



Oxford Cambridge and RSA

A Level in Economics

H460/02 Macroeconomics

Practice Paper 2

MARK SCHEME

Duration: 2 hours

MAXIMUM MARK 80

This document consists of 33 pages

PREPARATION FOR MARKING

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

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

MARKING

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

Crossed Out Responses

Where a candidate has crossed out a response and provided a clear alternative then the crossed out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed out response where legible.

Rubric Error Responses – Optional Questions

Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

Multiple Choice Question Responses

When a multiple choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).

When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.

Contradictory Responses

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)
















Longer Answer Questions (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

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

Descriptor	Award mark
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

11. Annotations

Annotation	Meaning
	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
	Comment
	Benefit of doubt
	Level 1
	Level 2
	Level 3
	Level 4
	Level 5
	Effective evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too vague

M12. Subject-specific Marking Instructions

INTRODUCTION

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

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

You should ensure that you have copies of these materials.

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

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

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section B
- answering two questions from Section C.

If a candidate has written two answers for Section B or 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)	Identify one example of discretionary fiscal policy in the stimulus material and explain how it could affect aggregate demand.	2 (AO1 x1) (AO2 x1)	

			Public sector investment in infrastructure (1) would increase AD as G is a component of AD (1).		
1	(b)		<p>Explain one of the flows, X, Y or Z shown in Fig.1.</p> <p>X = emigration (1) going abroad in search of jobs (1). Y = e.g. leaving university (1) and not finding a job (1). Z = e.g. retiring (1) and so leaving the labour force (1).</p>	<p>2 (AO1 x 1 A02 x 1)</p>	
1	(c)		<p>Using information from the stimulus material, calculate the UK's budget deficit in pounds in 2015.</p> <p>£75.85bn (2) Correct working (1).</p>	<p>2 (AO2 x 2)</p>	Correct working: $GDP = £96.2bn \times 100/5.2 = £1,850bn$. Deficit = 4.1% of £1,850.
1	(d)	(i)	<p>Using Fig.2, calculate the deficit on primary income in the UK in 2014.</p> <p>-£33.1bn (2) Correct working (1).</p>	<p>2 (AO1 x 1 AO2x1)</p>	Correct working: $-\text{£}92.9bn = +\text{£}123.7bn + \text{£}89.1bn + -\text{£}25.2bn + ?$
1	(d)	(ii)	<p>Using Fig.2, explain whether the financial account would have been in deficit or surplus in the UK in 2014.</p> <p>Surplus (1) as the sum of the current and capital account balances are equal to the balance of the financial account/the sum of the three accounts should equal zero (1).</p>	<p>2 (AO1 x 1 AO2 x 1)</p>	
1	(e)		<p>Using information from the stimulus material, evaluate whether the UK</p>	<p>8</p>	The UK's current account deficit was at a high level in 2015. A deficit on trade in

