OCR
Oxford Cambridge and RSA

GCE

Economics

Unit **H460/02:** Macroeconomics

Advanced GCE

Mark Scheme for June 2017

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

Annotations

Annotation	Meaning
BP	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
✓	Tick
✗	Cross
C	Comment
BOD	Benefit of doubt
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
L5	Level 5
EE	Effective evaluation
^	Omission
NAQ	Not answered question
SEEN	Noted but no credit given
TV	Too vague

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.

Levels of response / Level descriptors	**Knowledge and understanding/ Application**	**Analysis**	**Evaluation**
Strong	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, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good		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.

Question			Answer	Marks	Guidance
1	(a)		**Distinguish between disinflation and deflation.** Disinflation is a fall in the rate at which the price level is rising or a fall in the rate of inflation (1) whereas deflation is a fall in the price level/negative inflation/lower prices/inflation rate below zero (1).	**2** (AO1 x 2)	Accept relevant numerical examples – e.g. the inflation rate falling for disinflation and a negative inflation rate for deflation
1	(b)	(i)	**Using Table 1, calculate which country had the highest real interest rate in 2015.** South Africa (4.9%)	**1** (A02 x 1)	Candidates do not have to give the figure – South Africa is sufficient.
1	(b)	(ii)	**Using Table 1, explain which central bank would have been the most likely to have engaged in quantitative easing.** 1 mark for identifying a **country –** UK/Russia 1 mark for explanation linked to **inflation rate** – in the case of **the UK**, inflation rate was below target/very low. In the case of **Russia**, the high inflation rate might have been the consequence of quantitative easing. 1 mark for explanation linked to **interest rates** – in the case of the **UK**, a cut in such a low rate of interest might not have had much impact. In the case of **Russia**, the country had the lowest rate of real interest/the highest nominal rate of interest might have been the consequence of trying to control inflation.	**3** (A01 x 1 AO2 x 2)	
1	(c)	(i)	**Using Fig.2, explain which country had the most even distribution of income.** Sweden (1) as the Lorenz comes closest to the line of equality/least bowed out (1)	**2** (AO1 x 1 AO2 x 1)	

1	(c)	(ii)	**Using Fig.2, calculate what percentage of income the second lowest 20% of income earners received in the UK. Show your workings.** 13% (1) The difference between share of income of 40% minus the share of the income of the lowest 20% i.e. 23% - 10% (1). Allow a margin: 25% to 21% - 12% to 8% = 9% -17%.	**2** (AO2 *2)	For workings only need 23% - 10% or equivalent.
1	(d)		**Evaluate to what extent a fall in the price of oil would cause inflation in oil exporting countries.** **Level 2 (5–8 marks)** **Good knowledge and understanding** of how a fall in the price of oil might affect inflation. **Good – strong analysis** of how a fall in the price of oil might affect inflation. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Strong** analysis will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Reasonable – strong evaluation** of how a fall in the price of oil might affect inflation, considering both why and why it might not cause inflation, underpinned by appropriate theoretical analysis. **Good** evaluation will weigh up the reasons why it might and the reasons why it might not but	**8** (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)	*Indicative content* A fall in the price of oil may reduce export revenue. This may cause a fall in demand for the countries' currencies. Lower demand for currencies may reduce their exchange rates. Lower exchange rates may push up the price of imports. An increase in the price of imports may cause inflation as the higher price of imported raw materials would increase costs of production, causing cost-push inflation. Domestic firms may be tempted to raise prices as imports will now be less price competitive. The lower export prices and higher import prices would also increase aggregate demand. This could result in demand-pull inflation. If, however, demand for oil is elastic, a fall in price will increase export revenue. This would cause the exchange rate to rise, import prices to decrease and inflation to fall. Demand for oil is influenced not just by price. For instance, if other countries are experiencing economic booms, they may be demanding significantly more oil. Export revenue may fall but if the countries are operating fixed exchange rates, the decrease in export revenue will not affect the exchange rate and may just result in a fall in aggregate demand. The lower oil price may also reduce the price of petrol and the costs of production within oil exporting countries. The rate of inflation in countries is also influenced by other factors such as changes in wage rates. Whether a fall in the price of oil will cause inflation will depend on the price elasticity of demand for oil, other factors influencing demand for oil, the type of exchange rate and other factors influencing inflation. It is likely that a fall in the price of oil will increase inflation in the oil exporting countries. This is because the demand for oil is relatively

