

# OCR

Oxford Cambridge and RSA

## Practice Paper – Set 1

A Level Economics

H460/02 Macroeconomics

**MARK SCHEME**

**Duration: 2 hours**

**MAXIMUM MARK 80**

**This document consists of 24 pages**

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:

<b>Descriptor</b>	<b>Award mark</b>
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)
Meets most of the criteria with some inconsistencies	Middle 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)
On the borderline of this level and the one below	At bottom of level

<b>Levels of response / Level descriptors</b>	<b>Knowledge and understanding/ Application</b>	<b>Analysis</b>	<b>Evaluation</b>
<b>Strong</b>	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.
<b>Good</b>		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.
<b>Reasonable</b>	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.
<b>Limited</b>	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)		<b>Distinguish between income and wealth.</b> Income is a flow (1) whereas wealth is a stock (1).	<b>2</b> (AO1 x 2)	
1	(b)		<b>Using Table 1, calculate whether Japan or the UK had the larger budget deficit as a percentage of GDP. State which country had the larger budget deficit and give the budget deficit as a percentage of GDP.</b> UK (1) 6.67% (1).	<b>2</b> (AO2 x 2)	Calculation $0.2/3.0 = 6.67$ . Accept: 6.7.
1	(c)	(i)	<b>Calculate how much greater the UK's productivity gap was than the G7's in 2013.</b> 10% points (16% - 6%) or 166.67% (10/6)	<b>2</b> (AO1 x 1 AO2 x 1)	Do not accept 10%.
1	(c)	(ii)	<b>Compare the trend in UK productivity and G7 productivity over the period shown.</b> Between 1997 and 2007 productivity was on a strong upward trend in both the UK and G7 (1) productivity grew in the UK by approximately 20% points (25%) while it grew by approximately 30% points (35%) in the G7 (1) the gap in productivity between the UK and G7 was narrowing between 1997 and 2007 (1). After 2007 productivity growth slowed in the G7 whilst it failed to grow between 2007 and 2013 in the UK (1) the UK experienced a fall in 2009 whereas there was no decline in the G7 (1) the productivity gap widened between the G7 after 2007 (1) the G7 had a smoother upward trend than the UK's/the UK's trend fluctuated more (1).	<b>2</b> (AO2 x 2)	
1	(d)	(i)	<b>Explain how it is possible for a country to have a negative average propensity to save.</b> A country would be dissaving/spending more than its	<b>2</b> (AO1 x 1 AO2 x 1)	Note: maximum of 2 marks.

			income (1) either by borrowing (1) or by using accumulated wealth (1)		
1	(d)	(2)	<p><b>Evaluate to what extent the information in Table 2 can be used to compare the value of the income multiplier in France and in Japan in 2014.</b></p> <p><b>Level 2 (5–8 marks)</b>  <b>Good knowledge and understanding</b> of the income multiplier.</p> <p><b>Good</b> – strong analysis of the extent to which the information can be used to compare the value of the income multiplier. 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.</p> <p><b>Reasonable</b> – strong evaluation of the extent to which the information can be used to compare the value of the income multiplier, considering both the usefulness and the limitations of the information and underpinned by appropriate theoretical analysis.. Good evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgement. Strong evaluation should include a supported judgement.</p> <p><b>Level 1 (1–4 marks)</b>  <b>Limited – reasonable knowledge and understanding</b> of the income multiplier.</p>	8	<p><i>Indicative content</i></p> <p>The average propensity to save (aps) often provides a strong indication of the marginal propensity to save (mps). A country with a high aps is likely to have a high mps. In the absence of other leakages, the multiplier is 1/mps. In this case if aps = mps, France would have a multiplier of 6.67 and Japan would have the very high multiplier of 50. The mps, however, may not be the same as the aps. For example, as an economy gets richer it may become more confident and the mps may fall. There are also other leakages – the mrt and the mpm. If Japan has a higher marginal tax rate and spends a higher proportion of extra income on imports, it may have a smaller income multiplier than France.</p> <p>Limited – reasonable analysis of the extent to which the information can be used to compare the value of the income multiplier. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p>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.</p> <p>Limited evaluation of the extent to which the information can be used to compare the value of the income multiplier in the form of an unsupported statements or no evaluation.</p>