	<p>government should be concerned about the growing deficit on the current account of its balance of payments.</p> <p>Level 2 (5–8 marks) Good knowledge and understanding of the consequences of a growing deficit on the current account of the balance of payments.</p> <p>Good – strong analysis of how a growing deficit on the current account of the UK’s balance of payments may affect the UK economy. 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>Reasonable – strong evaluation of whether a growing current account deficit should be a concern for the UK economy, considering both why and why it might not be, underpinned by</p>	<p>(AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)</p>	<p>goods and services which the UK had in 2014 makes a negative contribution to AD. An increase in net exports may increase the country’s economic growth rate and employment.</p> <p>A large deficit can put downward pressure on the exchange rate. A lower exchange rate may help eliminate the deficit by lowering export prices and raising import prices.</p> <p>A current account deficit may also move into a surplus if the trade in goods deficit is caused by the import of capital goods and raw materials. In time the capital goods and imported raw materials can contribute to more exports and more substitutes to imports. The stimulus material, however, indicates that the deficit has lasted for at least several years.</p> <p>One of the causes of the growing deficit was the increasing deficit on primary income. The deficit might be reduced if economic activity increases in other countries. This could increase the profits UK multinational companies earn abroad, the interest UK banks are paid on foreign loans and the dividends UK citizens receive from shares they hold in foreign companies.</p> <p>The UK was attracting a net inflow of investment in the financial account. If the country continues to attract portfolio and direct investment, it can cover its current account deficit.</p>
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	<p>appropriate theoretical analysis. Good evaluation will weigh up the reasons why it might and the reasons why it might not but without reaching a supported judgement. Strong evaluation should include a supported judgement.</p> <p>Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of the consequences of a growing deficit on the current account of the balance of payments.</p> <p>Limited – reasonable analysis of how a growing deficit on the current account of the UK's balance of payments may affect the UK economy. 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 whether a growing current account deficit should be a concern for the UK economy, in the form of an unsupported statement</p>	
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			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.		
			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	f	*	12 (AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)	<p>A flat tax is a tax with just one tax rate. A pure flat tax system would have the same rate for all taxes, including income tax, corporation tax and sales tax.</p> <p>As Fig.2 shows the introduction of a flat rate tax may reduce tax rates. This was the case in most of the countries shown although Lithuania's tax rate was initially set the highest former rate. It may also mean that the tax system is no longer progressive. This was the case with all the countries shown except Lithuania where the tax system was initially regressive. Flat taxes can create more certainty but countries may change the rate over time. Three of the countries shown did not change the tax rate, three lowered it and one, Georgia, increased it.</p> <p>A flat income tax, especially one set at a low rate, might encourage workers to work more hours and might encourage some of those who are economically inactive to enter the labour force. This could increase the country's productive potential.</p> <p>Flat taxes can reduce costs for workers, firms and the government. Firms will be</p>
			Evaluate whether the introduction of a flat rate tax system would benefit an economy. Level 3 (9–12 marks) Good knowledge and understanding of a flat tax. Good – strong analysis of how a flat tax may affect an economy. 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		

	<p>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>Good - strong evaluation of whether a flat tax would benefit an economy, weighing both why it might and why it might not. Strong evaluation 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>Level 2 (5–8 marks) Good knowledge and understanding of a flat tax.</p> <p>Reasonable analysis of how a flat tax 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 relevant diagram(s) may be imperfectly labelled or not linked to the analysis</p>	<p>more straightforward to complete and to interpret. Fewer individuals will have to employ accountants to help them with their tax returns. The time and effort spent by firms to make their returns will decline and so will their costs. Lower costs may increase their international competitiveness.</p> <p>A simpler tax system, with lower costs of compliance, may also attract foreign direct investment. Multinational companies can contribute to employment, economic growth and exports.</p> <p>A flat tax may also reduce tax evasion, as long as it is not set too high. It will reduce tax loopholes and make it less likely that mistakes will be made in completing and assessing tax forms. If more revenue is raised, the government could spend more on, for instance, education and health care. Such spending can increase labour productivity, international competitiveness and economic growth.</p> <p>A flat tax, however, does not redistribute income and wealth. In the absence of allowances and exceptions, it may also be inequitable. For instance, a single sales tax of 15% would fall more heavily on the poor as it would take a larger proportion of their income.</p> <p>A flat tax has the potential to increase efficiency and increase tax revenue and economic growth but there are equity issues.</p>
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		<p>Reasonable evaluation of whether a flat tax would benefit an economy, 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>Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of a flat tax.</p> <p>Limited analysis of how a flat tax may affect an economy. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure.</p> <p>Limited evaluation of whether a flat tax would benefit an economy, 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>0 marks no response or no response worthy of credit.</p>		
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		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 *	<p>Evaluate with the use of an appropriate diagram(s), whether macroeconomic policy measures can only promote economic growth at the cost of higher inflation.</p> <p>Level 5 (21–25 marks) Good-Strong knowledge and understanding of macroeconomic policy measures designed to promote economic growth.</p> <p>Strong analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. Strong analysis will have consistently well-developed links through a coherent chain of</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>Whether macroeconomic policy measures designed to promote economic growth will increase the inflation rate will depend on the level of economic activity, the type of economic growth being targeted and the type of measures adopted.</p> <p>A government may be seeking to increase short run (actual) economic growth to reduce a negative output gap. It may try to do this by using expansionary fiscal and/or monetary policy measures. Such measures may increase aggregate demand as shown in the diagram below. In this case the rise in AD, increases both output and the price level.</p>

