



Oxford Cambridge and RSA

AS Level in Economics

H060/02 Macroeconomics

Sample Question Paper

Date – Morning/Afternoon

Time allowed: 1 hour 30 minutes



You may use:

- a 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 all of the questions carefully before you start to write your answer.
- Sections A and B: Answer **all** the questions in each of these sections.
- Section C: Answer one question in this section.
- Write your answer to each question in the space provided.
- Additional 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 **60**.
- 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 **12** pages.

SECTION A

Answer **all** the questions in this section.

1 Which of the following is an example of current expenditure by government?

- A Construction of aircraft carriers.
- B Improvements to motorways to increase capacity.
- C Investment in additional offshore wind farms.
- D Salaries of National Health Service employees.

Your answer

[1]

2 Which of the following explains why the rate of nominal GDP growth is difficult to measure accurately?

It is difficult to account for changes in:

- A purchasing power parity
- B the price level
- C the size of the population
- D unrecorded economic activity

Your answer

[1]

3 The table below shows the number of labour hours daily that two countries need to produce one unit of each of the two goods. Other factors of production are used in equal quantities in the two countries.

Country	Rice	Coffee
X	4	?
Y	20	30

Country X has a comparative advantage in coffee.

What is the missing number from the table?

- A 6
- B Any number less than 6
- C 20
- D Any number greater than 20

Your answer

[1]

4 Which of the following is a leakage from the circular flow of income?

- A Exports
- B Government spending
- C Investment
- D Saving

Your answer

[1]

5 An appreciation in the value of a country's currency will lead to:

- A a rise in government spending
- B a rise in the rate of inflation
- C a fall in the rate of unemployment
- D a fall in the price of imports to that country

Your answer

[1]

6 Which of the following defines the term recession?

- A A fall in the long run rate of economic growth
- B A sustained fall in the level of government spending
- C The ongoing erosion of the value of real incomes through inflation
- D Two successive quarters of falling Gross Domestic Product

Your answer

[1]

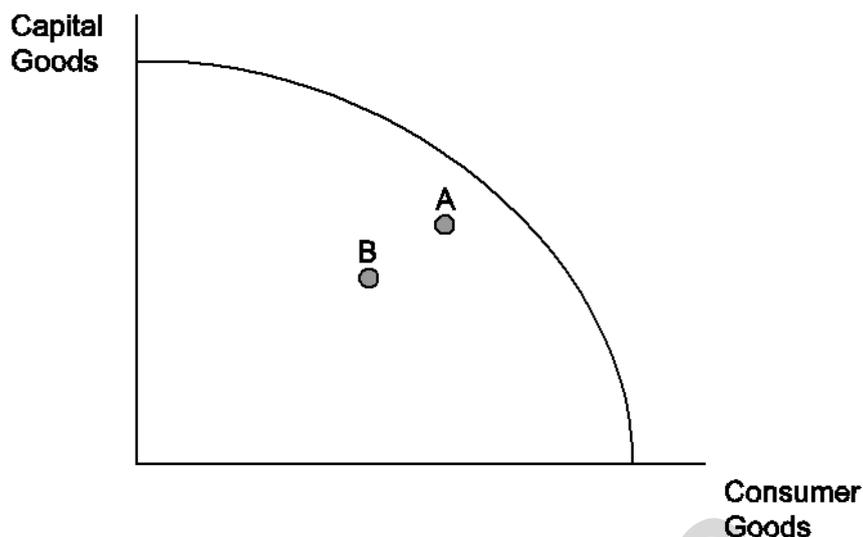
7 According to the Marshall-Lerner condition which of the following countries' balance of trade will improve following a currency devaluation?

Country	Price Elasticity of Demand for imports	Price Elasticity of Demand for exports
A	-0.3	-0.4
B	-0.3	-0.7
C	-0.7	-0.1
D	-0.8	-0.3

Your answer

[1]

- 8 Which of the following will cause an economy to move from point A to point B on the production possibility frontier diagram shown below?



- A A decrease in imports
- B A decrease in interest rates
- C A decrease in consumer spending
- D A decrease in the size of the population

Your answer

[1]

- 9 Which of the following **must** occur as a result of deflation?

- A A rise in the value of money
- B A fall in savings
- C A rise in employment
- D A fall in the current account deficit

Your answer

[1]

- 10 How would a fall in the price level be shown on an aggregate demand (AD) diagram?