			<p><b>Limited</b> – reasonable analysis of the extent to which the information can be used to compare the value of the income multiplier. Limited analysis will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p><b>Reasonable</b> 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.</p> <p><b>Limited</b> evaluation of the extent to which the information can be used to compare the value of the income multiplier in the form of an unsupported statements or <b>no</b> evaluation.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
			<b>Descriptor</b>		<b>Award mark</b>
			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
<b>Question</b>			<b>Answer</b>	<b>Marks</b>	<b>Guidance</b>
1	e	*	<b>Evaluate whether supply-side policy measures will increase investment.</b>	<b>12</b> (AO1 x 1 AO2 x 1)	<i>Indicative content</i> Reasons why supply-side policy measures may not increase investment:

		<p><b>Level 3 (9–12 marks)</b>  <b>Good knowledge and understanding</b> of supply-side policy measures and investment.</p> <p><b>Good – strong</b> analysis of how supply-side policy measures may increase investment. <b>Good analysis</b> 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. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> 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.</p> <p><b>Good - strong</b> evaluation of whether supply-side policy measures will increase investment, weighing up both why it might and why it might not. <b>Strong evaluation</b> should include a supported judgment.</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><b>Level 2 (5–8 marks)</b>  <b>Good</b> knowledge and understanding of supply-side policy measures and investment.</p> <p><b>Reasonable analysis</b> of how supply-side policy measures may increase investment. There is correct</p>	<p>AO3 x 5  AO4 x 5)</p>	<p>Deregulation may reduce firms' costs of production which may increase firms' profits and their ability and incentive to invest. It may also increase the number of firms in the market affected, increase competition and efficiency. This may increase profits and investment.</p> <p>Privatisation may not only reduce costs of production. It may also mean that more funds are available for investment. Investment by state owned enterprises may be constrained by limits being placed on government spending.</p> <p>Cuts in corporate tax will increase firms' retained profits. These can be used for investment. The lower tax will also reduce the opportunity cost of investment and increase the incentive to invest. Lower income tax may encourage investment as firms would expect it would cause an increase in demand for products.</p> <p>Increased spending on education and training may result in higher investment. This is because if labour becomes more skilled, firms may think that workers will be able to make more effective use of new capital equipment.</p> <p>Reasons why supply-side policy measures may not increase investment:</p> <p>There is, however, no guarantee that supply-side policy measures will increase investment. Deregulation and privatisation may increase profits but these profits may not be used for investment. They might, instead, be distributed to shareholders. Privatisation may not always increase competition. A private sector monopoly may become complacent and may not undertake much investment. Cuts in income tax and corporation tax may not stimulate higher consumer expenditure and investment if households and firms lack confidence in future economic prospects.</p>
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	<p>analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis</p> <p><b>Reasonable evaluation</b> of whether supply-side policy measures will increase investment, considering both why it might and why it might not.</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><b>Level 1 (1–4 marks)</b>  <b>Limited – reasonable knowledge and understanding</b> of supply-side policy measures and investment.  <b>Limited analysis</b> of how supply-side policy measures may increase investment. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p>Limited evaluation of whether supply-side policy measures will increase investment in the form of an unsupported statement 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><b>0 marks</b> no response or no response worthy of credit.</p> <p><b>Note:</b> although a diagram is <b>not</b> required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>	<p>Increased spending on education and training does not always develop the appropriate skills. Supply-side policy measures will also not encourage investment if firms are currently not making full use of their capital equipment and/or if there is a lack of aggregate demand.</p> <p>Possible routes into evaluation:</p> <p>Supply-side policy measures have the potential to increase investment but their success is dependent on how economic agents react and whether there is also sufficient aggregate demand. Supply-side policy measures also take time to have an effect and some are expensive.</p>
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Question		Answer	Marks	Guidance
		<b>Descriptor</b>		<b>Award mark</b>
		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
<b>2</b>	*	<p><b>Evaluate, with the use of appropriate diagram(s), whether the economic performance of a country would be strengthened by it leaving the European Union.</b></p> <p><b>Level 5 (21–25 marks)</b>  <b>Good -Strong knowledge and understanding</b> of the effects of leaving the European Union.</p> <p><b>Strong analysis</b> of how departure from the European Union may affect a member country’s economic performance. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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.</p> <p><b>Strong evaluation</b> of the effects on economic performance that may arise from leaving the European Union, weighing up both the advantages and disadvantages and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of</i></p>	<p><b>25</b></p> <p>(AO1 x 6  AO2 x 6  AO3 x 6  AO4 x 7)</p>	<p><i>Indicative content</i></p> <p>Reasons why the economic performance of a country may be strengthened by leaving the EU:</p> <p>A country’s economic performance may be improved if exit from the European Union (EU) results in the country replacing imports from EU member countries with imports from lower cost countries outside the EU. The diagram below shows that importing from the lower cost producer without a tariff will benefit the economy.</p>



*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 effects of leaving the European Union.