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.

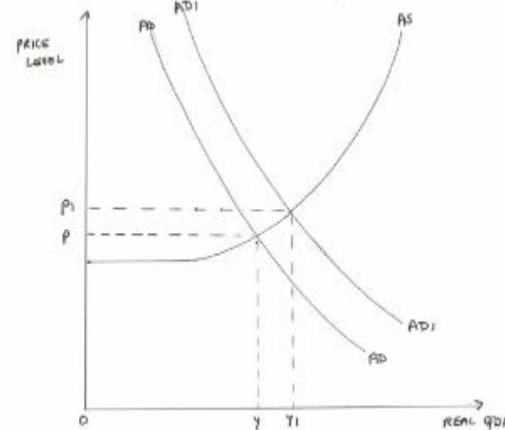
Strong evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, weighing up both why it might and why it might not and reaching a supported judgment.

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 government policy measures designed to promote economic growth.

Strong analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation **Strong analysis** will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the



A higher inflation rate may be a price the government is prepared to pay if the inflation rate is still within the government's target range and is lower than rival countries. If the economy is operating at a low level of economic activity, output may increase without putting upward pressure on the price level. The diagram below shows AD increasing without having any effect on the price level.

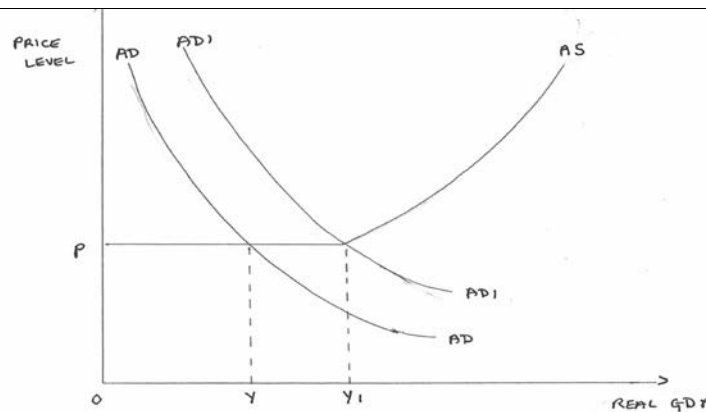
question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.

Good evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, weighing up both why it might and why it might not and will weigh up both sides 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 government policy measures designed to promote economic growth.

Good analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses



If there are a high number of workers unemployed, it may be possible for firms to employ more workers without having to raise the wage rate. Neoclassical economists, however, argue that the economy moves towards the full employment rate and so any increases in AD will be purely inflationary as shown below.

the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.

Reasonable evaluation of whether macroeconomic policy measures designed to promote economic growth will always increase inflation, considering both why it might and why it might not.

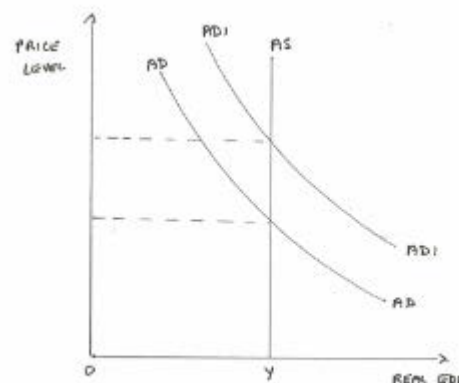
There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.