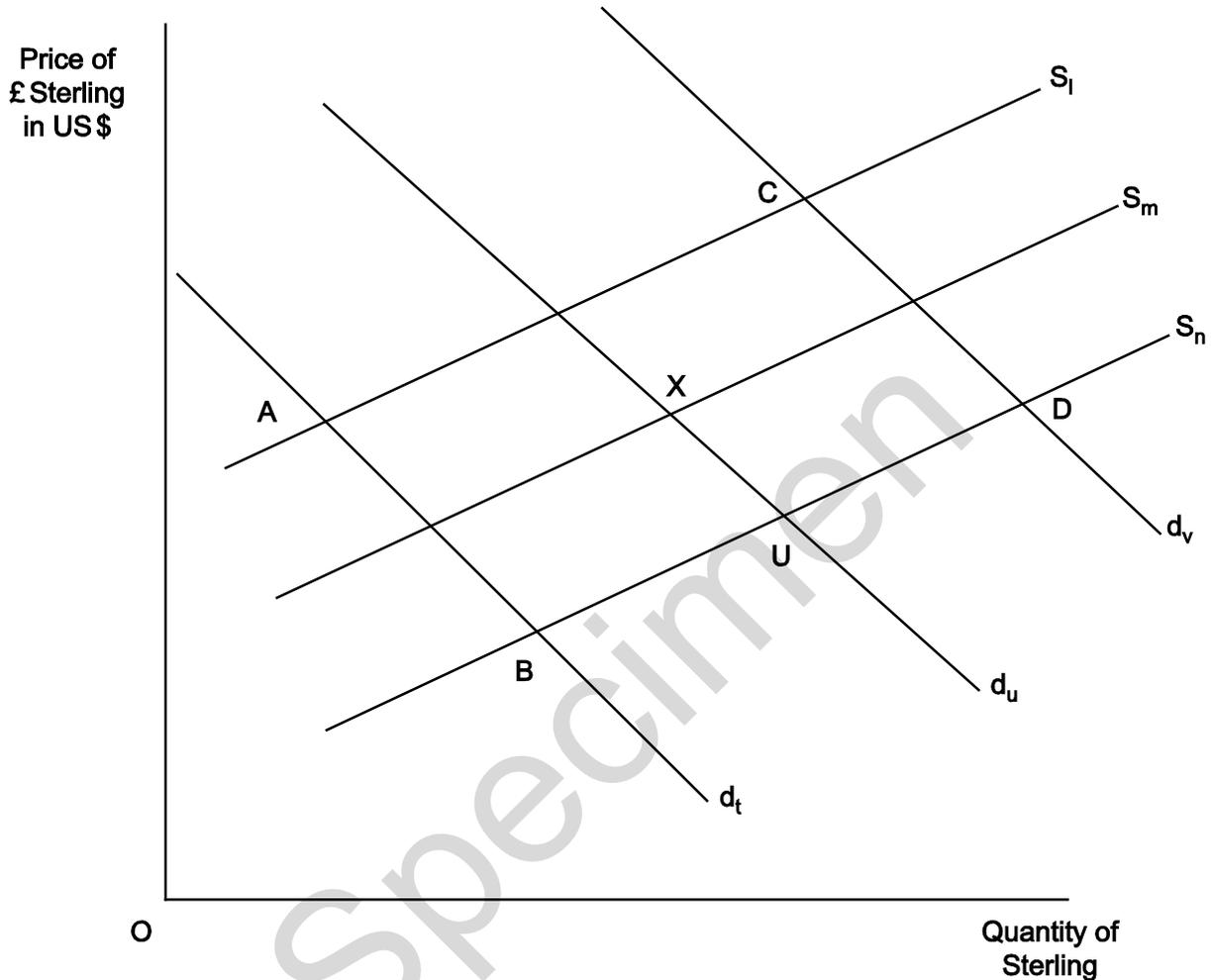
- A A movement down the AD curve
- B A movement up the AD curve
- C A shift to the left of the AD curve
- D A shift to the right of the AD curve

Your answer

[1]

11 The diagram below shows three supply curves (labelled S) and three demand curves (labelled D) for the pound sterling (£). The price of sterling is quoted in US\$. The original equilibrium is at point X.

There is now a recession in the USA. At the same time the UK is experiencing a consumer boom. Which point **A**, **B**, **C** or **D** will represent the new equilibrium in the market for the pound sterling?



- A
- B
- C
- D

Your answer

[1]

12 Which of the following is an example of a fiscal policy?

- A A change in the exchange rate
- B A change in the level of government spending
- C A change in the rate of interest
- D A change in the money supply

Your answer

[1]

13 The table below shows the rate of interest in four countries in 2013 and 2014.

	Country A	Country B	Country C	Country D
2013 rate of interest	2%	3.5%	2.5%	3%
2014 rate of interest	2.5%	3%	2%	3.5%

Which of the following would best explain the possible aims of the changes in monetary policy that occurred between 2013 and 2014?

- A** Country A was trying to discourage consumer spending
Country B was trying to encourage domestic saving
- B** Country B was trying to encourage consumer spending
Country C was trying to encourage investment by firms
- C** Country C was trying to encourage consumer spending
Country D was trying to discourage domestic saving
- D** Country C was trying to discourage short term capital inflows
Country D was trying to encourage more exports

Your answer

[1]

14 The table shows the amount of direct tax paid by individuals at different levels of income in a country in the eurozone.

Income received (€)	Direct tax paid (€)
10 000	1000
20 000	2000
30 000	4000

Which of the following statements about the country's direct tax system is true?

- A** The system is progressive throughout the income range
- B** The system is proportional from €10 000 to €20 000 only
- C** The system is proportional throughout the income range
- D** The system is regressive from between €20 000 and €30 000

Your answer

[1]

- 15** The increase in online banking has led to a reduction in the demand for counter staff in high street bank branches.

Which of the following types of unemployment is this most likely to have caused?

- A** Cyclical
- B** Frictional
- C** Seasonal
- D** Structural

Your answer

[1]

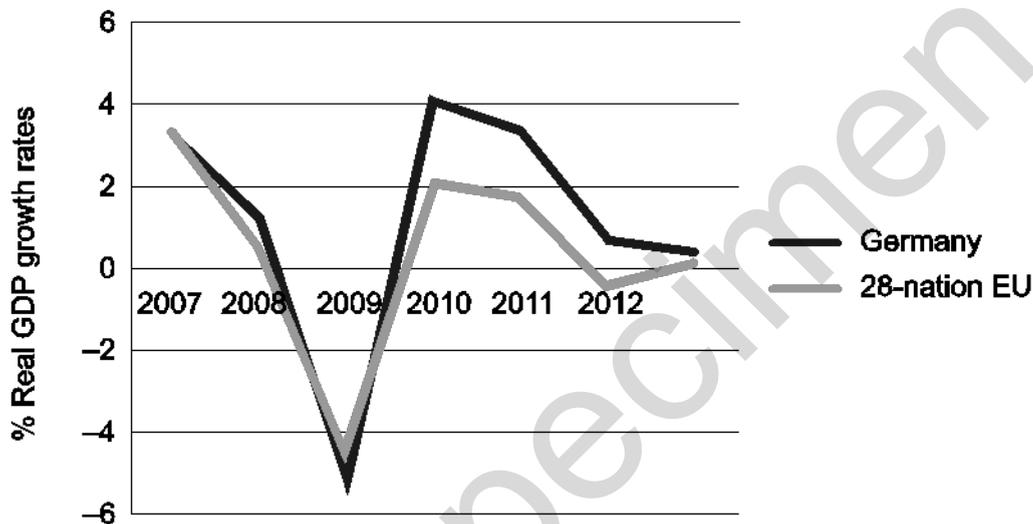
Specimen

SECTION B

Answer **all** questions**Germany – Challenges for Europe’s economic powerhouse**

Germany is Europe’s economic powerhouse and the world’s second largest exporter. Whereas unemployment rose in many countries following the global financial crisis of 2008, Germany’s unemployment actually fell and for the first time since the early 1990s fewer than three million people were unemployed. The country has seen its Gross Domestic Product (GDP) per capita increase faster than both its European neighbours and other major industrialised nations (see **Fig.1**).

