



*Rewarding Learning*

**ADVANCED SUBSIDIARY (AS)  
General Certificate of Education  
2024**

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## **Economics**

**Assessment Unit AS 2**

*assessing*

**Managing the National Economy**

**[SEC21]**

**MONDAY 20 MAY, MORNING**

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**MARK  
SCHEME**

## General Marking Instructions

This mark scheme is intended to ensure that the AS examinations are marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

### Quality of candidates' responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 17-year-olds, which is the age at which the majority of candidates sit their AS examinations.

### Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

### Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 17-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

### Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

### Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

**Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

**Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

**High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

## Marking calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

## Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

**Level 1 (Limited):** The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

**Level 2 (Satisfactory):** The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

**Level 3 (High Standard):** The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

**Section A**

			AVAILABLE MARKS
<b>1</b>	<p>Structural unemployment arises when the structure of the economy changes and there is an oversupply of workers with certain skills. Karim is structurally unemployed. Frictional unemployment arises when workers are temporarily unemployed as they move between jobs or wait for the start of a new job. Emma is frictionally unemployed.</p> <p>for correct explanations of frictional and structural unemployment [2] for appropriate examples [2]</p>		4
<b>2</b>	<p><b>(a)</b> Injections are a flow of money into the circular flow of income for example exports; withdrawals are a flow of money out of the circular flow for example imports.</p> <p>[1] for each correct explanation [2]</p> <p><b>(b)</b> In equilibrium, injections must equal withdrawals. Injections are £300 billion; as savings and imports sum to £215 billion taxation must be £85 billion.</p> <p>for £85 billion [2] for correct method but error in calculation or presentation [1] [2]</p>		4
<b>3</b>	<p><b>(a)</b> In 2022 GDP per capita is <math>\pounds(475\,000 \div 84.8)</math> million = <math>\pounds56\,014.15</math> (<math>\pounds4750</math> billion = <math>\pounds4\,750\,000</math> million)</p> <p>for <math>\pounds56\,014.15</math> [2] for correct method but error in calculation or presentation [1] [2]</p> <p><b>(b)</b> GDP per capita for 2022 at 2021 prices is <math>(\pounds56\,014.15 \times 140) \div 147 = 53\,346.81</math></p> <p>for <math>\pounds53\,346.81</math> [3] for correct method but error in calculation of presentation [2] [3]</p>		5
<b>4</b>	<p>Country B has a more equal distribution of income. From the data it can be seen that the poorest 20% of the population receive 10% of income in Country B but only 3% of income in country A. In contrast the richest 20% receive 34% of income in country B compared to 49% in country A.</p> <p>for identifying that country B has a more equal distribution of income than country A [2] for use of data to support this [2] [4]</p>		4

- 5 (a) Government spending will have increased to £363.8 billion (£340 billion × 1.07)

for correct answer

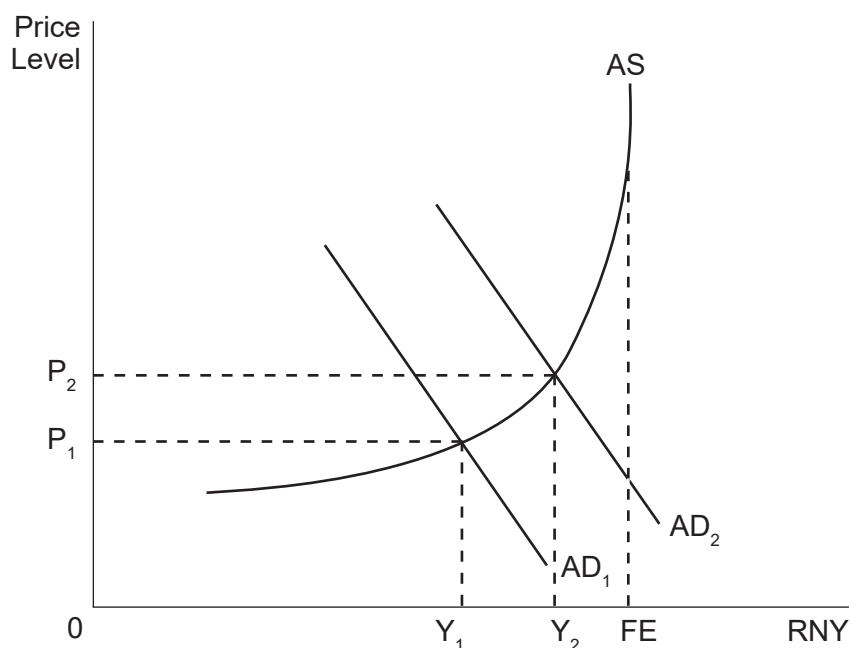
[2]

for correct method but error in calculation or presentation

[1]

[2]

- (b) The negative output gap means that actual output is below potential output. An increase in government spending and a fall in taxation as shown by the data will boost AD leading to a rise in GDP and helping to close the output gap.