			without reaching a supported judgement. **Strong** evaluation should include a supported judgement. **Level 1 (1–4 marks)** **Limited – reasonable knowledge and understanding** of how a fall in the price of oil might affect inflation. **Limited – reasonable** analysis of how a fall in the price of oil might affect inflation. **Limited** analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. **Reasonable** analysis will have correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Limited** evaluation of how a fall in the price of oil might affect inflation. in the form of an unsupported statement or **no** evaluation. **0 marks** no response or no response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		inelastic. Oil exporting countries do not tend to have a very diversified industrial structure so a lower price of oil may not have a significant impact on costs of production within the countries but this may change over time

			Descriptor	**Award mark**
			Consistently meets the criteria for this level	At top of level
			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)
			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)
			On the borderline of this level and the one below		At bottom of level
Question			Answer	Marks	Guidance
1	**e**	*	Using Fig.1, evaluate whether increasing the funds banks have available to lend will be likely to reverse a deflationary spiral Level 3 (9–12 marks) Good knowledge and understanding of how an increase in bank lending may affect a deflationary spiral Good – strong analysis of how an increase in the funds available to lend may reverse a deflationary spiral. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of whether increasing the funds banks have available will be likely to reduce a deflationary spiral, weighing both why it might and why it might not. Strong evaluation should include a supported judgment. There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.	12 (AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)	Indicative content Increasing the funds banks have available to lend may mean that banks will be more willing to lend both to households and firms. If households and firms borrow more, consumer expenditure and investment may increase. This can encourage firms to increase output and take on more workers. If investment increases, the multiplier and the accelerator will cause aggregate demand to increase by even more. If aggregate demand increases more rapidly than aggregate supply, the price level may start to increase. However, although banks have more funds available to lend, they may be reluctant to do so. There may be a credit crunch with banks concerned that if they were to lend more, they might not be repaid as households and firms may default on their loans. Even if banks are prepared to lend more, households and firms may not want to borrow. They may lack confidence in the future. If, on the other hand, households borrow and spend more, firms will not necessarily increase their output if they initially had spare capacity or if they think the rise in demand will not last. A rise in firms' output does not always increase employment. Firms may be able to produce more by using more capital equipment, getting existing workers to increase their productivity or to work more hours. Private sector spending may increase but if government spending falls it is possible that aggregate demand may not rise. Higher aggregate demand may still be accompanied by a fall in the price level, if aggregate supply increases by a greater amount. This, however, will create 'good' rather than 'bad' deflation and will be unlikely to cause a deflationary spiral. Whether an increase in the ability of banks to lend will reduce a deflationary spiral will be influenced by households and firms' expectations of the future and past experiences. Once a deflationary spiral is underway, it is difficult to reverse. This is because banks are likely to have experienced defaults on loans and so be worried about households' and firms' ability to repay. Households' and firms' confidence is also likely to have been adversely affected by their experience of the deflationary gap.

			Level 2 (5–8 marks) Good knowledge and understanding of how an increase in bank lending may affect a deflationary spiral Reasonable analysis of how an increase in the funds available to lend may reverse a deflationary spiral. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis Reasonable evaluation of whether increasing the funds banks have available will be likely to reduce a deflationary spiral, considering both why it might and why it might not. There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of how an increase in bank lending may affect a deflationary spiral. Limited analysis of how an increase in the funds available to lend may reverse a deflationary spiral Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.		Other aspects of quantitative easing may be more effective such as the purchase of debt and helping firms raise finance without needing to borrow from banks

			Limited evaluation of whether increasing the funds banks have available will be likely to reduce a deflationary spiral, in the form of an unsupported statement or no evaluation. 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. 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		
			Descriptor		Award mark
			Consistently meets the criteria for this level		At top of level
			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)
			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)
			On the borderline of this level and the one below		At bottom of level
Question			Answer	Marks	Guidance
2	*****		Evaluate, with the use of an appropriate diagram(s), whether achieving full employment will always benefit an economy. Level 5 (21–25 marks) Good -Strong knowledge and understanding of the consequences of full employment. Strong analysis of how achieving full employment may affect an economy. Strong analysis will have	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Indicative content Achieving full employment can bring a range of benefits. Making fuller use of resources increases output, income and efficiency. The diagram below shows how a decrease in unemployment will move the production point from Y, inside the curve, to Z, on the curve. Such a move achieves productive efficiency.