Fig.1 – A comparison of Germany and 28-nation European Union (EU) annual % real GDP growth rates – 2007–2013



Despite its relative success since 2008, German economic growth became relatively subdued in 2013. The German Federal Statistical Office said that Europe’s biggest economy grew by only 0.4 percent for the full year in 2013, less than the 0.5% analysts were expecting. This was its weakest performance since it shrank in 2009, in the wake of the global financial crisis. Despite this the economy is widely expected to pick up speed again in 2014.

Unlike many other countries in the 28 nation European Union, Germany has managed to avoid recession since 2009, although much of its recent economic expansion was fueled largely by domestic demand as exports declined in 2013 by 0.2% compared with 2012.

However, sluggish German growth of just 0.4% in 2013 also drove down imports. Germany imported 1.2 percent less in 2013 than in 2012, meaning that the country’s trade surplus had further widened despite the fall in export levels. According to the German statisticians, the gap between exports and imports had reached 198 billion euros, which was the biggest ever recorded.

Germany’s government is keen to achieve stable and sustainable economic growth. It takes pride in its education system, in particular its emphasis on providing its young people with training in technical occupations, such as engineering. Despite the sluggish growth in 2013 German unemployment continued to fall steadily.

25 A senior economist at a major German Bank, said German inflation which had remained relatively stable in 2013 (see **Fig.2**) could soon begin to rise if workers got higher wages and increased their consumption levels.

30 "In a tightening labour market, with falling unemployment, substantial wage demands have a good chance of going through and boosting consumption, which could raise inflation rates once spring arrives and the winter weather effects fade", he said.

In 2014 chemical workers have already secured a 3.7% pay rise and other trade unions are seeking high wage rises, with construction workers even calling for a 7% increase.

Fig.2 – Germany’s Consumer Prices Index Quarterly Figures – January 2013–January 2014

Jan 2010 = 100	Jan-13	Apr-13	Jun-13	Sep-13	Jan-14
Consumer Prices Index	104.5	105.6	105.6	105.1	105.9

- 16 (a)** 'Germany's government is keen to achieve stable and economic growth'.
State **one** other possible macroeconomic policy objective of the German government.
(insert 1 x line) [1]
- (b)** Using information from the case study, explain how it was possible for Germany's trade surplus to widen in 2013 despite a fall in the level of exports.
(Insert 4 x line) [2]
- (c) (i)** Using **Fig. 1**, compare the real GDP growth rate of Germany with that of the 28 nation EU.
(Insert 4 x line) [2]
- (c) (ii)** State **two** factors which might account for the increase in the rate of growth of the German economy between 2009 and 2010.
(Insert 2 x 1 x line) [2]
- (d) (i)** Using **Fig. 2**, calculate the rate of inflation in Germany between January 2013 and January 2014. Give your answer correct to two decimal places.
(Insert 2 x line) [2]
- (d) (ii)** State **two** limitations of using a price index as a measure of inflation.
(Insert 2 x 1 x line) [2]
- (e)** Show using a diagram, the potential impact on Germany's GDP of a continuing fall in export levels.
(Insert blank space equivalent to 12 x line) [4]
- (f)*** Evaluate the extent to which a 'tightening labour market' is likely to create inflationary pressure in the German economy in 2014.
(Insert 40 x line) [10]

SECTION C

Answer either Question 17 **or** Question 18

17* In the Global Competitiveness Index for 2013–2014 the UK economy was placed tenth in the world.

Evaluate, with the aid of an appropriate diagram(s), the potential impact on the UK economy of an improvement in its international competitiveness.

[20]

OR

18* In 2014 the leader of the UK Labour Party, Ed Milliband, proposed a ‘job guarantee’ scheme for 18-24 year olds if the Labour Party were to win the 2015 general election. The scheme would see a subsidy paid to UK employers who guarantee a young person a job at the minimum wage for six months.

Evaluate, with the aid of an appropriate diagram(s), whether employment subsidies or the provision of youth training schemes is likely to be more effective in reducing the level of youth unemployment in the UK.

(Insert 80 x line)

[20]

Specimen

Specimen

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OCR

Oxford Cambridge and RSA

...day June 20XX – Morning/Afternoon

AS Level in Economics

H060/02 Macroeconomics

SAMPLE MARK SCHEME

Duration: 1 hour 30 minutes

MAXIMUM MARK 60

This document consists of 32 pages

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 C.

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

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 **60**.
- 3 The quality of the extended response is assessed on this 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.

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.

	Key	Rationale	AO	Quantitative skills
1	D	<p>Rationale</p> <p>A Capital expenditure. B Capital expenditure. C Capital expenditure. D Correct: Salaries are current expenditure.</p>	AO2	
2	D	<p>Rationale</p> <p>A Confuses this measure with GDP at purchasing power parity, which is a component of the HDI. B Confuses real and nominal GDP. C Confuses nominal GDP with GDP per capita. D Correct: A decrease in unrecorded economic activity would imply nominal output has increased whereas there is simply an increase in the proportion of recorded economic activity.</p>	AO2	
3	B	<p>Rationale</p> <p>A This would mean neither country having a comparative advantage in either good. B Correct: It requires comparatively little labour to produce a unit of coffee. C The missing figure has to show relatively few units of labour being used to produce a unit of coffee. D The missing figure has to show relatively few units of labour being used to produce a unit of coffee.</p>	AO2	✓
4	D	<p>Rationale</p> <p>A Injection. B Injection. C Injection. D Correct: Leakage.</p>	AO1	

	Key	Rationale	AO	Quantitative skills
5	D	<p>Rationale</p> <p>A If government imports this will fall (ceteris paribus). B May reduce both demand pull and cost push inflationary pressures. C A rise in imports and falling exports will reduce domestic demand. D Correct: When a currency appreciates, imports become cheaper.</p>	AO2	
6	D	<p>Rationale</p> <p>A Could fall without becoming negative (also likely to be short run). B Irrelevant C Irrelevant D Correct: This is the accepted definition of a recession.</p>	AO1	
7	D	<p>Rationale</p> <p>A $-0.3 + -0.4 = 0.7, 0.7 < 1$ B $-0.3 + -0.7 = 1, 1 = 1$ C $-0.7 + -0.1 = 0.8, 0.8 < 1$ D Correct: $-0.8 + -0.3 = 1.1, 1.1 > 1$</p>	AO1	✓
8	C	<p>Rationale</p> <p>A Represents an increase in AD and so would move production point from B to A. B Represents an increase in AD and AS so would move production point from B to A and/or shift out PPF. C Correct: A movement to a point further inside the PPF represents a fall in output. D Shift inwards of the PPF rather than the production point.</p>	AO2	✓