**Strong analysis** of how departure from the European Union may affect a member country's economic performance. 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.

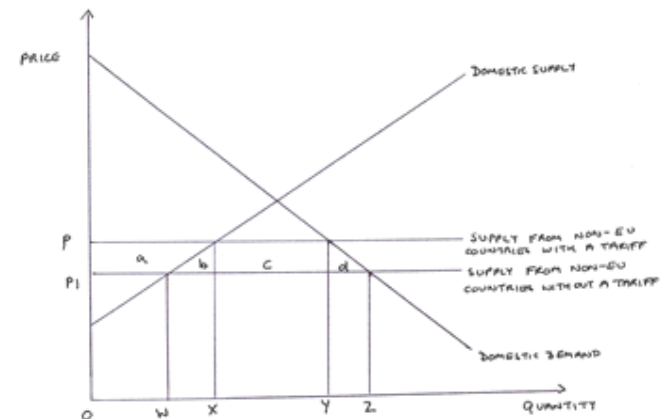
**Good evaluation** of the effects on economic performance that may arise from leaving the European Union, weighing up both the advantages and disadvantages but without reaching a supported judgment.

*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 the effects of leaving the European Union.

**Good analysis** of how departure from the European Union may affect a member country's economic



Initially price is P, the quantity consumed is Y, imports are XY and domestic output is X. Removing the tariff will lower prices to P1, consumption will increase to Z, imports will rise to WZ and domestic output will fall to W. Economic welfare will be increased. This is because consumer surplus is increased by a, b, c and d whilst producer surplus falls by a and tariff revenue by c – a net gain of ad.

The country may be a net contributor to the EU budget. Leaving the EU will save some of the revenue which is passed on to the EU. This revenue could be used for other purposes such as education and health care. The government would gain more sovereignty over its economic policy. For example, it could set a standard VAT rate below 15%. If the country is a member of the single currency, exiting the EU will enable to set its own interest rate and depreciate its exchange rate if it thinks this might help to reduce a current account deficit, increase economic growth and lower unemployment.

	<p>performance. 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.</p> <p><b>Reasonable evaluation</b> of the effects on economic performance that may arise from leaving the European Union, considering both the advantages and disadvantages.</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><b>Level 2 (6–10 marks)</b>  <b>Good knowledge and understanding</b> of the effects of leaving the European Union.</p> <p><b>Reasonable analysis</b> of how departure from the European Union may affect a member country's economic performance. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of the effects on economic performance that may arise from leaving the European Union, considering both the advantages and disadvantages.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p>	<p>The EU may have been following policies that did not benefit the country. For instance, if the country's economy is in an economic boom whilst the rest of the EU is experiencing a recession, the country would benefit from a higher interest rate whilst the rest of the EU would benefit from a cut in the rate of interest. Membership of the single currency may also require the country helping out a fellow member country that gets into difficulties by not abiding by the need to restrict the size of its budget deficit.</p> <p>Not being a member of the EU may give it more control over immigration from Europe. This might ease pressure on the country's social capital and benefits system.</p> <p>Reasons why the economic performance of a country may not be strengthened by leaving the EU:</p> <p>Economic performance, however, might be reduced by stopping the free flow of workers from the EU. With an ageing population, access to a larger supply of workers may benefit an economy. Immigration of workers from, for instance, east Europe, may increase the productive potential of the economy as shown in the diagram below.</p>
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**Level 1 (1–5 marks)**

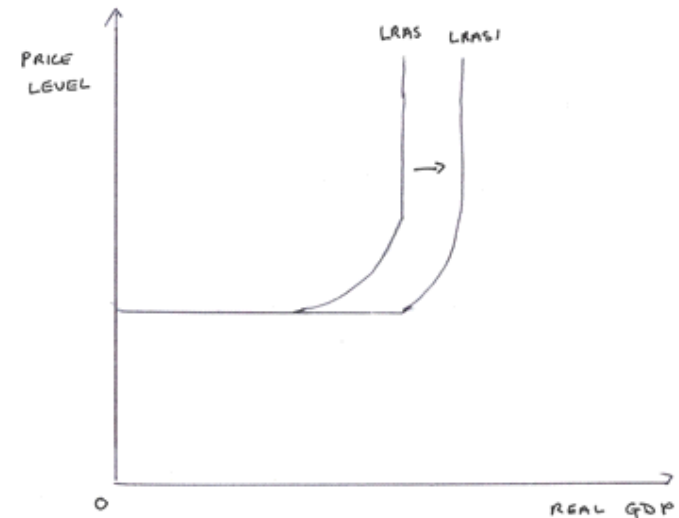
**Reasonable knowledge and understanding** of the effects of leaving the European Union.