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<td>consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.

Strong evaluation of whether achieving full employment will always benefit an economy, weighing up both why it might and why it might not and reaching a supported judgment.

There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.

Level 4 (16–20 marks)
Good knowledge and understanding of the consequences of full employment.

Strong analysis of how achieving full employment may affect an economy. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.

Good evaluation of whether achieving full employment will always benefit an economy, weighing up both why it might and why it might not and will weigh up both sides but without</td>
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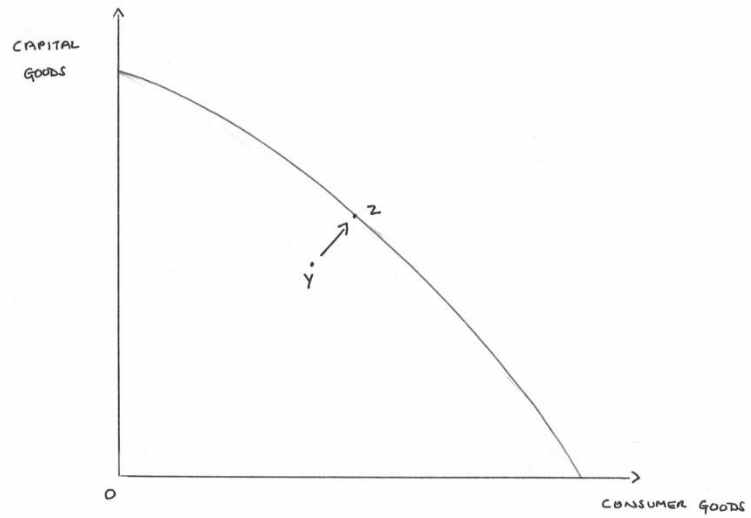
<td>