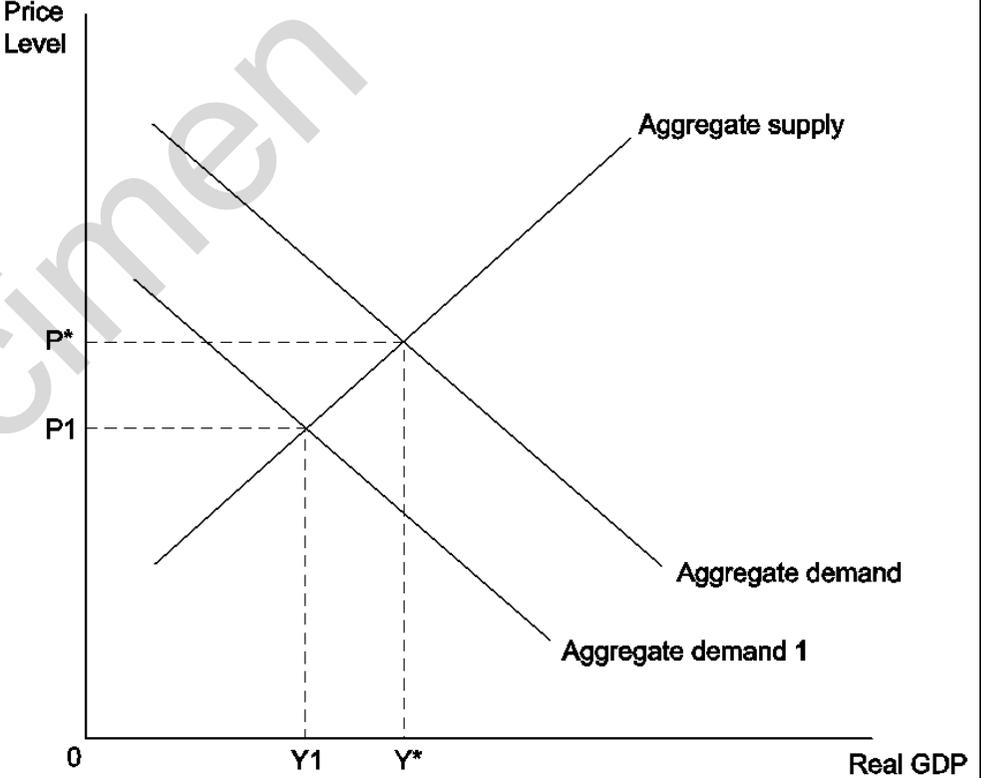
	Key	Rationale	AO	Quantitative skills
9	A	<p>Rationale</p> <p>A Correct: Will occur B Not necessarily occur C Not necessarily occur D Not necessarily occur</p>	AO1	
10	A	<p>Rationale</p> <p>A Correct: demonstrates the correct relationship. B Would be caused by a rise in the price level. C Would be caused by a change in components of aggregate demand. D Would be caused by a change in components of aggregate demand.</p>	AO1	
11	B	<p>Rationale</p> <p>A This shows a decrease in supply and a decrease in demand for pounds sterling. B Correct: A recession in the USA will reduce demand for UK exports and so the demand for pounds sterling. A consumer boom will increase demand for US imports and to purchase these the supply of pounds sterling will increase. C This shows a decrease in supply and an increase in demand for pounds sterling. D This shows an increase in supply but also an increase in demand for pounds sterling.</p>	AO3	✓
12	B	<p>Rationale</p> <p>A A monetary policy measure B Correct: Government spending is one of the two fiscal policy measures. C A monetary policy measure. D A monetary policy measure.</p>	AO1	

	Key	Rationale	AO	Quantitative skills
13	B	<p>Rationale</p> <p>A Although an increase in the interest rate should discourage consumer spending in Country A, a decrease in the interest rate in Country B should reduce the incentive to save.</p> <p>B Correct: A reduction in the interest rate in Country B should lead to increased consumer spending and a reduction in the interest rate should also be an incentive for firms to borrow and invest in their businesses.</p> <p>D Although a reduction in the interest rate should lead to an increase in consumer spending in Country C, the increase in interest rate in Country D should encourage more foreigners to save in that country.</p> <p>C Although Country C may have reduced their interest rate to make saving in their country less attractive for foreigners, an increase in the interest rate in Country D should actually lead to more demand for their currency, making their exports less competitive abroad.</p>	AO3	✓
14	B	<p>Rationale</p> <p>A Tax does indeed rise as income rises but this does not define a progressive system.</p> <p>B Correct: The proportion of income taxed remains at ten per cent.</p> <p>C It is indeed proportional in the 10–20,000 range but not thereafter.</p> <p>D Regressive means a lower proportion of tax as income rises. Here it is higher.</p>	AO2	✓
15	D	<p>Rationale</p> <p>A This would have been caused by a decline in aggregate demand.</p> <p>B This arises when workers are in between jobs.</p> <p>C This occurs when workers are unemployed at certain times of the year.</p> <p>D Correct: This is caused by a change in the technology used in the industry – a change in supply conditions.</p>	AO1	

Question		Answer	Marks	Guidance	
16	(a)	<p>Accept any of the following:</p> <ul style="list-style-type: none"> • stable low inflation rate • acceptable balance of payments position • a more equitable distribution of income and wealth • sustainable budget position • full employment/ low level of unemployment. 	<p>1</p> <p>(AO1 x 1)</p>	<p>One mark for stating an acceptable macroeconomic objective</p> <p>Accept variation of objectives e.g. 'reduce unemployment', 'achieve an inflation target', 'reduce the budget deficit' etc.</p>	
16	(b)	<p>A widening of the trade surplus is where the excess value of exports over imports increases (1 mark). In 2013, the fall in imports of 1.2% exceeded the fall in exports of 0.2% and so Germany's trade surplus has grown given it was starting from a position of trade surplus (1 mark).</p>	<p>2</p> <p>(AO2 x 2)</p>	<p>Up to two marks:</p> <p>One mark for an application of what is meant by a widening of the trade surplus.</p> <p>One mark for recognition that in 2013 import levels had fallen by 1.2% and export levels had fallen by just 0.2%.</p> <p>One mark for it has widened by one percentage point.</p> <p>There must be explicit numerical reference to the stimulus for the second mark.</p> <p>Maximum 2 marks</p>	
16	(c)	i	<p>Possible valid responses may include:</p> <ul style="list-style-type: none"> • Germany and EU28 real GDP growth followed a similar trend • both experienced a decline in growth rates from 2007–2009 • Germany had a stronger/greater/faster recovery in 	<p>2</p> <p>(AO2 x 2)</p>	<p>Up to two marks:</p> <p>Two points of comparison required.</p> <p>One mark for each point of comparison offered.</p> <p>Comparison must be explicit.</p> <p>Implied comparison through 'data commentary' should not be credited.</p>