**Limited or no analysis** of how departure from the European Union may affect a member country's economic performance. 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 the effects on economic performance that may arise from leaving the European Union 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.



More people in work in the country will increase tax revenue and the migrants may make a net contribution to the government's budget position. Some countries receive more from the EU budget than they contribute. A country, may for example, experience a loss of funds to develop less prosperous regions. Leaving the EU may also reduce the country's access to the rich EU market. Being a member of the single market provides a number of benefits. The size of the market can enable firms to take advantage of internal and external economies of scale. The high level of competition created by removing barriers to the movement of goods and services, labour and capital can increase efficiency. If the country is a member of the single currency, leaving it will experience a transitional cost of moving from using euros to the domestic currency. It may also experience long lasting costs such as an increase in transaction

				<p>costs when firms trade with EU firms and people holiday in the EU. An exchange rate risk will also reappear when trading with the EU. Firms would be uncertain as to export revenue and imports costs when trading with the EU as there could be exchange rate changes.</p> <p>Not being a member of the EU and the single currency may reduce foreign direct investment in the country. Foreign multinational companies may set up in EU countries rather than the country to take advantage of the single market. Some of the country's domestic industries may decide to relocate to a country still in the EU. These changes could reduce potential economic growth and employment.</p> <p>Being a member of the EU can increase a country's bargaining power in international negotiations. This can enable the country to benefit from more favourable trading relations with non-members including improving the terms of trade.</p> <p>Possible routes into evaluation:</p> <p>Whether or not a country would benefit from leaving the EU will depend on a number of factors:</p> <p>One is how much of its trade is with the EU and what trading arrangements it could negotiate with the EU as a non-member. It would be more likely to benefit if it currently does not trade much with other EU countries and it can trade with the EU with no or low trade barriers if it were to leave. Departure would also be more likely to be beneficial if the country's non-EU trading partners experience economic growth whilst the EU experiences a recession.</p> <p>The more convergent the country's economy is with the EU and the more integrated it is, the less likely it is to</p>
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					benefit. The outcome will also be influenced by how foreign multinational companies respond and whether the country's government will pursue more effective economic policies as a non-member of the EU.
			<b>Descriptor</b>		<b>Award mark</b>
			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
<b>Question</b>			<b>Answer</b>	<b>Marks</b>	<b>Guidance</b>
3	*		<p><b>Evaluate, with the use of appropriate diagram(s), whether the Keynesian view or the neo-classical view on the shape of the long run aggregate supply curve is more useful in designing government economic policy.</b></p> <p><b>Level 5 (21–25 marks)</b>  <b>Good -Strong knowledge and understanding</b> of the Keynesian view and the neo-classical view of the long run aggregate supply curve.</p> <p><b>Strong analysis</b> of the different shapes of the long run aggregate supply curve and how they may influence government economic policy. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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.</p>	<p><b>25</b></p> <p>(AO1 x 6  AO2 x 6  AO3 x 6  AO4 x 7)</p>	<p><i>Indicative content</i></p> <p>Keynesians argue that the elasticity varies over the long run aggregate supply curve. They claim that at low levels of output and employment long run aggregate supply is very elastic, possibly even perfectly elastic. At this level, output can be increased without any upward pressure on the prices. This is because there will be little competition for resources. The high level of unemployment, for example, will mean that workers can be recruited by offering them jobs. Wages will not have to be raised to attract workers from other employees. The high degree of elasticity also reflects the Keynesian view that wages can be 'sticky downwards'. A reduction in output leads to lower employment but not lower wages as workers will resist wage cuts.</p> <p>Keynesians think that as the economy approaches full employment, the aggregate supply curve becomes less elastic as shortages of resources start to appear. At full employment, the long run aggregate supply curve becomes</p>

**Strong evaluation** of the factors that influence which shape is more useful in designing government economic policy, comparing the usefulness and validity of the two shapes 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)**

