

INTERNATIONAL AS ECONOMICS EC02

Unit 2 The National Economy in a Global Environment

Mark scheme

January 2026

Version: 1.0 Final

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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International AS Economics mark scheme

How to mark

Aims

When you are marking your allocation of scripts your main aims should be to:

- recognise and identify the achievements of students
- place students in the appropriate mark band and in the appropriate part of that mark band (high, low, middle)
- record your judgements with brief notes, annotations and comments that are relevant to the mark scheme and make it clear to other examiners how you have arrived at the numerical mark awarded
- put into a rank order the achievements of students (not to grade them – that is done later using the rank order that your marking has produced)
- ensure comparability of assessment for all students, regardless of question or examiner.

Approach

It is important to be **open minded** and **positive** when marking scripts.

The specification recognises the variety of experiences and knowledge that students will have. It encourages them to study Economics in a way that is relevant to them. The questions have been designed to give them opportunities to discuss what they have found out about Economics. It is important to assess the quality of **what the student offers**.

Assessment objectives

This component requires students to:

AO1	Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues.
AO2	Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues.
AO3	Analyse issues within economics, showing an understanding of their impact on economic agents.
AO4	Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

The marking grids

The marking grids cover all the Assessment Objectives indicated as being assessed in each question, followed by indicative content for individual tasks. These have been designed to allow assessment of the range of knowledge, understanding and skills that the specification demands.

The indicative content gives examples of the kind of things students might cover in their responses. They are neither exhaustive nor required – they are simply indicative of what could appear. Other valid content presented in student responses should always be credited.

Using the grids

These levels of response mark schemes are broken down into levels, each of which has descriptors. The descriptors for the level show the performance characteristics of the level. There is the same number of marks in each level. The number of marks per level varies depending upon the total number of marks allocated to the question.

Having familiarised yourself with the descriptors and indicative content, read through the answer and annotate it to identify the qualities that are being looked for and that it shows. You can now check the levels and award a mark.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptors for that level. The descriptors for the level indicate the different qualities that might be seen in the student's answer for that level.

When assigning a level, you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best-fit approach for defining the level and then use the variability of the response to help decide the mark within the level; ie if the response fulfils most but not all of level 3 with a small amount of level 4 material, it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark.

It is often best to start in the middle of the level's mark range and then check and adjust.

The exemplar materials used during standardisation should be referred to. There will be an answer in the standardising materials that will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is of the same standard, better or worse. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

An answer that contains nothing of relevance to the question must be awarded no marks.

Examiners are required to assign each of the students' responses to the most appropriate level according to its overall quality, then allocate a single mark within the level. When deciding upon a mark in a level, examiners should bear in mind the relative weightings of the assessment objectives and be careful not to over/under credit a particular skill. For example, in question 21 more weight should be given to AO4 than to AO1, AO2 and AO3. This will be exemplified and reinforced as part of examiner training.

Annotating scripts

Annotating scripts will help you with making accurate judgements and it will help any subsequent markers to identify how you are thinking. Please do not write negative comments about students' work; this is unprofessional and it impedes a positive marking approach.