**Issues and areas for analysis include:**

- Explanation of output gap.
- Explanation of original position of  $AD_1$ .
- Discussion of impact of increase in government spending e.g. an increase in public sector pay will cause an increase in G directly increasing AD.
- Discussion of impact of tax cuts e.g. a reduction in income tax will leave consumers with more disposable income, possibly leading to a rise in G and an increase in AD.
- Explanation of impact of change in AD on output gap, output and price level.
- Appropriate diagrams.
- Appropriate examples.

**Level 1 ([1]–[2])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.

- Basic analysis; may lack focus.
- A low quality of written communication.

**Level 2 ([3]–[4])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis and evaluation in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

**Level 3 ([5]–[6])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Excellent, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [6]

**Section A**

**AVAILABLE  
MARKS**

8

**25**

Section B

AVAILABLE  
MARKS

- 6 (a) • The PPI may be considered an advance indicator of trends in the CPI, although its fluctuations are more extreme than the CPI's.
- The CPI never becomes negative. However, the PPI becomes negative in August 2019, and despite a brief return to stability in December 2019, the trend of falling producer prices continues until October 2020. After that, with occasional slight dips, the trend is steadily upward.
  - The Producer Price Index reaches a low of  $-4.7\%$  in March 2020, near the beginning of the Covid crisis, but the fall in CPI inflation continues down to  $0.3\%$  in July 2020.
  - The steepest rise in PPI is between February and May 2021, and its highest point is at the end of the period shown, reaching  $19.3\%$ .
  - CPI inflation ranges from nearly zero to about  $7.2\%$  by the end of the period, rising more or less steadily from February 2021.
  - The CPI increased threefold over the period shown, whereas PPI inflation is nearly seven times its original rate.

Up to [3] for narrative description of changes in CPI and PPI. [2] for comparison in the trends of the 2 measures. [5]

- (b) The CPI is a weighted index of a basket of goods and services. *The price changes of approximately 730 goods and services are measured each month* and these are each assigned a weight based on their importance in consumer spending. Effectively the CPI measures inflation as experienced by the average consumer. In reality, every consumer will have their own inflation rate as their pattern of spending will differ from the weights used in constructing the CPI. Poorer households tend to spend a higher percentage of their income on food and energy and this has led to them facing a higher inflation than richer households as indicated in the data. Households in Northern Ireland who use oil fired central heating may face a higher inflation rate than the average UK consumer who is more likely to use gas.

**Issues and areas for analysis include:**

- Explanation of and reference to:
  - Construction of a weighted index.
  - Differing spending patterns of consumers.
  - More adverse impact on low income groups.
  - Differing impacts across regions.
- Use of data.

**Level 1 ([1]–[2])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

**Level 2 ([3]–[4])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.

- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis and evaluation in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

**Level 3 ([5]–[6])**

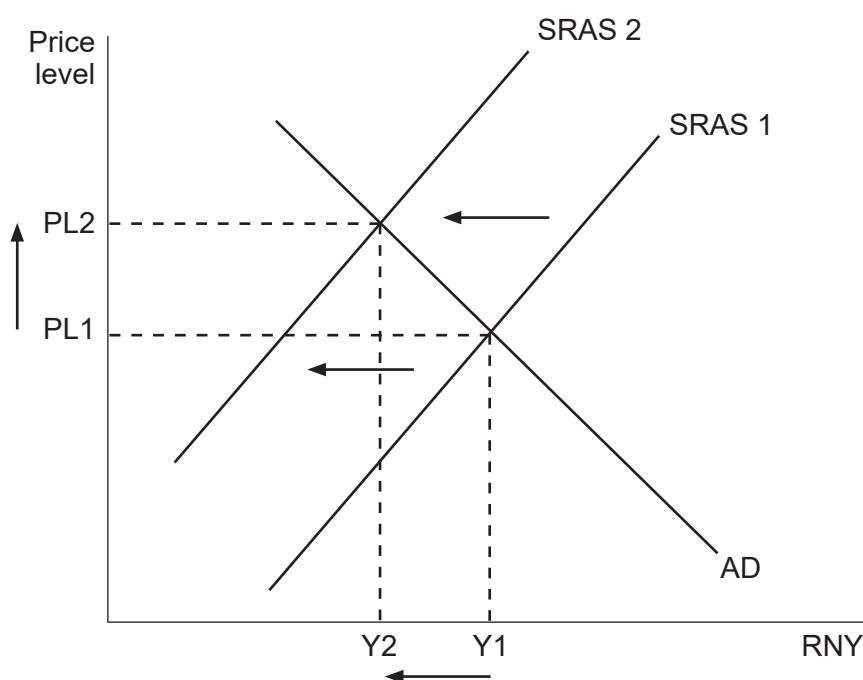
An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [6]