Question			Answer	Marks	Guidance
			2009/10 compared to the EU28 <ul style="list-style-type: none"> Germany's growth rate is greater than the EU28 from mid 2009–2013 overall growth in Germany was greater than the growth of the EU28. 		
16	(c)	ii	Possible valid responses may include: <ul style="list-style-type: none"> cuts in interest rates by the ECB an increase in income levels an increase in consumer confidence cuts to income tax rates a fall in German unemployment levels a positive increase in German net migration levels a depreciation of the Euro EU implements protectionist measures removal of trade barriers widening of trade surplus. 	2 (AO1 x 2)	Up to two marks: One mark for stating each of two valid reasons for an increase in German real GDP growth. Valid descriptor must be included for mark, e.g. change in interest rates/ change in income tax rates etc. must not be credited.
16	(d)	i	Inflation rate = $((105.9 - 104.5) \div 104.5) \times 100$ Inflation rate = $(1.4 \div 104.5) \times 100$ Inflation rate = 0.01339×100 Inflation rate = 1.34%	2 (AO1 x 1 AO2 x 1)	Up to two marks: Two marks for correct answer 1.34%. 1 mark for no percentage sign. Where candidates have used the correct formula OFR applies – maximum one mark. Candidates do not have to show calculations to achieve full marks.
16	(d)	ii	Candidates are not required to have an in-depth knowledge of the CPI	2	Up to two marks: One mark for each of two valid limitations.

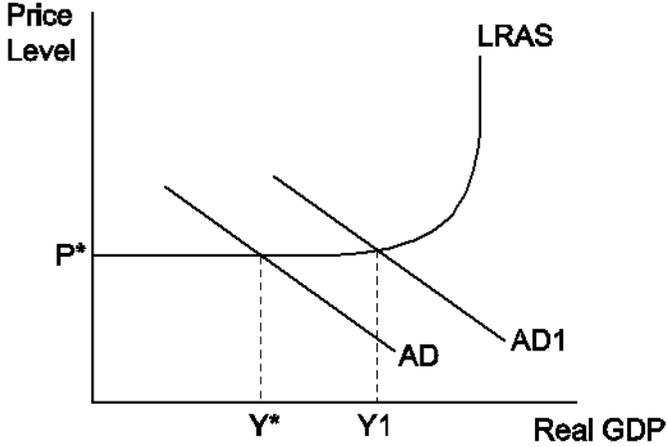
Question	Answer	Marks	Guidance
	<p>specifically. Any relevant indexed measure of inflation is suitable. Possible valid responses may include:</p> <ul style="list-style-type: none"> • inaccurate for non–typical households • some goods and services are excluded e.g. house prices • it does not take into account the quality of goods and services • regional differences in price changes • changes in consumer preferences over a 12–month period • inaccurate weighting of items in the basket of goods. • bias that may understate/overstate the figure. 	(AO1 x 2)	Maximum two marks.

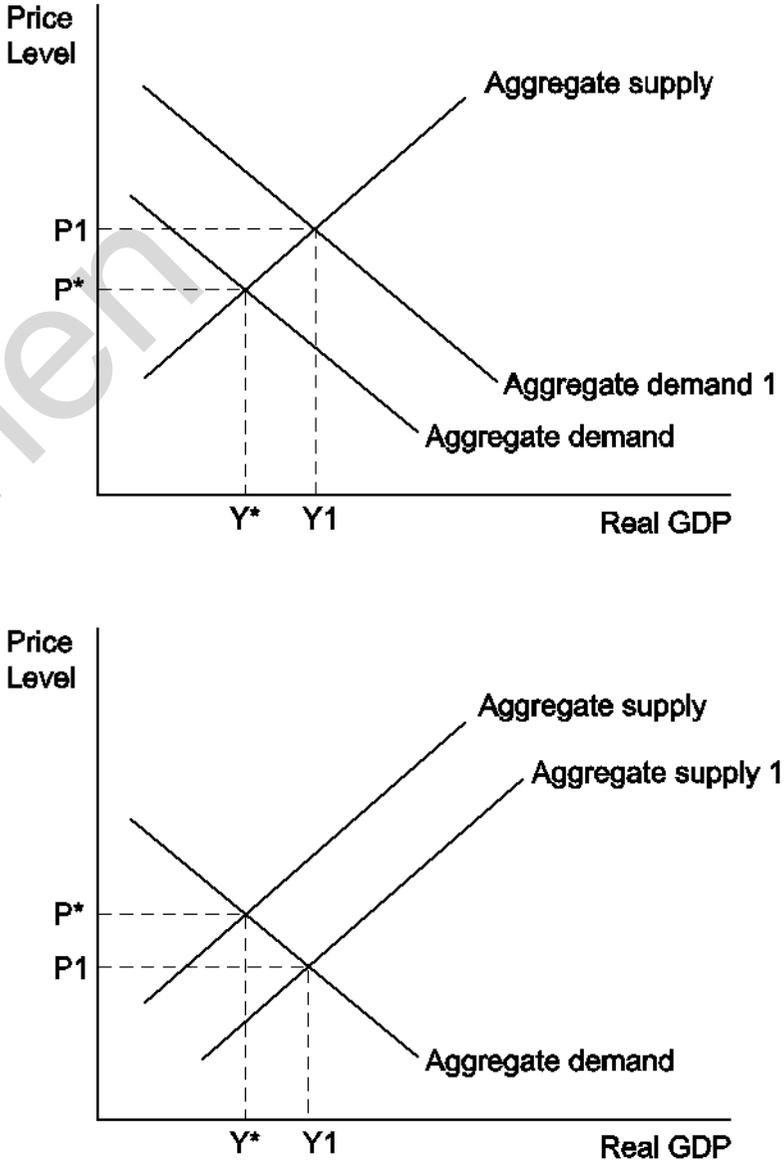
Question	Answer	Marks	Guidance
16 (e)	Accept real National Output instead of Real GDP. Other acceptable versions of the standard diagram should be accepted.	4 (AO1 x 2 AO2 x 2)	Up to four marks: One mark for the correct labelling of the axes plus AD/AS. One mark for labelling the initial equilibrium points. One mark for a leftward shift in the AD curve. One mark for the new equilibrium points. 