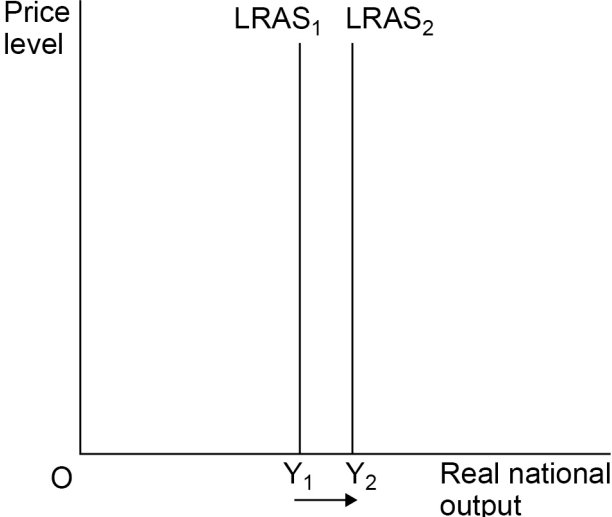
Section A

Total for this section: 15 marks

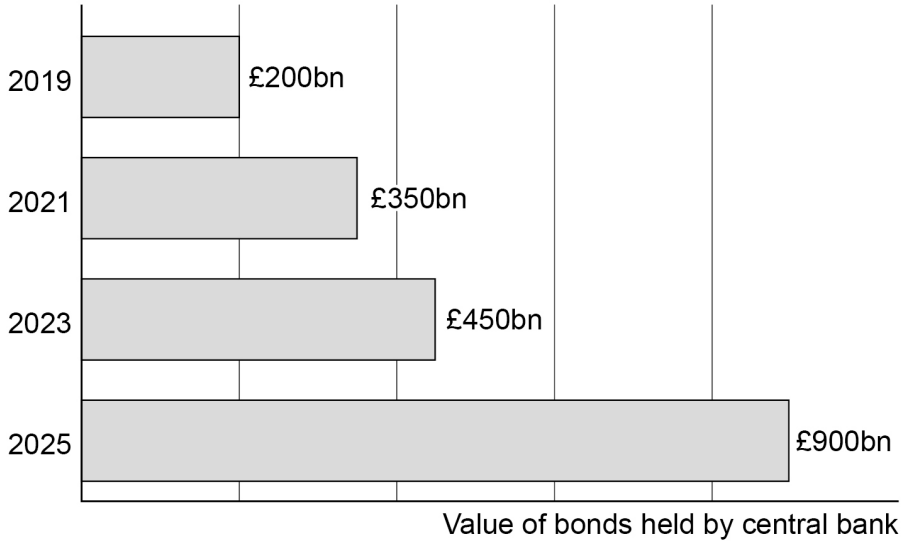
Question	Part	Marking guidance	Total marks
01		Which one of the following is an injection into the circular flow of income? Answer: C (Investment)	1 AO1 = 1

Question	Part	Marking guidance	Total marks
02		Which one of the following is most likely to explain why a country has a current account deficit? Answer: D (The country has lower productivity than other countries.)	1 AO1 = 1

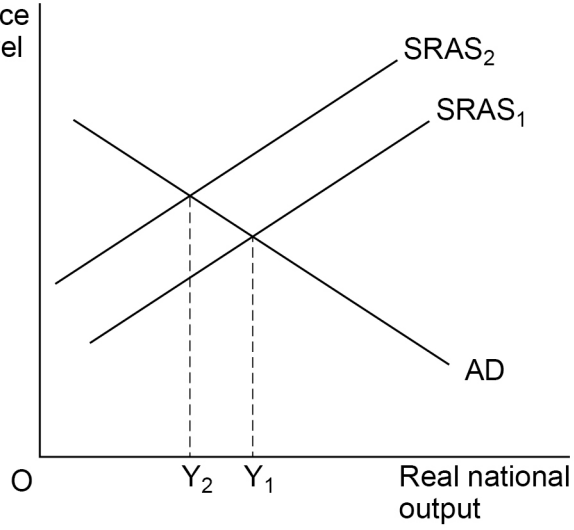
Question	Part	Marking guidance	Total marks																																			
03		<table><tr><th>Price level (index)</th><th>Short-run aggregate supply (\$m)</th><th>Consumption (\$m)</th><th>Investment (\$m)</th><th>Government spending (\$m)</th><th>Government revenue (\$m)</th><th>Exports minus Imports (\$m)</th></tr><tr><td>90</td><td>1300</td><td>1400</td><td>300</td><td>100</td><td>400</td><td>400</td></tr><tr><td>100</td><td>1400</td><td>1050</td><td>300</td><td>150</td><td>350</td><td>300</td></tr><tr><td>110</td><td>1500</td><td>800</td><td>300</td><td>200</td><td>300</td><td>200</td></tr><tr><td>120</td><td>1600</td><td>700</td><td>300</td><td>300</td><td>250</td><td>100</td></tr></table> <p>The economy is in equilibrium and its normal capacity level of output is \$1400m.</p> <p>What is the size of its output gap?</p> <p>Answer: C (\$100m)</p>	Price level (index)	Short-run aggregate supply (\$m)	Consumption (\$m)	Investment (\$m)	Government spending (\$m)	Government revenue (\$m)	Exports minus Imports (\$m)	90	1300	1400	300	100	400	400	100	1400	1050	300	150	350	300	110	1500	800	300	200	300	200	120	1600	700	300	300	250	100	1 AO3 = 1
Price level (index)	Short-run aggregate supply (\$m)	Consumption (\$m)	Investment (\$m)	Government spending (\$m)	Government revenue (\$m)	Exports minus Imports (\$m)																																
90	1300	1400	300	100	400	400																																
100	1400	1050	300	150	350	300																																
110	1500	800	300	200	300	200																																
120	1600	700	300	300	250	100																																