Level 2 (6–10 marks)

Good knowledge and understanding of the consequences of macroeconomic policy measures designed to promote economic growth.

Reasonable analysis of how macroeconomic policy measures designed to promote economic growth may affect inflation. 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 macroeconomic policy measures designed to promote economic growth will always increase inflation, considering both why it might and why



Some measures designed to increase short run economic growth, for example, rises in state pensions, may only shift the AD curve. A number of measures, however, designed to increase AD may also shift the aggregate supply curve. For example, the prime aim of an interest rate cut may be to encourage consumers to spend more but it may also increase investment. In such a case, the effect on inflation will depend on the relationship between the increase in AD and AS. If AD increases more than AS, the price level will rise but if the increase in AD is matched by an increase in AS, this have no effect on the inflation rate.

Government policy measures designed to increase long run economic growth are likely to reduce the inflation rate. To raise long run economic growth, a government is likely to employ supply-side policy measures such as a cut in corporation tax or a rise in government spending on training. If successful these measures will increase aggregate supply and will, over time, permit AS to increase in line with AD.

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.

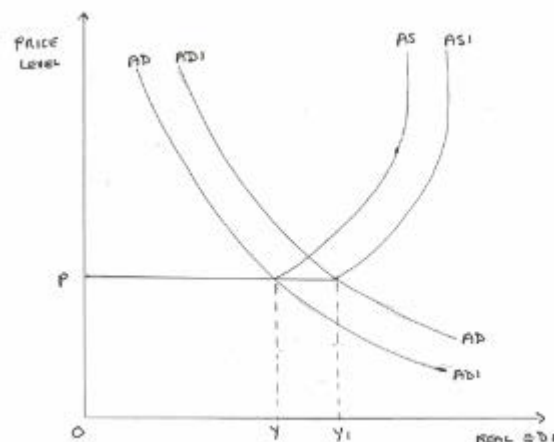
Level 1 (1–5 marks)

Reasonable knowledge and understanding of the consequences of macroeconomic policy measures designed to promote economic growth.

Limited or no analysis of how macroeconomic policy measures designed to promote economic growth may affect 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 macroeconomic policy measures designed to promote economic growth will always increase inflation 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.



Policy measures designed are likely to enable an economic growth to be achieved without raising the price level. Whether policy measures designed to increase AD will raise the inflation rate will be influenced by the level of economic activity and whether they also increase AS.

			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
		3 *	<p>Evaluate with the use of an appropriate diagram(s), whether a reduction in a country's rate of interest would reduce its exchange rate.</p> <p>Level 5 (21–25 marks) Good-Strong knowledge and understanding of how an exchange rate is determined.</p> <p>Strong analysis of how a reduction in the rate of interest may affect the exchange rate. 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</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>A fall in the rate of interest may reduce the inflow of hot money and encourage an outflow of hot money. Households and firms may move money from the country's banks to banks in other countries offering a higher rate of interest. If the country's households and firms are putting more money in foreign banks. The supply of the domestic currency used to purchase foreign currency will increase. If foreigners are buying less of the currency, demand for the currency will decrease. The diagram below shows how these changes in the foreign exchange market would cause a fall in the value of a floating exchange rate.</p>

diagrams must be integral to the analysis.

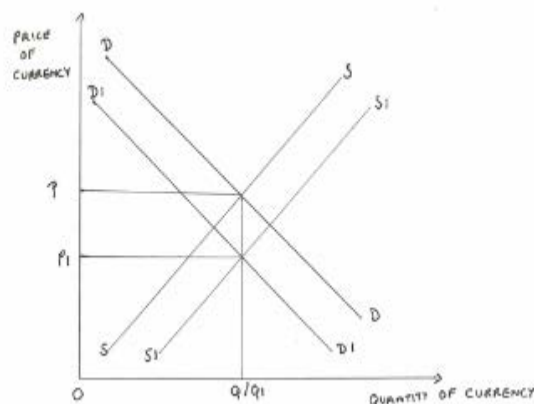
Strong evaluation of whether a reduction in a country's rate of interest will always reduce its exchange rate weighing up both why it might and why it might not and reaching a supported judgment.

