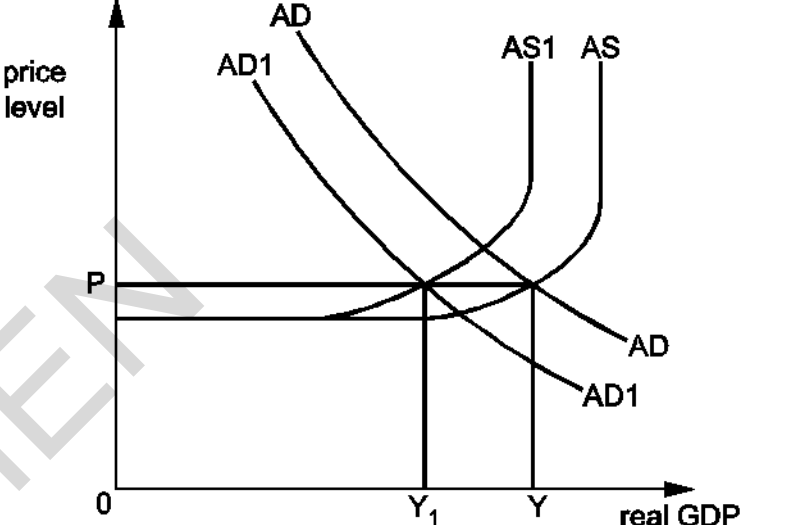
Question		Answer	Marks	Guidance
		<p>whether an increase in the money supply will enable the Bank of England to achieve its inflation rate target.</p> <p>Level 1 (1–4 marks) Reasonable knowledge and understanding of the money supply and/or the inflation rate target.</p> <p>Reasonable analysis of the links between changes in the money supply and the Bank of England's inflation rate target.</p> <p>Limited or no evaluation.</p> <p>0 marks no response or no response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		<ul style="list-style-type: none"> higher aggregate demand can turn deflation into inflation/raise inflation rate to 2%. <p>Reasons why it may not:</p> <ul style="list-style-type: none"> banks may not lend more despite having more liquid assets if there is a lack of creditworthy borrowers banks are cautious/trying to increase liquid assets/reserves higher aggregate demand may not increase the price level if there is spare capacity in the economy higher aggregate demand may increase the price level above the inflation target liquidity trap – where interest rates are close to zero, fluctuations in the money supply may fail to translate into fluctuations in the price level <p>Credit, where appropriate, knowledge/analysis of other, relevant factors.</p> <p>Possible routes into evaluation:</p> <ul style="list-style-type: none"> outcome will depend on initial state of economic activity/size and nature of any output gap changes in the money supply are not the only influence on the inflation rate, e.g. there may be higher raw material costs.
1	(e) *	<p>Level 3 (9–12 marks) Good knowledge and understanding of an independent monetary policy in the context of an emerging economy.</p> <p>Strong analysis of the reasons why and why not an emerging economy may be able to operate an independent monetary policy.</p> <p>Strong evaluation including a supported judgement on the</p>	<p>12</p> <p>(AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)</p>	<p><i>Indicative content</i></p> <ul style="list-style-type: none"> monetary policy covers a government/central bank's decisions on the interest rate, money supply and exchange rate. <p>Reasons why it might not:</p> <ul style="list-style-type: none"> developed countries' central banks may ignore the side effects of their monetary policy measures on emerging