With higher income and more goods and services available, people can enjoy higher living standards and reduce poverty. One major cause of poverty is a lack of employment.
Actual economic growth may occur and there is the possibility that potential economic growth will occur. An increase in aggregate demand may move an economy closer to full employment and increase real GDP. A shortage of workers may make firms try to get the most out of their employees by increasing the training they provide. This can increase labour productivity. The high level of employment and resulting high wages may also encourage more people to enter the labour force. An increase in labour productivity and in the labour force would shift the long run aggregate supply curve to the right and increase productive capacity. The diagram below shows economic growth occurring as a result of an increase in both aggregate demand and aggregate supply.</td>
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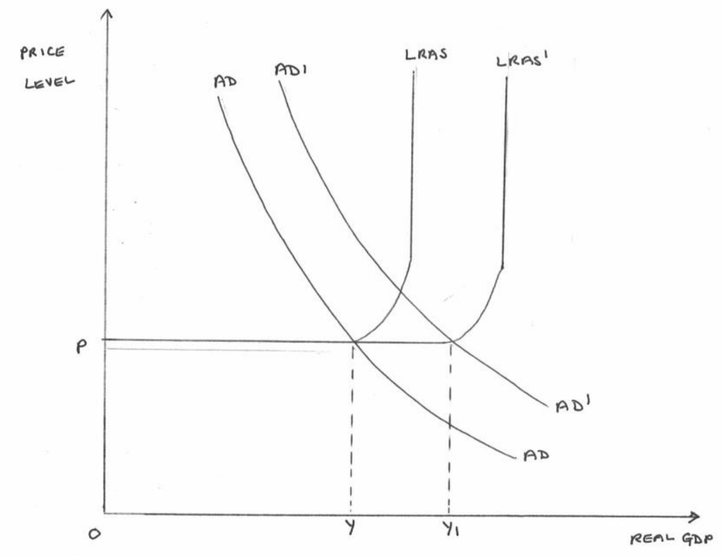
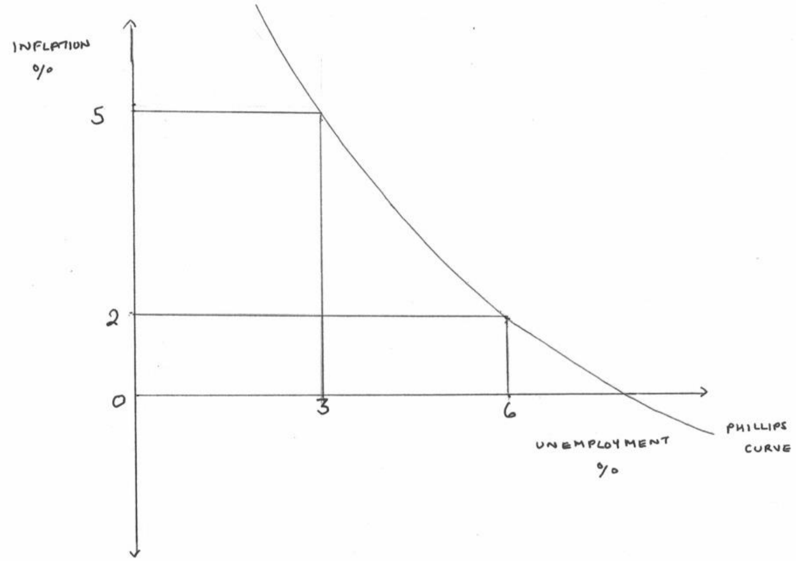
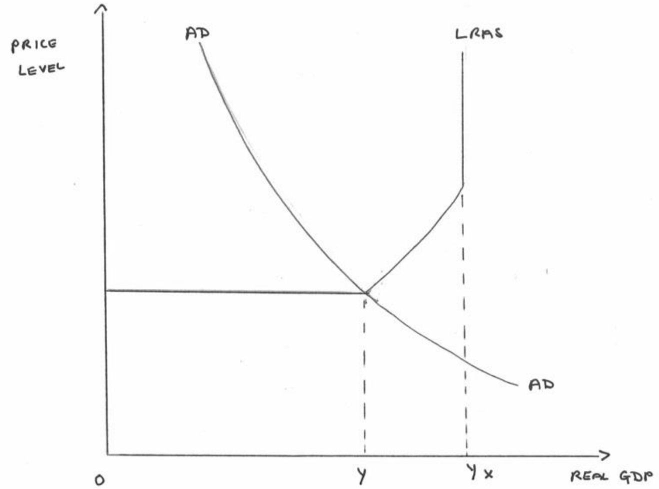
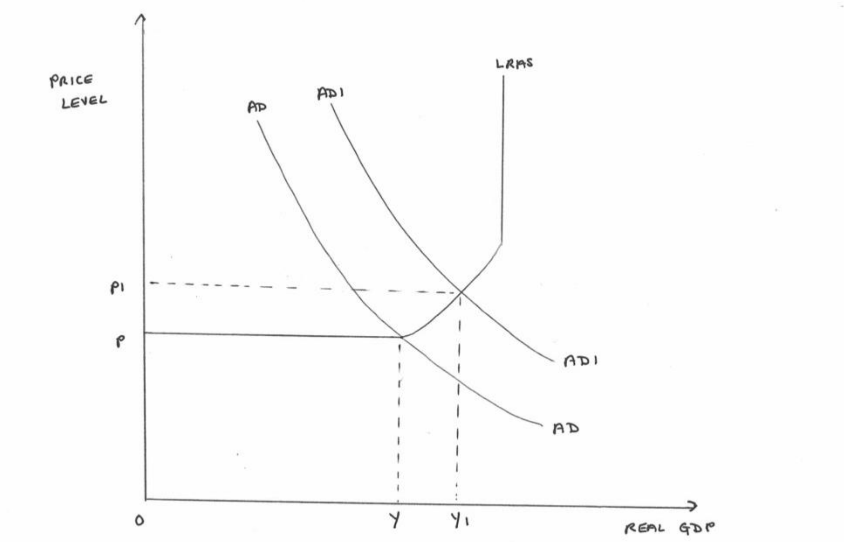
			reaching a supported judgment. There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated. Level 3 (11–15 marks) Good knowledge and understanding of the consequences of full employment. Good analysis of how achieving full employment may affect an economy. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether achieving full employment will always benefit an economy, considering both why it might and why it might not. There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence. Level 2 (6–10 marks) Good knowledge and understanding of the consequences of full employment. Reasonable analysis of how achieving full employment may affect an economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any		 The higher incomes and increased spending which are likely to result from achieving full employment will raise tax revenue and reduce government spending on unemployment benefits. Some of the extra tax revenue and some of the tax revenue that had previously been spent on benefits could be used, for instance, on providing more and/or better education and health care. This spending could raise living standards. Achieving full employment, however, may bring a number of disadvantages to an economy. The high level of demand created and the shortage of workers may result in inflationary pressures. Consumer spending is likely to be higher not only because of high incomes but also because of the confidence full employment is likely to create. With increased difficulty of attracting new workers, firms will be likely to offer higher wages. Unions will also be in a strong position to press for higher wages. If productivity does not rise, the higher wages will increase costs of production resulting in a cost-push inflation. The Phillips curve suggests that there is a conflict between the objectives of full employment and low and stable inflation. The diagram shows that as full employment falls from 6% to 3%, the inflation rate rises

			relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether achieving full employment will always benefit an economy, considering both why it might and why it might not. 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. Level 1 (1–5 marks) Reasonable knowledge and understanding of the consequences of full employment. Limited or no analysis of how achieving full employment may affect an economy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether achieving full employment will always benefit an economy in the form of an unsupported statement or no evaluation. Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence. 0 marks no response or no response worthy of credit.		from 2% to 5%.  When full capacity is reached, any further increase in aggregate demand will have no effect on real GDP and will be purely inflationary. A movement to full employment may also conflict with the aim of reducing a deficit on the current account of the balance of payments. Some of the resulting rise in spending may go on imports. The high level of demand may also encourage some firms to divert their products from the export to the home market. If full employment does result in inflation, domestic products may become uncompetitive in an international market. Full employment does not guarantee that the jobs are well paid nor of a high quality. Some workers wanting full time employment may be in part-time employment and workers may be in low-paid and low-skilled jobs. Whether full employment is beneficial or not will depend, in part, on whether it can be achieved without causing inflation, without worsening a current account deficit and with the creation of well-paid and high-skilled jobs. Increased education and training may enable an economy

					to achieve full employment without inflation by increasing productivity and encouraging innovation and advances in technology.
			Descriptor		**Award mark**
			Consistently meets the criteria for this level		At top of level
			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)
			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)
			On the borderline of this level and the one below		At bottom of level

Question			Answer	Marks	Guidance
3	*		**Evaluate, with the use of an appropriate diagram(s), whether fiscal policy will always reduce a negative output gap.** **Level 5 (21–25 marks)** **Good -Strong knowledge and understanding** of fiscal policy and a negative output gap. **Strong analysis** of how fiscal policy may reduce a negative output gap. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Strong** evaluation of whether fiscal policy will always reduce a negative output gap weighing up both why it might and why it might not and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically*	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	*Indicative content* A negative output gap exists when actual output is below potential output. The diagram below shows that the real GDP of Y is below the potential output of YX.  A government may rely on automatic stabilisers to reduce a negative output gap. When a negative output gap increases, government spending on benefits will increase as there will be higher unemployment. Tax revenue will fall as spending and incomes may decline or rise more slowly. Higher government spending and lower tax revenue will increase aggregate demand. Automatic stabilisers,

			structured. The information presented is entirely relevant and substantiated. **Level 4 (16–20 marks)** **Good** knowledge and understanding of fiscal policy and a negative output gap. **Strong analysis** of how fiscal policy may reduce a negative output gap. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good evaluation** of whether fiscal policy will always reduce a negative output gap weighing up both why it might and why it might not without reaching a supported judgment. *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.* **Level 3 (11–15 marks)** **Good knowledge and understanding** of fiscal policy and a negative output gap. **Good analysis** of how fiscal policy may reduce a negative output gap. There is correct analysis in the form of developed links. These links are		however, may not be sufficient to reduce a negative output gap and a government may decide discretionary fiscal policy. It may decide actively to increase government spending and to cut taxes. Such discretionary fiscal policy may increase aggregate demand by a multiple amount. For instance, if the multiplier is 3, an injection of extra government spending of $20bn will cause GDP to increase by $60bn. Lower direct taxes will increase disposable income, encouraging an increase in consumer expenditure and investment. The extra demand for consumer and capital goods will increase aggregate demand and may close the output gap as shown below.  It is difficult for a government to estimate the size of the multiplier so it may inject too little and so may not fully close the gap. It may also inject too much which can turn a negative output gap into a positive output gap. There is also no guarantee that lower taxes and/or increased government spending will raise demand for domestically produced products. Households and firms may not spend more if they are lacking confidence. During a recession it may be particularly difficult to reduce a negative output gap. If consumers and firms spend more they may buy imported consumer goods and services and imported capital

			developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Reasonable evaluation** of whether fiscal policy will always reduce a negative output gap considering both sides. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 2 (6–10 marks)** **Good** knowledge and understanding of fiscal policy and a negative output gap. **Reasonable analysis** of how fiscal policy may reduce a negative output gap. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of whether fiscal policy will always reduce a negative output gap considering both sides. 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. **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of		goods. Aggregate demand may also not increase as a result of increased government spending if crowding out occurs. If a government borrows to finance extra spending, it may reduce the funds available for the private sector to borrow and may push up the rate of interest which may further discourage private sector borrowing and spending. There is the possibility that public sector spending will just crowd out private sector spending, leaving aggregate demand unchanged. Keynesian economists, however, argue that crowding in is more likely to occur than crowding out. They think that higher government borrowing and spending will raise incomes which will generate more saving. The higher saving will provide the funds for both the public and private sectors. The stimulus to aggregate demand provided by expansionary fiscal policy may be offset by a global recession which may reduce the country's exports. Neo-classical economists argue that seeking to reduce a negative output gap by increasing aggregate demand may increase output and employment in the short run but will just generate inflation in the long run. They suggest that an economy has the potential to move automatically towards the full employment level through adjustments in wages and prices. What might be needed are supply-side policy measures to ensure that market forces can operate efficiently. Automatic stabilisers are unlikely to be sufficient to reduce all of a negative output gap. Whether discretionary fiscal policy will be successful will depend on a number of factors. The larger the size of the multiplier and the greater the information about its size that the government has, the greater the chance it will have of being successful. The outcome will also depend on how households and firms respond to changes in government spending and taxation. The larger the size of the output gap, the more pessimistic households and firms are likely to be about the future and so the harder it will be to encourage them to spend more. There is also the risk that expansionary fiscal policy may just result in inflation if it causes aggregate demand to increase more than aggregate supply.

			fiscal policy and a negative output gap. **Limited** or no analysis of how fiscal policy may reduce a negative output gap. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of whether fiscal policy will always reduce a negative output gap in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.* **0 marks** no response or no response worthy of credit.		
			Descriptor		**Award mark**
			Consistently meets the criteria for this level		At top of level
			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)
			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)
			On the borderline of this level and the one below		At bottom of level
Question			**Answer**	**Marks**	**Guidance**
4	*****		**Evaluate whether economic growth will reduce poverty.** **Level 5 (21–25 marks)** **Good -Strong knowledge and understanding** of economic growth and poverty. **Strong analysis** of how economic growth may	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	*Indicative content* Actual (short run) economic growth has the potential to reduce absolute poverty. If more goods and services are produced, employment and wages are likely to increase. Most people who are unemployed have to rely on state benefits. These are likely to be lower than wages. As a result, when people gain employment they are likely