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 how an exchange rate is determined.

Strong analysis of how a reduction in the rate of interest may affect the exchange rate. 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.



A central bank may lower its interest rate with the specific intention of lowering the exchange rate possibly with the intention of reducing a current account deficit. A reduction in the rate of interest may, however, not result in a fall in the value of a fixed exchange rate. It would be likely to put downward pressure on the value but a government may seek to maintain the value by instructing its central bank to purchase its currency, using reserves of foreign currency.

There is the possibility that, whatever the type of exchange rate system being operated, the demand for the currency may not decrease and the supply of the currency may not increase. There are a number of reasons for this. One is that, despite the reduction, the rate of interest may still be higher than in other countries. Placing money in the country's banks might also offer a better return if the country's economic prospects are good and causing the exchange rate to rise. For example, if the rate of interest in the UK is 4% and the exchange rate is £1 = \$1, an American with a deposit of £100 would earn \$4 when the interest is converted into \$. If the exchange rate rises to £1 = \$1.5, the deposit holder would receive more interest - \$6.

A lower rate of interest may attract foreign direct investment (FDI) if it is thought that the increase might stimulate a rise in consumer expenditure. If more FDI is attracted, demand for the currency will rise and the supply of the currency would

	<p>Good evaluation of whether a reduction in a country's rate of interest will always reduce its exchange rate, weighing up both why it might and why it might not 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>Level 3 (11–15 marks)</p> <p>Good knowledge and understanding of how an exchange rate is determined.</p> <p>Good analysis of how a reduction in the rate of interest may affect the exchange rate. 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 reduction in a country's rate of interest will always reduce its exchange rate, considering both sides.</p>	<p>fall. In such a circumstance, the value of the currency will rise and not fall.</p> <p>Changes in the rate of interest is only one influence on the demand for and supply of a currency. If it is thought that the central bank has reduced the rate of interest due to concerns about a recession, it may be expected that the economic prospects are not good and the exchange rate will fall. If it is expected that the exchange rate will fall, currency traders will act in a way that will bring about the fall. They will sell the currency and so bring about the very movement they were expecting. In contrast, if it thought that the central bank has reduced the rate of interest because it has succeeded in reducing the inflation rate, it may lead to an expectation that the exchange rate will increase.</p> <p>Whether a lower rate of interest will reduce the exchange rate will be influenced by how its new rate compares with that of other countries, the exchange rate system being operated and how the change is perceived.</p>
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		<p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of how an exchange rate is determined.</p> <p>Reasonable analysis of how a reduction in the rate of interest may affect the exchange rate. 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>Reasonable evaluation of whether a reduction in a country's rate of interest will always reduce its exchange rate, considering both sides.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of how an exchange</p>		
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		<p>rate is determined.</p> <p>Limited or no analysis of how a reduction in the rate of interest may affect the exchange rate. 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>Limited evaluation of whether a reduction in a country's rate of interest will always reduce its exchange rate in the form of an unsupported statement or no evaluation.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit.</p>		
		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 *	<p>Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development.</p> <p>Level 5 (21–25 marks) Good-Strong knowledge and understanding of what being a member of the WTO involves.</p> <p>Strong analysis of how membership of the WTO may affect economic development. 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.</p> <p>Strong evaluation of whether membership of the WTO will increase a country's economic development, weighing up both why it might and why it might not 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>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>Joining the World Trade Organisation (WTO) requires a country to agree to follow the rules of the WTO, to negotiate bilaterally with any current WTO member that wants a one to one agreement and to apply any tariff reductions to all other members (most favoured nation rule (MFN)) and to abide by the WTO's resolutions of trade disputes. Being approved to join the WTO can itself attract foreign direct investment (FDI). More multinational companies (MNCs) setting up in the country may increase employment and income and bring in new training methods and technology.</p> <p>The MNCs may contribute to the country's exports. The WTO's MFN rule will also mean that the country will have the same access to the markets of, for instance, the USA and Germany, as other member countries. The move towards free trade that the WTO encourages may enable the country's producers to take greater advantage of the country's comparative advantage. This again can increase output and income. It may also lower prices and so further increases people's purchasing power.</p> <p>The WTO discourages dumping. Such protection in the long run can stop domestic firms being driven out of business by unfair competition and workers losing their jobs.</p> <p>Increases in trade and economic growth can raise both income per head and tax revenue. These increases can, in turn, result in more spending and more resources being devoted to health care and education. Providing greater access to health care and education can raise people's life expectancy and increase choices.</p> <p>There is a risk, however, that having to cut tariffs may reduce a country's economic development. Although recently, under new guidelines, lesser developed countries are permitted to retain tariffs on a small percentage of industrial goods, their other industries have to face more competition from imports. This may make it more difficult for infant industries, which may have the potential to gain a comparative advantage, to develop.</p>