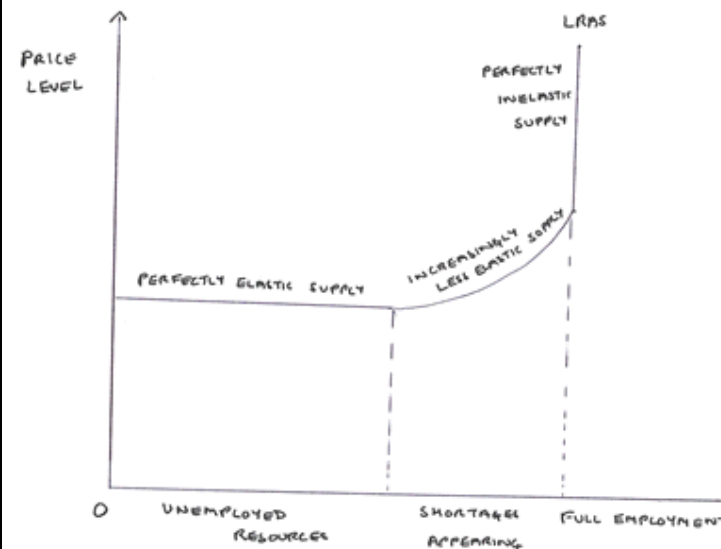
**Good** knowledge and understanding of the Keynesian view and the neo-classical view of the long run aggregate supply curve.

**Strong analysis** of the different shapes of the long run aggregate supply curve and how they may influence government economic policy. 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 the factors that influence which shape is more useful in designing government economic policy, comparing the usefulness and validity of the two shapes 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*

vertical. The diagram below shows how the shape varies over the Keynesian long run aggregate supply curve.



The Keynesian version of the long run aggregate supply curve suggests that the economy can settle at any level of employment. This suggests that government intervention is often needed to achieve full employment. If the economy is operating at less than full employment, expansionary fiscal or monetary policy may move the economy as shown in the diagram below.

*substantiated.*

**Level 3 (11–15 marks)**

**Good knowledge and understanding** of the Keynesian view and the neo-classical view of the long run aggregate supply curve.

**Good analysis** of the different shapes of the long run aggregate supply curve and how they may influence government economic policy. 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 xxx considering both sides/comparing alternatives.

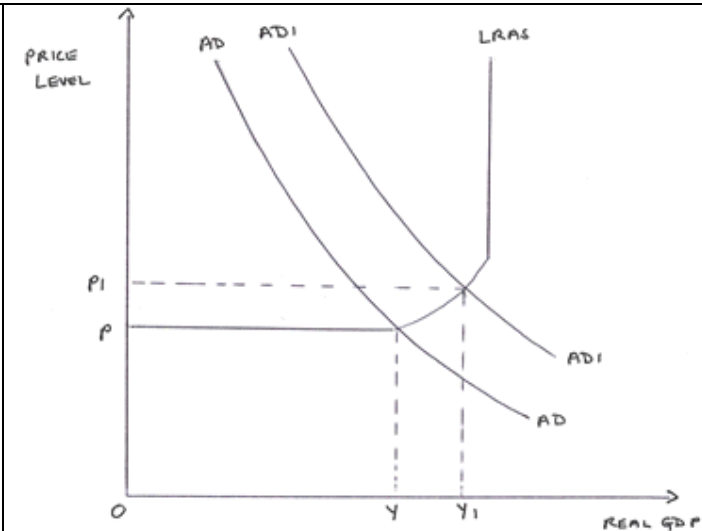
*There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.*

**Level 2 (6–10 marks)**

**Good** knowledge and understanding of the Keynesian view and the neo-classical view of the long run aggregate supply curve.

**Reasonable analysis** of the different shapes of the long run aggregate supply curve and how they may influence government economic policy. 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 the factors that influence which shape is more useful in designing government



The cost of full employment may be inflation but the rate of inflation will be influenced by how steep the long run aggregate curve is before full employment is achieved. The neoclassical view is that the long run aggregate supply curve is vertical with supply being perfectly inelastic as shown in the diagram below.

economic policy, comparing the usefulness and validity of the two shapes.