Question	Part	Marking guidance	Total marks
04		<p>Which one of the following diagrams shows underlying economic growth in the economy?</p> <p>Answer: D</p>  <p>The diagram is a graph with 'Price level' on the vertical axis and 'Real national output' on the horizontal axis. The origin is labeled 'O'. Two vertical lines represent the Long-Run Aggregate Supply (LRAS) curve, labeled LRAS₁ and LRAS₂. LRAS₂ is to the right of LRAS₁. On the horizontal axis, two points are marked Y₁ and Y₂, with Y₂ to the right of Y₁. An arrow points from Y₁ to Y₂.</p>	<p>1</p> <p>AO2 = 1</p>

Question	Part	Marking guidance	Total marks
05		<p>Firms in an economy are experiencing an accelerator process. Which one of the following is most likely to cause this?</p> <p>Answer: A (A rise in aggregate demand)</p>	<p>1</p> <p>AO2 = 1</p>

Question	Part	Marking guidance	Total marks
06		 <p>Which one of the following can be concluded from Figure 1?</p> <p>Answer: D (The money supply has increased because of quantitative easing.)</p>	<p>1</p> <p>AO2 = 1</p>

Question	Part	Marking guidance	Total marks
07		<p>A consumer price index (CPI) is used to measure inflation. The index must reflect the relative importance of price changes for different items.</p> <p>What feature of a CPI is most important in ensuring this?</p> <p>Answer: D (Weights)</p>	<p>1</p> <p>AO1 = 1</p>

Question	Part	Marking guidance	Total marks
08		<p>Price level</p>  <p>O Y₂ Y₁ Real national output</p> <p>Which one of the following is the most likely cause of the shift from Y₁ to Y₂?</p> <p>Answer: C (An increase in business regulations)</p>	<p>1</p> <p>AO2 = 1</p>

Question	Part	Marking guidance	Total marks															
09		<table><tr><th>Year</th><th>Balance of trade in goods (¥bn)</th><th>Balance of trade in services (¥bn)</th><th>Primary income balance (¥bn)</th><th>Secondary income balance (¥bn)</th></tr><tr><td>2024</td><td>800</td><td>−200</td><td>150</td><td>−100</td></tr><tr><td>2025</td><td>900</td><td>−100</td><td>150</td><td>−200</td></tr></table> <p>All other things being equal, which one of the following is the most likely cause of the changes in the current account between 2024 and 2025?</p> <p>Answer: B (A fall in the country's exchange rate)</p>	Year	Balance of trade in goods (¥bn)	Balance of trade in services (¥bn)	Primary income balance (¥bn)	Secondary income balance (¥bn)	2024	800	−200	150	−100	2025	900	−100	150	−200	<p>1</p> <p>AO3 = 1</p>
Year	Balance of trade in goods (¥bn)	Balance of trade in services (¥bn)	Primary income balance (¥bn)	Secondary income balance (¥bn)														
2024	800	−200	150	−100														
2025	900	−100	150	−200														

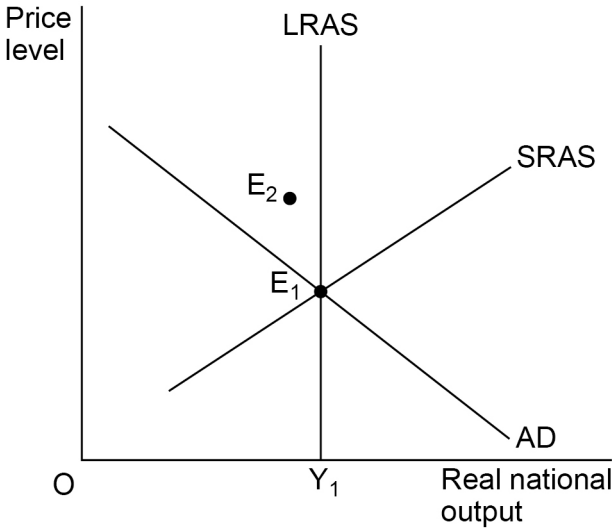
Question	Part	Marking guidance	Total marks
10		<p>A government is trying to expand the economy and wants a large multiplier effect.</p> <p>Which one of the following is most likely to help the government achieve this?</p> <p>Answer: A (A high marginal propensity to consume)</p>	<p>1</p> <p>AO1 = 1</p>