(c) The current UK inflation is largely cost push in nature. Costs have risen for a number of reasons as outlined in the data.

- The reduction in supply of commodities such as oil, gas and foodstuffs will push up their price having a knock on effect on business costs.
- Oil and gas price inflation will further impact energy costs for business.
- Labour shortages will lead employers to increase wages in order to attract workers. The resulting higher wage costs may be passed on to consumers through higher prices.
- Similarly, hospitality businesses may pass their higher VAT costs on to consumers.

All of these cost increases will lead to a reduction in SRAS which will cause prices to rise.





**Issues and areas for analysis include:**

- Impact of reduction in supply of commodities and components.
- Effect of labour shortages.
- Impact of end of VAT reduction.
- Explanation and application of theory of cost-push inflation.
- Use of AD/AS curve showing reduction in SRAS or LRAS and consequent impact on price.
- Appropriate diagrams.
- Appropriate examples.

**Level 1 ([1]–[3])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams to address the issues in the question.
- Basic analysis and evaluation; however, this may lack focus.
- A low quality of written communication.

**Level 2 ([4]–[6])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis and evaluation in relation to the impact on economic agents; however, this may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

**Level 3 ([7]–[9])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [9]

- (d) The Bank of England is required to attempt to regulate the rate of inflation to meet the target set by the Chancellor of the Exchequer. At the moment this target is that CPI inflation should be at 2% with a variation of 1% either side. Effectively inflation should be between 1 and 3%. Should inflation fall below or rise above the target the Governor of the Bank of England has to write an explanatory letter to the Chancellor. In order to control inflation the Bank varies interest rates to influence the rate of inflation in 18 months to 2 years' time. With inflation expected to rise then conventional doctrine would advocate the Bank raising interest rates. Through a variety of transmission

mechanisms this would impact the components of aggregate demand causing it to fall and thus reducing inflation. Those opposed to using interest rates in the current situation would have a number of criticisms. Firstly, the current inflation is not demand driven. Increasing interest rates will not in itself solve problems of labour shortages or commodity price rises. Indeed, by causing a fall in aggregate demand it is likely to cause output to fall further and generate a recession. Secondly, inflation is already high. Increasing interest rates now will not impact inflation for another 18 months at which point inflation will probably be falling.

**Issues for analysis and discussion include:**

- Role of Bank of England in controlling inflation.
- Causes of current inflation.
- Impact of interest rate changes on inflation.
- Discussion of various transmission mechanisms of rising interest rates.
- Impact of interest rates on other economic objectives such as growth and employment.
- Effectiveness of interest rates in dealing with cost push inflation.
- Discussion of time lags.
- Discussion of alternative policies to control inflation.
- Appropriate use of data.
- Appropriate diagrams.
- Appropriate examples.

**Level 1 ([1]–[5])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question. Some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis and evaluation; however, this may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

**Level 2 ([6]–[10])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; where relevant, some reasonable use of data and diagrams in relation to the context of the question.
- Good analysis and evaluation in relation to the impact on economic agents; however, this may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

**Level 3 ([11]–[15])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.

- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication.