*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)**

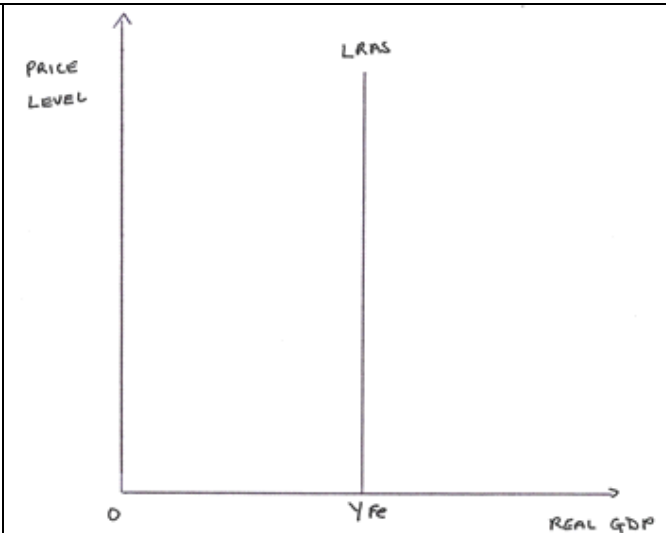
**Reasonable knowledge and understanding** of the Keynesian view and the neo-classical view of the long run aggregate supply curve.

**Limited or no analysis** of the different shapes of the long run aggregate supply curve and how they may influence government economic policy. 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 the factors that influence which shape is more useful in designing government economic policy 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.



This shape reflects their assumption, contrary to the Keynesian view, that wages and prices are flexible and that firms and households do not suffer from money illusion. If, in the short run, aggregate demand falls unemployment will increase. If wages fall in response to the higher unemployment, workers will price themselves back into work and full employment will be restored with some frictional and structural unemployment. The implication of the neo-classical view is that demand-management is not needed and will only cause inflation. What is needed is supply-side policy measures which enable markets to work efficiently and to move quicker to restore the full employment level of output.

There is agreement among Keynesians and neo-classical economists that when full employment is reached any increase in aggregate demand will cause inflation. They also agree that supply-side policy measures may increase



					productive capacity although there is a degree of disagreement about which are the most effective measures. Which shape of the curve is thought to be more useful in designing government policy will be influenced by the extent to which it is thought that prices and wages are flexible and the degree of labour market failure. It is also influenced by current events. For instance, the recent falls in unemployment which have been accompanied by only a small rise in wage rates may suggest that the long run aggregate curve may now be relatively elastic close to full employment.
			<b>Descriptor</b>		<b>Award mark</b>
			Consistently meets the criteria for this level		At top of level
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			On the borderline of this level and the one below		At bottom of level
<b>Question</b>		<b>Answer</b>		<b>Marks</b>	<b>Guidance</b>
<b>4</b>	*		<p><b>Evaluate whether the quantity theory of money provides an adequate explanation of the cause of inflation.</b></p> <p><b>Level 5 (21–25 marks)</b>  <b>Good -Strong knowledge and understanding</b> of the quantity theory of money and inflation.</p> <p><b>Strong analysis</b> of how the quantity theory of money explains the cause of inflation. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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.</p>	<p><b>25</b></p> <p>(AO1 x 6  AO2 x 6  AO3 x 6  AO4 x 7)</p>	<p><i>Indicative content</i>  Reasons why the quantity theory of money provides an adequate explanation:</p> <p>The quantity theory of money is based on the Fisher equation of exchange. This is <math>MV = PY</math> or <math>MV = PT</math>. M is the money supply, V is the velocity of circulation, P the price level and Y is output. The two sides of the equation have to be equal. This is because they both represent total spending. Monetarists turn the equation into a theory by assuming that changes in V and Y are determined independently of changes in the money supply in the long run. This assumption means that a change in the money supply causes an equal proportionate change in the price level.</p> <p>Monetarists argue that the main cause of inflation is the</p>