Question	Part	Marking guidance	Total marks
11		<p>Which one of the following is the best example of a supply-side policy used to reduce the rate of unemployment?</p> <p>Answer: C (Government investing to improve local transport)</p>	<p>1</p> <p>AO1 = 1</p>

Question	Part	Marking guidance					Total marks	
12			2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)	1 AO2 = 1
		Angola	17.1	22.3	25.8	21.4	13.6	
		Brunei Darussalam	−0.4	1.9	1.7	3.7	0.4	
		Nigeria	11.4	13.2	17.0	18.8	24.7	
		The Gambia	7.1	5.9	7.4	11.5	17.0	
		Which country did not experience disinflation at any time between 2019 and 2023?						
		Answer: C (Nigeria)						

Question	Part	Marking guidance	Total marks												
13		<table border="1"> <thead> <tr> <th>Year</th><th>Nominal GDP (€bn)</th><th>Population</th><th>Inflation index</th></tr> </thead> <tbody> <tr> <td>2024</td><td>300</td><td>35 million</td><td>120</td></tr> <tr> <td>2025</td><td>360</td><td>37 million</td><td>132</td></tr> </tbody> </table> <p>It can be concluded from Table 4 that between 2024 and 2025</p> <p>Answer: C (real income per capita increased.)</p>	Year	Nominal GDP (€bn)	Population	Inflation index	2024	300	35 million	120	2025	360	37 million	132	<p>1</p> <p>AO3 = 1</p>
Year	Nominal GDP (€bn)	Population	Inflation index												
2024	300	35 million	120												
2025	360	37 million	132												

Question	Part	Marking guidance	Total marks
14		<p>Which one of the following is the best example of underemployment?</p> <p>Answer: B (Dambisa has a degree in Economics and works full-time as a cleaner while looking for a job in a bank.)</p>	<p>1</p> <p>AO1 = 1</p>

Question	Part	Marking guidance	Total marks
15		<p>Price level</p>  <p>LRAS</p> <p>SRAS</p> <p>AD</p> <p>O</p> <p>Y_1</p> <p>Real national output</p> <p>E_1</p> <p>E_2</p> <p>The economy is initially in equilibrium at E_1. After three events, the economy moves to a new equilibrium E_2.</p> <p>Which one of the following combinations of events is most likely to explain the change from E_1 to E_2?</p> <p>Answer: D (There is a rise in consumer confidence, The government increases indirect taxes, The government increases the minimum wage)</p>	<p>1</p> <p>AO3 = 1</p>

Section B

Total for this section: 65 marks

Question	Part	Marking guidance	Total marks
16	1	<p>Define 'cyclical unemployment' (Extract B, line 10).</p> <p>A full and precise definition is given (3 marks)</p> <p>Examples:</p> <ul style="list-style-type: none"> • when the economy goes into recession and people cannot find work because aggregate demand is too low • when the economic cycle means people who want to work cannot find work because (derived) demand for labour is low • when there is excess supply of labour caused by a fall in total demand for the goods and services produced in an economy. <p>The substantive content of the definition is correct but there may be some imprecision or inaccuracy (2 marks)</p> <p>Examples:</p> <ul style="list-style-type: none"> • unemployment caused by low aggregate demand • where people cannot find work because there is not enough demand for the things they produce • the number of people without jobs because of firms cutting back on their output. <p>Fragmented points only (1 mark)</p> <p>Examples:</p> <ul style="list-style-type: none"> • looking for work but cannot find work • aggregate demand • recession. 	<p>3</p> <p>AO1 = 3</p>

Question	Part	Marking guidance	Total marks
16	2	<p>Define 'negative supply-side shock' (Extract C, line 3).</p> <p>A full and precise definition is given (3 marks)</p> <p>Examples:</p> <ul style="list-style-type: none"> • an event that leads to a sudden or unexpected fall in aggregate supply • a reduction in the total amount firms are willing and able to supply due to an unanticipated event • an event that causes an unexpected rise in business costs or disruption to economic production. <p>The substantive content of the definition is correct but there may be some imprecision or inaccuracy (2 marks)</p> <p>Examples:</p> <ul style="list-style-type: none"> • an event that leads to a sudden or unexpected change in aggregate supply • something that leads to a reduction in the overall level of production in an economy. <p>Fragmented points only (1 mark)</p> <p>Examples:</p> <ul style="list-style-type: none"> • sudden supply change • unexpected event • reduction in production • aggregate supply. 	<p>3</p> <p>AO1 = 3</p>