[15]

**Section B**

AVAILABLE MARKS
35
<b>35</b>

## Section C

AVAILABLE  
MARKS

- 7 Governments will have a range of economic objectives. These will usually include a sustainable rate of economic growth, low unemployment and low inflation. Additional objectives such as promoting a more equitable distribution of income or protecting the environment may also be pursued. A depreciation of the exchange rate will impact upon these objectives both directly and indirectly.
- A fall in the value of the pound would lead to exports being cheaper and imports more expensive. This should lead to a rise in the demand for exports and a fall in the demand for imports. As  $(X-M)$  would rise aggregate demand should increase generating higher economic growth. The multiplier effect would further enhance this.
  - This increase in AD would lead to a rise in employment and a decline in unemployment as firms increased output to meet both increased domestic demand and increased exports.
  - *The change in the prices of exports and imports should lead to a rise in the value of exports and a fall in the value of imports improving any adverse position on the current account of the balance of payments.*
  - However, there would be increased inflationary pressure in the economy. Firstly, the rise in the price of imports would directly increase inflation. It would also cause a rise in costs contributing to cost push inflation. The rise in AD caused by the increase in  $(X-M)$  might also lead to demand pull inflation.
  - The depreciation will lead to a rise in the price of imported goods, this may impact disproportionately on those on low income impacting on attempts to ensure a fairer distribution of income.
  - Lowering the value of the pound will not be without cost. If the rate of interest is the primary policy tool for controlling the exchange rate it may not be possible to use it to control inflation. This may require fiscal policy being used to control inflation.

### Issues, analysis and areas for discussion include:

- Explanation of government economic objectives.
- Explanation of what is meant by fall in the value of the pound.
- Explanation of how this impacts upon the price of imports and exports.
- *Discussion of impact on current account.*
- Reference to impact on AD through the change in  $(X-M)$  and impact on real incomes of rising import prices.
- Discussion of impact on economic growth.
- Discussion of impact on inflation.
- Discussion of impact on unemployment.
- Appropriate examples.
- Appropriate diagrams.

### Level 1 ([1]–[7])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis and evaluation; however, this may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

**Level 2 ([8]–[14])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis and evaluation in relation to the impact on economic agents; however, this may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

**Level 3 ([15]–[20])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [20]

**AVAILABLE  
MARKS**

20

- 8 Economic growth is normally defined as an increase in the productive potential of an economy as measured by an increase in Real GDP. Since the pandemic the IMF estimates the UK economy has grown at a rate of 0.6% per annum, significantly below the 2% that for many years was considered the UK's long-term rate of growth. Cutting taxes could have an impact in both the short run and the long run. Keynesian economists believe that cutting taxes would help to grow the economy by boosting aggregate demand. However, if the economy was at the full employment level of National Income then this boost in AD would only serve to push up inflation without any gain in growth.

Classical economists on the other hand believe that cutting taxes to boost AD will not lead to long term economic growth but will simply cause inflation. They would argue that cutting taxes can cause economic growth through its impact on incentives. With lower tax rates, people will have incentives to work harder and this will cause productivity and output to rise. If corporation tax is cut then firms will have an incentive to increase investment, further boosting economic growth. As a consequence of this growth the tax cuts may lead to higher tax revenue. However, empirical evidence on the impact of tax cuts on generating incentives is not strong. If taxes are cut there'll be less revenue available for public spending which is under pressure due to the impact of the pandemic, the cost of living crisis and a decade of austerity policies. Less spending on areas such as education may cause long term economic growth to fall. Furthermore cuts in taxes could lead to further inflationary pressures at a time when inflation is at levels not seen for decades. This could lead to the Bank of England further raising interest rates.

Many economists would argue that cutting taxes is not the best approach to encouraging economic growth. They would advocate alternative supply side policies such as changes to business and labour market regulation, changes to the education system and increasing investment in both physical and human capital, research and development and physical infrastructure.

**Issues, analysis and areas for discussion include:**

- Explanation of economic growth.
- Impact of tax cuts on AD.
- Differing approaches of Keynesian and Classical economists to impact of AD.
- Impact of tax cuts on incentives to workers.
- Impact of tax cuts on incentives to firms.
- Effect of cuts in public spending or increases in government borrowing.
- Discussion of Laffer Curve.
- Possible impact of tax cuts on inflation.
- Alternative policies the government could pursue.
- Appropriate examples.
- Appropriate diagrams.

**Level 1 ([1]–[7])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.

- Basic analysis and evaluation; however, this may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

**Level 2 ([8]–[14])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis and evaluation in relation to the impact on economic agents; however, this may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

**Level 3 ([15]–[20])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [20]

**Section C**

**Total**

**AVAILABLE  
MARKS**

20

**20**

**80**