Question	Answer	Marks	Guidance
	<p>extent to which an emerging economy can operate an independent monetary policy.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (5–8 marks) Good knowledge and understanding of an independent monetary policy and/or an emerging economy.</p> <p>Good analysis of the reasons why and why not an emerging economy may be able to operate an independent monetary policy.</p> <p>Reasonable evaluation as to whether an emerging economy can operate an independent monetary policy without considering its extent.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 1 (1–4 marks) Reasonable knowledge and understanding of monetary policy and/or an emerging economy.</p> <p>Reasonable analysis of the reasons why and why not an emerging economy may be able to operate an independent monetary policy.</p> <p>Little or no evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited</i></p>		<p>economies</p> <ul style="list-style-type: none"> an emerging economy may not be able to move its interest rate/growth of the money supply in a different direction due to the risk it will lead to destabilising outflows/inflows of hot money, e.g. if the US and UK raise interest rates, emerging economies will be forced to raise their interest rates to avoid an outflow of hot money; an outflow of money would increase the supply of the currency; a fall in the exchange rate can push up the rate of inflation as it will raise the price of imports an emerging economy may be a member of a trade bloc which may require some co-ordination of monetary policy measures. <p>Reasons why it might:</p> <ul style="list-style-type: none"> an emerging economy may be able to operate an independent monetary policy if it is prepared to operate a freely floating exchange rate; higher interest rates may result in a lower exchange rate which may encourage an inflow of hot money; with speculators expecting the exchange rate to rise in the future capital controls may be imposed; these limit the amount of currency coming into and going out of the country some countries discourage the movement of destabilising hot money flows by developing their financial sector. <p>Credit, where appropriate, knowledge/analysis of other, relevant factors.</p> <p>Possible routes into evaluation:</p> <ul style="list-style-type: none"> a fall in the exchange rate may not always encourage financial investors to buy the currency as they may expect a further depreciation there may be greater cooperation between central banks but central banks are likely to put national self-interest

Question	Answer	Marks	Guidance									
	<p><i>evidence and the relationship to the evidence may not be clear.</i></p> <p>0 marks no response or no response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		<p>before global interest</p> <ul style="list-style-type: none"> • fiscal and structural reforms may reduce the emerging economy's reliance on hot money flows • even some developed economies are restricted in their ability to operate an independent monetary policy. 									
2	<p>Level 5 (21–25 marks) Good knowledge and understanding of comparative advantage in the context of the pattern of trade between developed and developing economies.</p> <p>Strong analysis of the link between opportunity cost ratios and the pattern of trade using correct numerical examples.</p> <p>Strong evaluation including a supported judgement on the extent to which comparative advantage explains the pattern of trade between developed and developing economies.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks) Good knowledge and understanding of comparative advantage in the context of the pattern of trade between developed and developing economies.</p> <p>Strong analysis of the link between opportunity cost ratios and the pattern of trade using correct numerical examples.</p> <p>Good evaluation as to whether comparative advantage</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><i>Indicative content</i></p> <p>Example of the use of opportunity cost ratios: e.g. Output per 10 resources</p> <table border="1" data-bbox="1279 651 2051 858"> <thead> <tr> <th></th> <th>Developed Economy</th> <th>Developing Economy</th> </tr> </thead> <tbody> <tr> <td>Primary products</td> <td>60</td> <td>30</td> </tr> <tr> <td>Manufactured goods</td> <td>20</td> <td>5</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • the developed economy has the absolute advantage in producing both products but the comparative advantage in manufactured goods as it can produce these at a lower opportunity cost (3 primary products) than the developing economy (6 primary products) • the developing economy has a comparative advantage in producing primary products. The opportunity cost of producing primary products in the developing economy is 1/6 manufactured goods but 1/3 manufactured goods in the developed economy • for specialisation and trade to benefit both countries, the exchange rate has to lie between the two opportunity cost ratios. In this case, e.g. 1 manufactured good for 5 primary products. 		Developed Economy	Developing Economy	Primary products	60	30	Manufactured goods	20	5
	Developed Economy	Developing Economy										
Primary products	60	30										
Manufactured goods	20	5										