	<p>Level 4 (16–20 marks) Good knowledge and understanding of what being a member of the WTO involves.</p> <p>Strong analysis of how membership of the WTO may affect economic development. 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.</p> <p>Good evaluation of whether membership of the WTO will increase a country's economic development, weighing up both why it might and why it might not, weighing up both sides 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>Level 3 (11–15 marks) Good knowledge and</p>	<p>As the WTO has ruled that it is illegal to ban a product because of the way it is produced, there may be less pressure for the country's government to stop any child or slave labour.</p> <p>If any growth in exports and FDI results in a more rapid exploitation of non-renewable resources, future economic growth and development may be jeopardised.</p> <p>Freer trade may result in a reallocation of resources with some industries expanding and some contracting. Such changes may result in structural unemployment and greater income inequality.</p> <p>There is also the possibility that increased competitiveness may drive down wages as firms seek to cut their costs to remain internationally competitive. Such an approach could lower living standards.</p> <p>The constant queue to join the WTO suggests that many countries think that membership of the WTO does promote economic development. Whether it will do so will be influenced by how its firms respond to the opportunities and challenges presented by freer trade and how any benefits are used and distributed.</p>
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		<p>understanding of what being a member of the WTO involves.</p> <p>Good analysis of how membership of the WTO may affect economic development. 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 membership of the WTO will increase a country's economic development, 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>Level 2 (6–10 marks) Good knowledge and understanding of what being a member of the WTO involves,</p> <p>Reasonable analysis of how membership of the WTO may affect economic development. 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</p>		
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		<p>or not linked to the analysis.</p> <p>Reasonable evaluation of whether membership of the WTO will increase a country's economic development, considering both why it might and why it might not.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of what being a member of the WTO involves.</p> <p>Limited or no analysis of how membership of the WTO may affect economic development. 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>Limited evaluation of whether membership of the WTO will increase a country's economic development, in the form of an unsupported statement or no evaluation.</p>		
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		<p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.</p>		
		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	*	<p>Evaluate whether the UK government should set the Bank of England an economic growth rate target.</p> <p>Level 5 (21–25 marks) Good-Strong knowledge and understanding of the nature of an economic growth rate target.</p> <p>Strong analysis of how an economic growth rate target may influence</p>	<p>25</p> <p>(AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)</p>	<p>The UK government sets out in the Bank of England Act that in conducting monetary policy, the objectives of the Bank of England should be to maintain price stability and subject to that, to support the government’s economic policy including its objectives for growth and employment. It has given the Bank a target for the inflation rate – 2% as measured by the Consumer Prices Index with a 1% point margin either side.</p> <p>Although the government has given the Bank a formal inflation target and in 2013 made it clear that the Bank could move away from the inflation target for a while to reduce volatility in GDP, it has not given the Bank a specific target for economic growth. Some economists argue that giving the Bank an economic growth rate target would make it more active and more accountable in ensuring</p>