			affect poverty. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Strong evaluation** of whether economic growth will reduce poverty weighing up both why it might and why it might not and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.* **Level 4 (16–20 marks)** **Good knowledge and understanding** of economic growth and poverty. **Strong analysis** of how economic growth may affect poverty. It will have **consistently** well developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good evaluation** of whether economic growth will reduce poverty, weighing up both why it might and why it might not, weighing up both sides but without reaching a supported judgment.		to experience a rise in income. Low paid workers may also receive wage rises if economic growth results in increased competition for workers. Higher incomes enable people to purchase basic necessities and some may be able to afford basic necessities. Economic growth is likely to increase the government's ability to spend on education and health care. This is because both direct and indirect tax revenue is likely to increase. Government spending on state benefits is likely to fall. As well as expenditure on unemployment benefit, spending on some other benefits may fall. For instance, spending on tax benefits may decline. Spending more on education may reduce poverty in the long run. More educated children are likely to become more skilled workers with a greater choice of occupations and a higher earning potential. Better quality health care provides a basic necessity and again may increase earning potential. Economic growth is likely to reduce absolute poverty but the outcome is not guaranteed. Economic growth may create more jobs but a poverty trap may exist for some of the unemployed where they may lose income if the wages paid in the jobs they could do pay less than unemployment benefit. Potential (long run) economic growth may not reduce poverty if the potential is not utilised. There may be, for instance, a rise in the size of the labour force but if employment does not increase, absolute poverty will not fall. While economic growth may reduce absolute poverty it may not reduce relative poverty. Indeed, economic growth may be accompanied by a rise in income inequality. A growing economy is likely to require people to adapt to changes in the pattern of demand and supply. Some people may thrive, benefiting from increased business opportunities and increased profits. Others who find it difficult to develop the new skills required and to switch jobs may experience a fall in their relative income. As an economy gets richer, the provision of public services such as public libraries and subsidised public transport tend to increase but then when an economy reaches a high level of GDP per head these services may be cut back if less people are reliant on them. This may make those who are still dependent on them relatively poorer. The reduced need to spend on benefits and the potential increase in

			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. **Level 3 (11–15 marks)** **Good knowledge and understanding** of economic growth and poverty. **Good analysis** of how economic growth may affect poverty. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Reasonable evaluation** of whether economic growth will reduce poverty, considering both why it might and why it might not. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 2 (6–10 marks)** **Good knowledge and understanding** of economic growth and poverty. **Reasonable analysis** of how economic growth may affect poverty. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.		tax revenue may encourage a government to cut tax rates rather than increase spending on education and health care. If the top rates of tax are cut, the gap between the rich and the poor may increase. Economic growth may also have been stimulated by supply-side policy measures which may increase relative poverty. For instance, privatisation may increase efficiency and output but may raise the prices paid by the poor more than the wages they receive. Trade union reform may increase labour market flexibility but may reduce the relative pay of low-skilled workers. Government spending on benefits may be reduced. Cuts in child benefit and state pensions would have more of an impact on the poor. Economic growth tends to be accompanied by a widening gap between the urban and rural populations. Employment and incomes tend to increase in urban areas and fall in rural areas. As an economy grows the secondary and tertiary sectors usually increase whilst the primary sector declines. Those working in the primary sector are likely to experience a relative fall in income. As people move out of the rural areas, some of those left behind may experience a fall in demand for their services and all may experience a reduction in the social capital in the area. Economic growth which is accompanied by an increase in employment is likely to reduce absolute poverty. Whether it will result in a fall in relative poverty is more uncertain. The outcome will be influenced by how the economic growth is achieved, workers respond to the changes that result and how the benefits are shared out. In recent years, economic growth in a number of countries has been accompanied by increased income inequality.

			Reasonable evaluation of whether economic growth will reduce poverty, considering both why it might and why it might not. 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. **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of economic growth and poverty. **Limited** or no analysis of how economic growth may affect poverty. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of whether economic growth will reduce poverty in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.* **0 marks** no response or no response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		

			Descriptor		Award mark
			Consistently meets the criteria for this level		At top of level
			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)
			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)
			On the borderline of this level and the one below		At bottom of level
Question			**Answer**	**Marks**	**Guidance**
5	*		**Evaluate whether the receipt of remittances benefits developing economies.** **Level 5 (21–25 marks)** **Good -Strong knowledge and understanding** of remittances and developing economies. **Strong analysis** of how the receipt of remittances may affect developing economies. It will have **consistently** well developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Strong evaluation** of how the receipt of remittances may affect developing economies, weighing up both why they may and why they may not benefit developing economies and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.*	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	*Indicative content* Remittances is a term used to cover money sent back by migrant workers to their families in their country of origin. For some developing economies, such as Bangladesh, Kenya and the Philippines, remittances account for a relatively large proportion of the country's GDP. Remittances have formed a more stable flow of financial resources than portfolio investment and foreign aid. Remittances also do not require the payment of interest and do not have conditions attached to them. Remittances can increase developing economies' credit rating. This may reduce the economies' borrowing costs and can help them repay external debt. It should also make it easier for the economies to obtain loans in the future. Remittances act as an injection into the circular flow of income. The families who receive the remittances can increase their spending. An increase in consumer expenditure may increase output and so contribute towards economic growth and employment. Receiving financial remittances from relatives may mean that families become less dependent on government assistance. This may enable the government to spend more on other areas that could promote development in the long run. Government spending on unemployment benefits may decline if some of those who find jobs abroad could not find them at home. This may again enable the government to spend more on, for instance, education and health care. Remittances may encourage young people to study and develop skills in the knowledge that they may be able to use these abroad to gain relatively high