Question	Answer	Marks	Guidance
	<p>explains the pattern of trade between developed and developing economies but without considering the extent.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks) Good knowledge and understanding of comparative advantage in the context of the pattern of trade between developed and developing economies.</p> <p>Good analysis of the link between opportunity cost ratios and the pattern of trade using correct numerical examples.</p> <p>Reasonable evaluation of how comparative advantage may or may not explain the pattern of trade between developed and developing economies but without considering the extent.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of comparative advantage.</p> <p>Reasonable analysis of the link between opportunity cost ratios and the pattern of trade using correct numerical examples.</p> <p>Reasonable evaluation of how comparative advantage may or may not explain the pattern of trade between developed and developing economies but without</p>		<p>How comparative advantage does explain the pattern of trade between developed and developing economies:</p> <ul style="list-style-type: none"> the Heckscher–Ohlin theory suggests that countries with a high supply of labour will have a comparative advantage in producing products made by labour–intensive industries whilst those with a high supply of capital will concentrate on producing products made by capital–intensive industries over time, comparative advantages change and this is reflected in changes in the pattern of trade. For instance, with increased investment, advantages in technology and improvements in education and training, China is now the world’s largest producer of cars and India’s IT industry is expanding. <p>Why comparative advantage does not provide a complete explanation of the pattern of trade:</p> <ul style="list-style-type: none"> the exchange rate may lie outside the opportunity cost ratios. Indeed, a government may keep its exchange rate low to gain a competitive advantage governments impose trade restrictions on a range of products and may provide subsidies to their own producers. In some cases the aim may be to develop an infant industry which may grow to develop a comparative advantage a government may want to avoid overspecialisation because of the risk of sudden shifts in demand and supply the existence of trade blocs such as the EU may distort the pattern of trade with members being encouraged to increase trade with members and discouraged to trade with non–members comparative advantage assumes that opportunity cost ratios remain unchanged as resources are moved from one industry to another. In practice, some resources are likely to be more efficient at producing some products

Question	Answer	Marks	Guidance
	<p>considering the extent.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of comparative advantage.</p> <p>Limited analysis of the link between opportunity cost ratios and the pattern of trade. The numerical examples may be inaccurate or missing.</p> <p>Limited or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit.</p>		<p>than others</p> <ul style="list-style-type: none"> transport costs may affect a comparative advantage and some countries may not want to concentrate on industries which will deplete non-renewable resources at an unsustainable rate. <p>Credit, where appropriate, knowledge/analysis of other, relevant factors.</p> <p>Possible routes into evaluation:</p> <ul style="list-style-type: none"> comparative advantage does explain some of the pattern of trade between developed and developing economies. It accounts for more than absolute advantage as economies tend to base their output and trade on relative productivities influenced by their factor endowments in practice, it is not always easy to decide where a country's comparative advantage lies. The world consists of many countries and a vast number of products the extent to which comparative advantage does explain the pattern of trade depends on mobility of factors of production constant returns to scale externalities of production/consumption.
3	<p>Level 5 (21–25 marks) Good knowledge and understanding of income tax in the context of improving UK macroeconomic performance.</p> <p>Strong analysis of the link between a cut in the top rate of income tax and macroeconomic performance. A relevant and accurately drawn and labelled diagram is provided and is linked to the analysis.</p> <p>Strong evaluation, including a supported judgement, of whether UK macroeconomic performance would be</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><i>Indicative content</i></p> <p>Use and interpretation of an AD/AS diagram:</p>

Question	Answer	Marks	Guidance
	<p>strengthened by an increase in the top rate of income tax.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks) Good knowledge and understanding of income tax in the context of improving UK macroeconomic performance.</p> <p>Strong analysis of the link between a cut in the top rate of income tax and macroeconomic performance would be strengthened by an increase in the top rate of income tax.</p> <p>Good evaluation of whether UK macroeconomic performance would be strengthened by an increase in the top rate of income tax.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks) Good knowledge and understanding of income tax in the context of improving UK macroeconomic performance.</p> <p>Good analysis of the link between a cut in the top rate of income tax and macroeconomic performance. A relevant diagram is provided and is linked to the analysis.</p> <p>Reasonable evaluation of how a cut in the top rate of income tax may influence macroeconomic performance but without considering the extent.</p> <p><i>There is a line of reasoning presented with some structure.</i></p>		 <ul style="list-style-type: none"> • an increase in the top rate of tax may reduce the size of the country's labour force and may reduce consumer expenditure and investment • the effect will be to lower output. The impact on this price level will depend on the relative size of the two shifts. <p>Note: also accept a diagram showing the AD and AS curves shifting to the right that is consistent with the text.</p> <p>Reasons why it may improve the UK's macroeconomic performance:</p> <ul style="list-style-type: none"> • if the economy is operating close to full employment and aggregate supply does not decrease, a reduction in aggregate demand may reduce demand-pull inflation • a higher top rate of tax may not reduce the size of the labour force as some workers may work longer hours to maintain living standards • higher tax revenue may reduce budget deficit which may