		<p><b>Strong evaluation</b> of whether the quantity theory of money provides an adequate explanation of the cause of inflation, weighing up both its usefulness and limitations and recognising other causes and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p><b>Level 4 (16–20 marks)</b>  <b>Good knowledge and understanding</b> of the quantity theory of money and inflation.</p> <p>.</p> <p><b>Strong analysis</b> of how the quantity theory of money explains the cause of inflation. It will have <b>consistently</b> well- developed links through a <b>coherent</b> 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.</p> <p><b>Good evaluation</b> of whether the quantity theory of money provides an adequate explanation of the cause of inflation, weighing up both its usefulness and limitations and recognising other causes but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p>	<p>money supply increasing faster than output. They claim that a major reason that this occurs is the government ‘resorting to the printing press’. By this they mean the government financing a budget deficit by printing money. The increase in the money supply will cause an increase in aggregate demand. Monetarists think that this may result in an increase in the price level, output and employment in the short run but that in the long run it will be purely inflationary. The initial inflationary effects will cause households, workers and firms to anticipate further inflation. This will cause them to behave in a way which will cause inflation to accelerate whilst output and employment will return to their previous levels.</p> <p>Reasons why the quantity theory of money provides an adequate explanation:</p> <p>Keynesians accept that inflation is usually associated with increases in the money supply but think it is inflation which causes a rise in the money supply and not the other way round. For instance, with higher prices, firms and households may borrow more, increasing bank lending and bank deposits.</p> <p>Keynesians question whether the quantity theory is actually a theory as they do not think it can be used to make reliable predictions. They dispute that V and Y are determined independently of M and that they are constant in the short run. They think that V tends to vary inversely with M. If this is the case, an increase in the money supply may not increase spending and aggregate demand since the velocity of circulation may fall. They also think that an increase in aggregate demand will not necessarily cause inflation. This is because they think that aggregate supply is reasonably elastic over a relatively large range of output. Keynesians also question the usefulness of the quantity</p>
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		<p><b>Level 3 (11–15 marks)</b>  <b>Good knowledge and understanding</b> of the quantity theory of money and inflation.</p> <p><b>Good analysis</b> of how the quantity theory of money explains the cause of inflation. 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.</p> <p><b>Reasonable evaluation</b> of whether the quantity theory of money provides an adequate explanation of the cause of inflation, considering both its usefulness and limitations and recognising other causes.</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><b>Level 2 (6–10 marks)</b>  <b>Good knowledge and understanding</b> of the quantity theory of money and inflation.</p> <p><b>Reasonable analysis</b> of how the quantity theory of money explains the cause of inflation. There is correct analysis largely in the form of single links. These address the question but are <b>not</b> developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of whether the quantity theory</p>	<p>theory as they think that there are other causes of demand-pull inflation. For example, aggregate demand may increase due to a consumer boom caused by increased confidence or a rise in net exports caused by an increase in incomes abroad.</p> <p>Keynesians also argue that inflation may be caused by cost-push factors including wage rates rising more rapidly than productivity and the price of imported raw materials increasing.</p> <p>Possible routes into evaluation:  How useful the quantity theory of money is depends crucially on whether <math>V</math> and <math>Y</math> are constant as <math>M</math> changes and whether an increase in the money supply is the only cause of inflation. How constant <math>Y</math> is, in turn, influenced by the shape of the long run aggregate supply curve. In practice, inflation is associated with increases in the money supply but it is difficult to determine the line of causation. It is debatable whether <math>V</math> and <math>Y</math> are constant. Most economists accept that inflation can be of a demand-pull or cost-push nature, the quantity theory of money highlights one possible cause of inflation but it does not provide a full or necessarily accurate explanation of inflation.</p>
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of money provides an adequate explanation of the cause of inflation, considering both its usefulness and limitations and recognising other causes.

*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 quantity theory of money and inflation.

**Limited or no analysis** of how the quantity theory of money explains the cause of inflation. 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 the quantity theory of money provides an adequate explanation of the cause of inflation, considering both its usefulness and limitations and recognising other causes 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.

		<b>Descriptor</b>	<b>Award mark</b>
		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
<b>Question</b>		<b>Answer</b>	<b>Marks</b>
<b>5</b>	*	<p><b>Evaluate whether a change in the pattern of employment will benefit an economy.</b></p> <p><b>Level 5 (21–25 marks)</b>  <b>Good -Strong knowledge and understanding</b> of the pattern of employment.</p> <p><b>Strong analysis</b> of how a change in the pattern of employment may benefit an economy. It will have <b>consistently</b> well-developed links through a <b>coherent</b> 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.</p> <p><b>Strong evaluation</b> of whether a change in the pattern of employment will benefit an economy, weighing up both advantages and disadvantages and reaching a supported judgment.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p>	<p><b>25</b></p> <p>(AO1 x 6  AO2 x 6  AO3 x 6  AO4 x 7)</p>
			<b>Guidance</b>
			<p><i>Indicative content</i></p> <p>The pattern of employment can change in a number of ways in an economy. As an economy develops, a higher proportion of its workers are usually employed in the secondary and tertiary sectors and a smaller proportion in the primary sector. Jobs in the secondary and tertiary sectors tend to be higher-paid and higher-skilled than those in the primary sector. Economic growth may be more stable with a smaller proportion of the labour force being employed in the primary sector. Production in the primary sector can be adversely affected by changes in weather conditions and by diseases. The income elasticity of demand for products produced by the secondary and tertiary sectors is usually higher than that for primary sector products. There also tends to be a greater value added element in the secondary and tertiary sectors which can improve the country's current account position by increasing export revenue and lowering import expenditure. The more geographically and occupationally mobile the workers are, the less unemployment will be created as the industrial structure changes.</p> <p>The relative expansion of the secondary and tertiary sectors may, however, be accompanied by a rural-urban migration. Such a movement of population may put a strain on social</p>