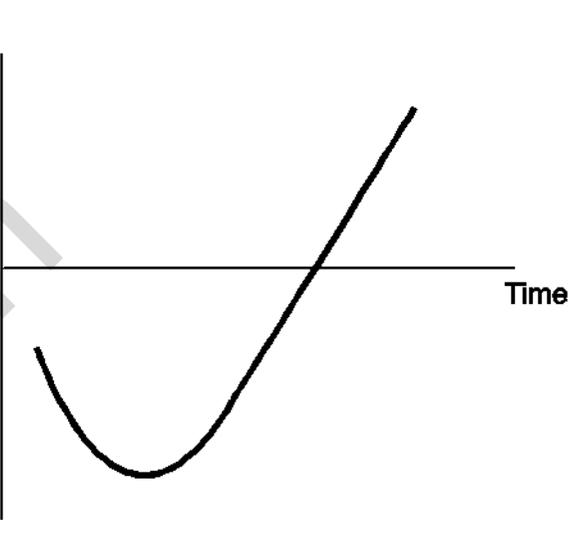
Question	Answer	Marks	Guidance
16 (f) *	<p>Level 3 (7–10 marks) Good knowledge and understanding of a tightening labour market in the context of inflationary pressure.</p> <p>Strong analysis of how a tightening labour market is likely to create inflationary pressure in the German economy in 2014.</p> <p>Good to Strong evaluation of the extent to which a tightening labour market is likely to create inflationary pressure in the German economy in 2014. Good evaluation would be awarded in the lower portion of the band and strong evaluation in the upper portion of the band.</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 (4–6 marks) Good knowledge and understanding of a tightening labour market in the context of inflationary pressure.</p> <p>Good analysis of how a tightening labour market is likely to create inflationary pressure in the German economy in 2014.</p> <p>Reasonable evaluation of whether a tightening labour market is likely to create inflationary pressure in the German economy in 2014.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and</i></p>	<p>10</p> <p>(AO2 x 1 AO3 x 4 AO4 x 5)</p>	<p>Evaluation of the extent to which Germany's tight labour market will be inflationary might include:</p> <ul style="list-style-type: none"> • dependent upon the flexibility of the labour market and the strength of employment contracts • dependent upon the relative strength of the trade union movement • dependent on the amount of spare capacity prevalent in the German economy • dependent on whether the tightness of the labour market is regional, in which case the scale of the impact may be limited • dependent on whether the tightness in the labour market is confined to particular industries, in which case the scale of the impact may be limited • dependent on what is happening in the rest of the economy which may counteract the upward pressure on prices e.g. an increase in aggregate supply. <p>Analysis of the reasons why a tight labour market will be inflationary might include:</p> <ul style="list-style-type: none"> • indicative of rising levels of employment therefore disposable incomes rise. This causes consumption to increase which may result in demand pull inflationary pressures

Question	Answer	Marks	Guidance
	<p><i>supported by some evidence.</i></p> <p>Level 1 (1–3 marks) Reasonable knowledge and understanding of inflationary pressures.</p> <p>Limited or no analysis of how a tightening labour market is likely to create inflationary pressure in the German economy in 2014.</p> <p>Limited or no evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited 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>		<ul style="list-style-type: none"> • scarcity of labour increases the bargaining power of labour, causing wage levels to rise resulting in a fall in SRAS. This will result in cost push inflationary pressure • shortages cause employers to hire less-qualified workers, lowering productivity levels and raising production costs, lowering SRAS levels and resulting in cost push inflationary pressure. <p>Knowledge of how a tightening labour market will cause wage levels to rise which is likely to be inflationary.</p>

Question	Answer	Marks	Guidance
17 *	<p>Level 4 (16–20 marks) Good knowledge and understanding of the potential impact on the UK economy of an improvement in its international competitiveness.</p> <p>Strong analysis of the potential impact on the UK economy of an improvement in its international competitiveness. A relevant and accurately labelled diagram is provided and is linked to the analysis.</p> <p>Strong evaluation of the potential impact on the UK economy of an improvement in its international competitiveness.</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 3 (11–15 marks) Good knowledge and understanding of the potential impact on the UK economy of an improvement in its international competitiveness.</p> <p>Good analysis of the potential impact on the UK economy of an improvement in its international competitiveness. A relevant diagram is provided and is linked to the analysis.</p> <p>Good evaluation of the potential impact on the UK economy of an improvement in its international competitiveness.</p>	<p>20</p> <p>(AO1 x 3 AO2 x 4 AO3 x 6 AO4 x 7)</p>	<p>This question requires an evaluation of the relative impact of an improvement in the UK's international competitiveness on the UK economy.</p> <p>Answers are likely to set out the impact of increased international competitiveness on key macroeconomic performance indicators and evaluate the extent to which an increase in international competitiveness will impact on these indicators.</p> <p>Answers should evaluate the extent to which an increase in international competitiveness will impact on the UK economy.</p> <p>Examples of possible evaluation may include:</p> <ul style="list-style-type: none"> • dependent upon the relative competitiveness of the UK in comparison to its international competitors • dependent upon the size of the multiplier • dependent upon the extent to which the UK's international competitors employ protectionist measures • dependent upon the significance of net exports as a component of the UK's aggregate demand • dependent upon the extent to which UK exports are labour intensive vs capital intensive • dependent upon the amount of spare capacity held in the UK. If there is spare capacity any increase in