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	<p><i>The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of income tax and/or macroeconomic performance.</p> <p>Reasonable analysis the link between a cut in the top rate of income tax and macroeconomic performance. A relevant diagram is provided, which is less than perfect.</p> <p>Reasonable evaluation of how a cut in the top rate of income tax may affect macroeconomic performance but without considering the extent.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of income tax and/or macroeconomic performance.</p> <p>Limited analysis of the link between a cut in the top rate of income tax and macroeconomic performance. The diagram may not be relevant, may be inaccurate or may be missing.</p> <p>Limited or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p>		<p>give foreign and domestic firms more confidence in the economic prospects of the country. An increase in business confidence may increase investment which, in turn, may increase international price competitiveness and economic growth</p> <ul style="list-style-type: none"> • if any extra revenue earned is spent by the government, aggregate demand will increase. For instance, if tax revenue increases by £200bn and government spending increases by £200bn, there will be a net injection of spending into the circular flow. £40bn of the income taken in tax may have been spent, so part of the tax revenue will replace another leakage from the circular flow. An injection of government spending in such a case will be matched by a fall in leakages of £160bn, giving a net injection of £40bn • if the government spends some of the tax revenue on education, training and infrastructure projects, productivity may rise. This will increase aggregate supply and may raise the quality and price competitiveness of the country's products. A more educated and skilled labour force may attract foreign direct investment. As a result there may be actual and potential economic growth and an improvement in the country's current account position <p>Reasons why it might not improve macroeconomic performance:</p> <ul style="list-style-type: none"> • an increase in the top rate of tax may discourage some people of working age from entering the labour force • it may reduce the quantity of hours supplied by workers • investment may be reduced as foreign and domestic firms may want to be based in other countries where their top workers will be taxed less and where domestic demand may be higher • a reduction in investment will lower both aggregate demand and aggregate supply

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	<p>0 marks no response or no response worthy of credit.</p>		<ul style="list-style-type: none"> • aggregate demand may fall if the higher tax rate reduces consumer expenditure. A higher tax rate will reduce the disposable income of the rich which will lower their purchasing power. Such a fall in spending may cause GDP to fall by a multiple amount. <p>If aggregate supply falls by more than aggregate demand, the economy may experience cost–push inflation. With less investment and the withdrawal of some possibly highly productive and innovative workers, costs of production may rise. Cost–push inflation may reduce the price competitiveness of domestic products. This combined with a possible reduction in the quality of products produced may decrease exports and increase imports. As a result the current account position of the balance of payments worsens.</p> <p>Credit, where appropriate, knowledge/analysis of other, relevant factors.</p> <p>Possible routes into evaluation:</p> <ul style="list-style-type: none"> • outcome will be influenced by the level of economic activity • the effect will depend on the relative sizes and directions of the shifts of the AD and AS curves • the larger the size of the multiplier, the greater the effect is likely to be • the proportion of people who will be moved into paying the 50% income tax rate • it will depend on the other tax rates as this will influence the marginal rate of tax at the top end • it depends on the direction/influence of other policy measures.