			Level 4 (16–20 marks) **Good knowledge and understanding** of remittances and developing economies. **Strong analysis** of how the receipt of remittances may affect developing economies. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good evaluation** of how the receipt of remittances may affect developing economies, weighing up both why and why they may not benefit developing economies but without reaching a supported judgment. 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. **Level 3 (11–15 marks)** **Good knowledge and understanding** of remittances and developing economies. **Good analysis** of how the receipt of remittances may affect developing economies. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.		wages, In addition, they may enable the families to spend money on educating their children which can increase their future career prospects and earning potential. Some families may also use the money received to set up their own businesses which may grow and create jobs for others. The receipt of remittances, however, may also have disadvantages. They involve more money coming into the economies but if aggregate supply does not rise in line with the increase in aggregate demand, demand-pull inflation is likely to occur. When workers from the economies go abroad, they reduce the size of the economies' labour forces and so reduce long run aggregate supply. It may be the most skilled and productive workers who find jobs in other countries. The receipt of remittances from abroad may increase demand for the economies' currencies as the workers convert, for instance, euros and dirhams, into the domestic currencies for their relatives to receive. The higher demand for the currencies will increase the value of floating exchange rates and put upward pressure on fixed exchange rates. Higher exchange rates will enable the economies to purchase more imports for the same amount of the currencies and will reduce the burden of debt repayments in foreign currencies. It will, however, make the economies, exports more expensive which may reduce export revenue, increase current account deficits on the balance of payments and reduce aggregate demand. Remittances, whilst as previously mentioned being more stable than other financial flows, are still influenced by changes in global economic activity/ A global recession will reduce the jobs available for migrant workers and may significantly reduce the flow of remittances. If the economies, most skilled and enterprising workers go abroad, it may discourage some foreign multinational companies setting up in the economies. This could result in a loss of potential output, income and employment. Whether remittances will benefit developing economies will depend on what they are used for and how the economies respond to them. Remittances are more likely to benefit developing economies if they are steady and used for education and to set up small businesses. They will also be more beneficial if the extra demand they create can be matched by higher aggregate supply and if they do not reduce the

			Reasonable evaluation of how the receipt of remittances may affect developing economies considering both why and why they might not benefit developing economies. There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence. **Level 2 (6–10 marks)** **Good knowledge and understanding** of remittances and developing economies. **Reasonable analysis** of how the receipt of remittances may affect developing economies. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of how the receipt of remittances may affect developing economies considering both why and why they might not benefit developing economies. 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. **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of remittances and developing economies. **Limited** or no analysis of how the receipt of remittances may affect developing economies. There is little evidence of reasoning that		international competitiveness of the country's products by pushing up the economies' exchange rates. Even if these conditions are met, it is more likely that remittances will be more beneficial in the short run than in the long run. They can provide a source of income at a time when economies may not be able to make full use of their skilled workers. However, in the long run these workers would probably contribute more income to their economies by working at home. Keeping skilled workers will increase the economies' productive potential, make them more internationally competitive and encourage investment.

			addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of how the receipt of remittances may affect developing economies in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.* **0 marks** no response or no response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		

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			On the borderline of this level and the one below	At bottom of level

Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)	2				**2**	
1(b)(i)		1 (1)			**1**	**(1)**
1(b)(ii)	1 (1)	2 (2)			**3**	**(3)**
1(c)(i)	1 (1)	1 (1)			**2**	**(2)**
1(c)(ii)		2 (2)			**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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