Question	Answer	Marks	Guidance
	<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) Reasonable knowledge and understanding of the potential impact on the UK economy of an improvement in its international competitiveness.</p> <p>Reasonable analysis of the potential impact on the UK economy of an improvement in its international competitiveness. A relevant diagram is provided, which is less than perfect.</p> <p>Reasonable evaluation of the potential impact on the UK economy of an improvement in its international competitiveness, but without a judgement being made.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p>Level 1 (1–5 marks) Limited knowledge and understanding of international competitiveness.</p> <p>Limited or no analysis of international competitiveness.</p> <p>Limited or no evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p>		<p>aggregate demand may not be inflationary (supporting diagram below)</p> <ul style="list-style-type: none"> any impact may be short lived if the £ were to appreciate dependent upon the extent to which J Curve and Marshall Lerner condition holds (supporting diagram below). <p>Analysis will set out the impact of an increase in the UK’s international competitiveness on the UK economy, most likely framed around the key macroeconomic performance indicators.</p> <p>The impact of an international competitiveness on macroeconomic variables will be analysed through shifts in either the aggregate demand or aggregate supply curves.</p> 

Question	Answer	Marks	Guidance
	<p>0 marks –no response or no response worthy of credit.</p>		 <p>The top graph shows an aggregate supply curve and two aggregate demand curves. The initial equilibrium is at the intersection of the aggregate supply curve and the lower aggregate demand curve, corresponding to price level P^* and real GDP Y^*. A shift to the right to 'Aggregate demand 1' moves the equilibrium to price level $P1$ and real GDP $Y1$.</p> <p>The bottom graph shows an aggregate demand curve and two aggregate supply curves. The initial equilibrium is at the intersection of the aggregate demand curve and the lower 'Aggregate supply 1' curve, corresponding to price level $P1$ and real GDP $Y1$. A shift to the left to 'Aggregate supply' moves the equilibrium to price level P^* and real GDP Y^*.</p>

Question	Answer	Marks	Guidance
			 <p>The graph illustrates the current account balance over time. The vertical axis represents the current account balance, with 'Current Account Surplus' above the horizontal axis and 'Current Account Deficit' below it. The horizontal axis represents 'Time'. A curve starts in the deficit region, reaches a minimum point, and then rises to cross the horizontal axis, indicating a transition from a current account deficit to a current account surplus.</p>

Specimen

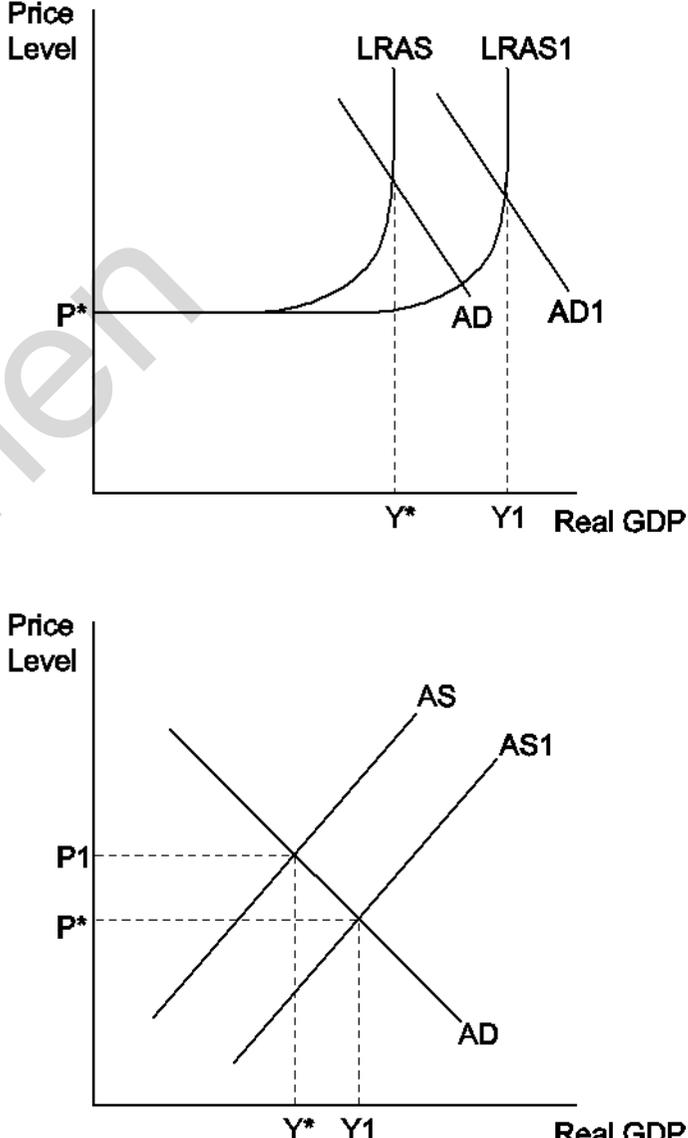
Question	Answer	Marks	Guidance
			<p>Analysis will set out the impact of an increase in the UK's international competitiveness. This may include:</p> <ul style="list-style-type: none"> • an increase in demand for UK goods and services will create additional demand for labour and reduce unemployment levels, increasing income levels and real GDP • an increase in FDI levels, increasing AD and real GDP • an increase in export levels/ reduction in the demand for imports from domestic consumers which improves the current account of the balance of payments position • an increase in export demand creates a positive multiplier effect, increasing domestic consumption levels, increasing aggregate demand levels and real GDP • an increase in demand for exports causes UK business profits to increase providing extra funds for capital investment/employment to increase, causing tax receipts to rise and improving the UK's budget position • an increase in FDI increases access to capital, increasing productivity and the UK's productive potential, reducing cost push inflationary pressures. • an increase in exports will increase aggregate demand

Question	Answer	Marks	Guidance
			<p>levels and create demand pull inflationary pressures.</p> <p>For an application of knowledge and understanding of the impact of an increase in the UK’s international competitiveness on the UK economy. Answers should recognise an impact of greater international competitiveness on a macroeconomic performance indicator.</p> <p>Examples of may include:</p> <ul style="list-style-type: none"> • an increase in GDP levels • an increase in employment • an increase in inflation • an improvement in the current account position • an improvement in the budget position • an increase in FDI levels. <p>For an application of knowledge and understanding of what is meant by an increase in the UK’s international competitiveness. Example response may include: international competitiveness is the degree to which a country can, under free market conditions, meet the test of international markets, while simultaneously maintaining and expanding real incomes.</p>