Question	Answer	Marks	Guidance
4	<p>Level 5 (21-25 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy.</p> <p>Strong analysis of the link between globalisation and income inequality in a developed economy.</p> <p>Strong evaluation including a supported judgement on whether globalisation will always increase income inequality in a developed economy.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16-20 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy.</p> <p>Strong analysis of the link between globalisation and income inequality in a developed economy.</p> <p>Good evaluation as to whether globalisation will increase income inequality but without considering whether this will always be the case.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy.</p> <p>Good analysis of the link between globalisation and</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><i>Indicative content</i></p> <ul style="list-style-type: none"> • a more integrated global economy with greater mobility of products, capital and labour has the potential to increase global output and so real incomes • income inequality will increase if the benefits of globalisation are not equally distributed. <p>Reasons why this may occur:</p> <ul style="list-style-type: none"> • entrepreneurs may gain higher incomes as a result of multinational companies being able to locate in lowest cost countries and because of the increase in the size of markets that firms can sell to • skilled workers may enjoy higher incomes as their skills will be in demand throughout the world and because they are likely to be occupationally and geographically mobile • workers who are mobile are likely to be able to adapt to changes in an economy's comparative advantage and move from declining to expanding industries • unskilled workers may experience a reduction in their wages or may lose their wages due to unemployment • with increased competition from developing economies in a range of manufacturing industries, there may be pressure on firms to cut their labour costs • some domestic firms may set up branches abroad or may outsource some of their lower skilled operations to developing economies • generally production of skill-intensive products for exports has increased while production of labour-intensive products has been replaced by imports. Demand for unskilled workers has fallen relative to demand for skilled workers. Structural unemployment has occurred with those lacking mobility remaining unemployed • the increased mobility of firms and skilled workers which is associated with globalisation may put pressure on the

Question	Answer	Marks	Guidance
	<p>income inequality in a developed economy.</p> <p>Reasonable evaluation as to whether globalisation will increase income inequality but without considering whether this will always be the case.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of globalisation and/or income inequality.</p> <p>Reasonable analysis of the link between globalisation and income inequality in a developed economy.</p> <p>Reasonable evaluation of whether globalisation will increase income inequality but without considering whether this will always be the case.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of globalisation and/or income inequality.</p> <p>Limited analysis of the link between globalisation and income inequality.</p> <p>Limited or no evaluation.</p>		<p>governments of both developed and developing economies to lower their corporate and income tax rates. Tax competition can result in lower tax revenue. MNCs may also try to reduce the tax they pay by moving profits to low tax countries. Due to a reduction in tax revenue there may be less spending on social welfare which could reduce the incomes of the unemployed, sick and elderly. There may also be less spending on state education which in the long run may reduce the skills and earning potential of some workers.</p> <p>Reasons why globalisation may not increase income inequality:</p> <ul style="list-style-type: none"> • it may encourage the government of a developed economy to increase its spending on education and training in order to retain domestic firms and attract foreign domestic investment. Such spending by increasing labour skills may reduce unemployment and so reduce income inequality • globalisation may result in increased economic growth both within a developed economy and other economies. Trade liberalisation and reduced transport costs can permit economies to concentrate on those products in which they have the greatest comparative advantage. This can increase output and create employment opportunities • if developed economies buy more imports from developing economies and set up branches in developing economies, the incomes of developing economies may rise. With higher incomes, the developing economies may buy more products from the developed economy • rises in wages in developing economies may put less downward pressure on wages in the developed economy • increased economic growth may generate increased tax revenue. Some of this may be spent raising the incomes

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	<p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		<p>and opportunities of vulnerable groups by, for example, raising state pensions and unemployment benefits.</p> <p>Credit, where appropriate, knowledge/analysis of other, relevant factors.</p> <p>Possible routes into evaluation:</p> <ul style="list-style-type: none"> • the impact of globalisation on a developed economy will be influenced by how flexible its labour and product markets are and how its government responds • how governments respond to globalisation can influence income inequality, e.g. the type of supply side policy measures used • the impact will depend on the extent to which the developed economy is integrated into the global economy • income inequality may also be generated by wealth inequality within a developed country • it may also be affected by the government's welfare policy and its impact/effectiveness.
5	<p>Level 5 (21–25 marks)</p> <p>Good knowledge and understanding of the role of a central bank, particularly as lender of last resort.</p> <p>Strong analysis of the effects on the economy of allowing a bank to fail.</p> <p>Strong evaluation including a supported judgement on whether a central bank should ever allow a bank to fail.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p><i>Indicative content:</i></p> <ul style="list-style-type: none"> • the role of a central bank • lender of last resort • impact of the failure of a retail bank. <p>Arguments for:</p> <ul style="list-style-type: none"> • may reduce the risk of moral hazard. Retail banks may be discouraged from lending to people and firms who are not creditworthy and from buying toxic debt if they know they will not be bailed out by the central bank • encouraging retail banks to undertake more prudent policies might reduce the risk of a financial crisis in the future • it might create more stability in the housing market as it