	<p>monetary 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.</p> <p>Strong evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance and reaching a supported conclusion.</p> <p><i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i></p> <p>Level 4 (16–20 marks) Good knowledge and understanding of the nature of an economic growth rate target.</p> <p>Strong analysis of how an economic growth rate target may influence monetary policy. It will have consistently well-developed links through a coherent chain of reasoning</p>	<p>that actual economic growth matches potential economic growth.</p> <p>If it is thought that advances in technology, improvements in education and immigration, for example, would enable real GDP to increase by 3% over the year, the Bank could be set an economic growth rate target of 3%. If it is thought that aggregate demand is not increasing at a sufficiently high rate to ensure that the increased productive capacity will be employed the Bank could engage in expansionary monetary policy. For instance, it could cut the rate of interest to encourage a rise in consumer expenditure which, in turn, would stimulate UK firms to increase their output.</p> <p>There are a number of benefits that may be gained by achieving a faster rate of economic growth, most notably higher living standards. Nevertheless, some economists argue that the Bank of England's prime objective should be price stability. Indeed, a low and stable rate of inflation may provide the foundation for economic growth. It may also do this by boosting consumer and business confidence, attracting foreign direct investment and increasing international competitiveness.</p> <p>While the inflation rate target is unlikely to change much over time, any economic growth rate target may have to be altered if, for instance, firms' investment plans or predictions of net immigration alter. A reduction in the economic growth rate target may increase consumer and producer pessimism which could reduce consumer expenditure and investment and so lower economic growth. It might also be argued that monetary policy is usually more appropriately designed to influence the inflation rate and supply-side policy the economic growth rate.</p> <p>In recent years, there have been concerns about the lack of consumer and business confidence and the slow growth of aggregate demand. It is, however, more common for AD to grow more rapidly than AS. In the long run, measures such as improved education, are likely to be effective in increasing output than monetary policy. This may suggest that the current situation where the Bank has some flexibility in being able to depart from its inflation rate target in the short run during periods of demand and supply-side shocks.</p>
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		<p>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>Good evaluation of how whether the government should set the Bank of England and economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance 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>Level 3 (11–15 marks) Good knowledge and understanding of the nature of an economic growth rate target.</p> <p>Good analysis of how an economic growth rate target may influence monetary 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)</p>		
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		<p>are predominantly correct and linked to the analysis.</p> <p>Reasonable evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve macroeconomic performance.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6–10 marks) Good knowledge and understanding of the nature of an economic growth rate target.</p> <p>Reasonable analysis of how an economic growth rate target may influence monetary 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.</p> <p>Reasonable evaluation of whether the government should set the Bank of England an economic growth rate target, weighing up both why they may and why they may not improve</p>		
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		<p>macroeconomic performance.</p> <p><i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i></p> <p>Level 1 (1–5 marks) Reasonable knowledge and understanding of the nature of an economic growth rate target.</p> <p>Limited or no analysis of how an economic growth rate target may influence monetary 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.</p> <p>Limited evaluation of whether the government should set the Bank of England an economic growth rate target.</p> <p><i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i></p> <p>0 marks no response or no response worthy of credit.</p>		
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			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	

Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)	1	1			2	
1(b)	1(1)	1(1)			2	(2)
1(c)		2 (2)			2	(2)
1(d)(i)	1(1)	1 (1)			2	(2)
1(d)(ii)	1 (1)	1 (1)			2	(2)
1(e)	1	1	3	3	8	
1(f)	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 (5)	20 (7)	20 (2)	22 (2)	80	(16)