Question	Answer	Marks	Guidance
18 *	<p>Level 4 (15–20 marks) Good knowledge and understanding of employment subsidies and the provision of youth training schemes in the context of reducing the level of youth unemployment in the UK.</p> <p>Strong analysis of employment subsidies and the provision of youth training schemes in the context of reducing the level of youth unemployment in the UK. A relevant and accurately labelled diagram is provided and is linked to the analysis.</p> <p>Strong evaluation of whether employment subsidies or the provision of youth training schemes is likely to be more effective in reducing the level of youth unemployment in the UK.</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 3 (11–15 marks) Good knowledge and understanding of employment subsidies and the provision of youth training schemes in the context of reducing the level of youth unemployment in the UK.</p> <p>Good analysis of employment subsidies and the provision of youth training schemes in the context of reducing the level of youth unemployment in the UK. A relevant diagram is provided and is linked to the analysis.</p> <p>Good evaluation of employment subsidies and the</p>	<p>20</p> <p>(AO1 x 3 AO2 x 4 AO3 x 6 AO4 x 7)</p>	<p>The question requires an evaluation of the effectiveness of an employment subsidy in reducing youth unemployment and evaluation of the effectiveness of youth training schemes in reducing youth unemployment.</p> <p>Answers are likely to set out how the subsidy and youth training schemes work in reducing youth unemployment, followed by a discussion about the effectiveness of these policies.</p> <p>Answers that refer to an employment subsidy only <u>OR</u> to youth training schemes only will be capped at the midpoint of the appropriate level.</p> <p>Answers should evaluate the relative effectiveness of the subsidy and youth training schemes as well as making valid comparisons regarding their overall effectiveness. These should culminate in a reasoned judgement as to their overall effectiveness:</p> <ul style="list-style-type: none"> • the size of the subsidy offered may not be large enough to incentivise employers into hiring young workers • structural unemployment may persist as young workers may not have the required skills to be able to find employment • the subsidy will carry a significant opportunity cost which could have been used more effectively e.g. vocational training schemes • employers may become overly reliant on the scheme

Question	Answer	Marks	Guidance
	<p>provision of youth training schemes in the context of reducing the level of youth unemployment in the UK.</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) Reasonable knowledge and understanding of employment subsidies and the provision of youth training schemes in the context of reducing the level of youth unemployment in the UK.</p> <p>Reasonable analysis of employment subsidies and the provision of youth training schemes in the context of reducing the level of youth unemployment in the UK. A relevant diagram is provided, which is less than perfect.</p> <p>Reasonable evaluation of employment subsidies and the provision of youth training schemes in the context of reducing the level of youth unemployment in the UK, but without a judgement being made.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p>Level 1 (1–5 marks) Limited knowledge and understanding of employment subsidies and youth training schemes.</p> <p>Limited or no analysis of employment subsidies and youth training schemes.</p> <p>Limited or no evaluation.</p>		<p>and may be reluctant to invest in their employees</p> <ul style="list-style-type: none"> • youth training schemes may be subject to a significant time lag. Young people may not be able to gain employment in the short term • youth training schemes are likely to require significant government investment which carries an opportunity cost • the impact of any youth training schemes will depend upon the quality/relevance of the provision • labour productivity may not rise if there is a lack of access to capital • demand side factors may reduce overall demand for labour. <p>Analysis of how the proposed employment subsidy and youth training schemes to reduce youth unemployment may include:</p> <ul style="list-style-type: none"> • the employment subsidy will subsidise the cost of the employees' wage, increasing demand for labour and reducing youth unemployment rates • the employment subsidy is targeted meaning employers will only gain access to this subsidy if they employ workers aged 18–24 years old so youth unemployment will be directly reduced • the employment subsidy will provide employers with

Question	Answer	Marks	Guidance
	<p><i>The information is basic and communicated in an unstructured way. The information is supported by limited 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>access to cheaper labour so may reduce overall wage rates across all employment groups, reducing real wage unemployment.</p> <ul style="list-style-type: none"> • the employment subsidy could be targeted at specific geographical regions of the UK and so may help to reduce regional and seasonal unemployment • youth training schemes will provide young people with the relevant skills to undertake a variety of job roles increasing occupational mobility and reducing structural unemployment levels • youth training schemes will increase the productivity of young workers, reducing the average cost of this labour per unit, reducing unemployment levels.

Question	Answer	Marks	Guidance
			 <p>The top diagram is a graph with 'Price Level' on the vertical axis and 'Real GDP' on the horizontal axis. It shows two vertical lines representing Long-Run Aggregate Supply (LRAS and LRAS1) and two downward-sloping lines representing Aggregate Demand (AD and AD1). The initial equilibrium is at the intersection of LRAS and AD, corresponding to price level P^* and output Y^*. The new equilibrium is at the intersection of LRAS1 and AD1, corresponding to price level P^* and output Y_1.</p> <p>The bottom diagram is a graph with 'Price Level' on the vertical axis and 'Real GDP' on the horizontal axis. It shows one downward-sloping line representing Aggregate Demand (AD) and two upward-sloping lines representing Aggregate Supply (AS and AS1). The initial equilibrium is at the intersection of AD and AS, corresponding to price level P^* and output Y^*. The new equilibrium is at the intersection of AD and AS1, corresponding to price level P_1 and output Y_1.</p> <p>Knowledge and understanding of policy measures that may</p>

Question	Answer	Marks	Guidance
			<p>be used to reduce youth unemployment may include:</p> <ul style="list-style-type: none">• employment subsidies mean it is cheaper to hire additional workers• youth training schemes provide workers with skills• youth training schemes increase labour productivity. <p>Candidates will demonstrate knowledge and understanding of policies that could be used to reduce youth unemployment but there will be no valid suggestion of their purpose.</p>

Assessment Objectives Grid					
Question	AO1	AO2	AO3	AO4	TOTAL
MCQ	7	6	2		15 (6)
16 (a)	1				1
(b)		2			2
(c) (i)		2 (1)			2 (1)
(c) (ii)	2				2
(d) (i)	1	1 (1)			2 (1)
(d) (ii)	2				2
(e)	2 (2)	2 (2)			4 (4)
(f)		1	4 (2)	5 (2)	10 (4)
17/18	3	4 (2)	6 (3)	7 (3)	20 (8)
TOTAL	18	18	12	12	60 (24)

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