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	<p>Level 4 (16–20 marks) Good knowledge and understanding of the role of a central bank particularly as lender of last resort.</p> <p>Strong analysis of the effects on the economy of allowing a bank to fail.</p> <p>Good evaluation as to whether a government should allow a bank to fail but without considering whether this should always be the case.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p>Level 3 (11–15 marks) Good knowledge and understanding of the role of a central bank, particularly as lender of last resort.</p> <p>Good analysis of the effects on the economy of allowing a bank to fail.</p> <p>Reasonable evaluation as to whether a government should allow a bank to fail but without considering whether this should always be the case.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of the role of a central bank.</p>		<p>may reduce the risk of banks lending to home buyers who will not be able to make the repayments and so will get into debt</p> <ul style="list-style-type: none"> • when a retail bank’s high risk strategy is successful it benefits in the form of higher profits. When such a strategy fails, it may be the taxpayers who end up paying the price • the collapse of a failing bank may enable more efficient banks to enter the market. <p>Arguments against:</p> <ul style="list-style-type: none"> • there is a risk of creating a run on the banking system. Seeing one bank failing may encourage customers of other banks to withdraw their deposits. As banks create more deposits than they have liquid assets to support them, not every depositor can be paid out • banks borrow from and lend to each other. If a bank goes out of business owing other banks money, it will weaken their position • a run on the banking system may lead to people losing some of their savings which, in turn, could reduce consumer expenditure • a collapse in the banking system would reduce employment and could reduce a country’s export revenue by lowering the amount it earns from selling financial services • if a number of banks go out of business, firms may find it difficult to obtain finance for investment. Existing banks may also become too cautious, becoming reluctant to lend to all but the most creditworthy borrowers – adding to a credit crunch. Reducing investment may lower both aggregate demand and aggregate supply. As a result, actual and potential economic growth may fall • other banks may respond by building up their reserves and reducing lending. This can lead to a fall in the money

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	<p>Reasonable analysis of the effects on the economy of allowing a bank to fail.</p> <p>Reasonable evaluation of whether a government should allow a bank to fail but without considering whether this should always be the case.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of the role of a central bank.</p> <p>Limited analysis of the effects on the economy of allowing a bank to fail.</p> <p>Limited or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit.</p> <p>Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		<p>supply and so cause deflation.</p> <p>Credit, where appropriate, knowledge/analysis of other, relevant factors.</p> <p>Possible routes into evaluation:</p> <ul style="list-style-type: none"> • the decision will depend on the size and importance of the retail bank • the situation within the economy as a whole • the decision will be influenced by how well the banking sector as a whole is performing. If the rest of the banking sector is in good order, a central bank may feel confident in allowing one bank to fail • a central bank will be more concerned to prevent a retail bank failing if the banking sector is playing a key role in the internal performance of the economy • if the banking sector is closely integrated into the greater financial sector, then a failing bank may have a significant impact on the external performance of the economy • if the bank in question is largely a domestic bank or whether it operates within the global economy.

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)		2			2	
1(b)(i)	1 (1)	1 (1)			2	(2)
1(b)(ii)	1 (1)	1 (1)			2	(2)
1(c)(i)	1 (1)	1 (1)			2	(2)
1(c)(ii)	1 (1)	1 (1)			2	(2)
1(d)	1	1	3	3	8	
1(e)	1	1	5	5	12	
2/3	6 (2)	6 (2)	6 (2)	7 (2)	25	(8)
4/5	6	6	6	7	25	
TOTAL	18 (6)	20 (6)	20 (2)	22 (2)	80	(16)

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