	<p><b>Level 4 (16–20 marks)</b>  <b>Good knowledge and understanding</b> of the pattern of employment.</p> <p><b>Strong analysis</b> of how a change in the pattern of employment may benefit an economy. It will have consistently well-developed links through <b>a coherent</b> 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.</p> <p><b>Good evaluation</b> of whether a change in the pattern of employment will benefit an economy, weighing up both advantages and disadvantages but without reaching a supported judgment.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i></p> <p><b>Level 3 (11–15 marks)</b>  <b>Good</b> knowledge and understanding of the pattern of employment.</p> <p>Good analysis of how a change in the pattern of employment may benefit 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.</p> <p>Reasonable evaluation of whether a change in the pattern of employment will benefit an economy,</p>	<p>capital and lead to housing shortages and emigration. The growth of the secondary sector has also resulted in pollution in a number of countries.</p> <p>The relative size of the informal sector may first increase and then decrease as an economy grows. As people first move into urban areas some work in small-scale, unorganised and unregulated activities as self-employed workers such as street vendors. The informal sector does provide income opportunities, some of which may be higher than those which exist in the rural areas.</p> <p>Work in the informal sector, however, does not provide the job security, working conditions and benefits such as pensions that exist in the formal sector. Some activities in the informal sectors are illegal and some employ children. An increase in the size of the formal sector is usually accompanied by a rise in productivity. This is because training and the opportunity to work with a greater value of imported capital equipment are greater in the formal sector. Higher productivity increases productive capacity and may contribute to economic growth.</p> <p>The participation rate of women in the labour force varies between economies. A rise in the proportion of women who enter the labour force will obviously increase the size of an economy's labour force. This will increase its ability to grow. The size of the country's labour force may also increase due to a rise in the retirement age. Such a change will reduce government spending on pensions and raise tax revenue.</p> <p>The effect of a change in the pattern of full-time to part-time employment is more uncertain. A rise in the relative size of part-time employment may be considered to be beneficial if it attracts more people into the labour force. It may, however, not be considered beneficial if it is the result of a fall in the availability of full-time job opportunities with some</p>
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	<p>considering both advantages and disadvantages.</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><b>Level 2 (6–10 marks)</b>  <b>Good knowledge and understanding</b> of the pattern of employment.</p> <p><b>Reasonable analysis</b> of how a change in the pattern of employment may benefit 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 relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable evaluation</b> of whether a change in the pattern of employment will benefit an economy, considering both advantages and disadvantages.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p><b>Level 1 (1–5 marks)</b>  <b>Reasonable knowledge and understanding</b> of the pattern of employment.</p> <p><b>Limited or no analysis</b> of how a change in the pattern of employment may benefit 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.</p>	<p>workers having to accept part-time jobs in place of full-time jobs.</p> <p>A rise in the flexibility of employment with e.g. workers working flexible hours, working some of the time at home and undertaking a range of tasks, allowing an economy to adapt more quickly and smoothly to changes in demand and supply conditions and so may reduce inflationary pressures. Some aspects of flexibility may have disadvantages for workers. For instance, zero hour contracts may create insecurity of income and make it difficult to obtain a mortgage.</p> <p>The relative proportion of workers employed in the public sector and private sector may change over time. The impact that such a change has on an economy will be influenced by the relative productivity in the two sectors and the pay and working conditions in the two sectors.</p> <p>The effect of a change from unskilled to skilled employment is clearer. Having more people employed in skilled jobs should make an economy's products more internationally competitive. This should improve the country's balance of payments, economic growth rate and living standards.</p> <p>Possible routes into evaluation:</p> <p>Whether a change in the pattern of employment will benefit an economy will depend on the nature of that change. A change away from primary production, more women in the labour force, more workers in the formal sector and more skilled workers is likely to benefit an economy. A change in</p>
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		<b>Descriptor</b>		<b>Award mark</b>
		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



**Assessment Objectives Grid**

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