MAXIMUM FOR QUESTION 16: 6 MARKS

Question	Part	Marking guidance	Total marks								
17	1	<p>Assume that a worker in Pakistan earned an annual wage of 500 000 Pakistani rupees (PKR) at the beginning of 2022 and that their wage rose by the rate of inflation in each of 2022 and 2023.</p> <p>Use Extract A (i) to calculate their wage at the end of 2023.</p> <p>Give your answer in Pakistani rupees (PKR) to the nearest 1000 PKR.</p> <p>Calculation:</p> <p>500 000 PKR $\times$ 112.1% = 560 500 PKR 560 500 PKR $\times$ 129.2% = 724 166 PKR</p> <p>Answer: 724 000 PKR (nearest 1000 PKR)</p> <table><tr><th>Response</th><th>Max 3 marks</th></tr><tr><td>For the correct answer: 724 000 PKR (with or without working shown)</td><td>3 marks</td></tr><tr><td>For the correct answer but not to the nearest 1000 PKR: eg 724 166 PKR OR For the correct answer rounded the wrong way: 725 000 PKR OR For the correct answer but with missing/incorrect units: eg 724 000</td><td>2 marks</td></tr><tr><td>For the correct method but the wrong answer OR For the correct answer but with <u>two</u> errors from ‘not to the nearest 1000 PKR’, ‘rounded the wrong way’ and ‘with missing/incorrect units’: eg 725 000 OR For the correct application of 12.1% <u>or</u> 29.2% to the starting wage figure: eg 560 500 PKR <u>or</u> 646 000 PKR</td><td>1 mark</td></tr></table>	Response	Max 3 marks	For the correct answer: 724 000 PKR (with or without working shown)	3 marks	For the correct answer but not to the nearest 1000 PKR: eg 724 166 PKR OR For the correct answer rounded the wrong way: 725 000 PKR OR For the correct answer but with missing/incorrect units: eg 724 000	2 marks	For the correct method but the wrong answer OR For the correct answer but with <u>two</u> errors from ‘not to the nearest 1000 PKR’, ‘rounded the wrong way’ and ‘with missing/incorrect units’: eg 725 000 OR For the correct application of 12.1% <u>or</u> 29.2% to the starting wage figure: eg 560 500 PKR <u>or</u> 646 000 PKR	1 mark	<p>3</p> <p>AO1 = 1 AO2 = 2</p>
Response	Max 3 marks										
For the correct answer: 724 000 PKR (with or without working shown)	3 marks										
For the correct answer but not to the nearest 1000 PKR: eg 724 166 PKR OR For the correct answer rounded the wrong way: 725 000 PKR OR For the correct answer but with missing/incorrect units: eg 724 000	2 marks										
For the correct method but the wrong answer OR For the correct answer but with <u>two</u> errors from ‘not to the nearest 1000 PKR’, ‘rounded the wrong way’ and ‘with missing/incorrect units’: eg 725 000 OR For the correct application of 12.1% <u>or</u> 29.2% to the starting wage figure: eg 560 500 PKR <u>or</u> 646 000 PKR	1 mark										

Question	Part	Marking guidance	Total marks								
17	2	<p>Use Extract A (i) to calculate the difference between the real interest rates in the UK and the Philippines in 2021.</p> <p>Calculation:</p> <p>UK's real interest rate: $0.1 - 2.6 = -2.5\%$ Philippines real interest rate: $2 - 3.9 = -1.9\%$ Difference = 0.6 percentage points (allow 0.6%)</p> <table><tr><th>Response</th><th>Max 3 marks</th></tr><tr><td>For the correct answer: 0.6 percentage points <u>or</u> 0.6% <u>or</u> -0.6 percentage points <u>or</u> -0.6% (with or without working shown) OR For the correct answer expressed as a percentage difference: eg the Philippines is 31.6% higher/lower <u>or</u> UK is 24% higher/lower (with or without working shown)</td><td>3 marks</td></tr><tr><td>For the correct answer but with missing/incorrect unit: eg 0.6 OR For <u>both</u> correct elements but without calculating the difference: (-)2.5% <u>and</u> (-)1.9% OR For the correct answer as a percentage difference but without indicating whether higher or lower: eg 31.6%</td><td>2 marks</td></tr><tr><td>For the correct method but the wrong answer OR For one correct element: eg -2.5% <u>or</u> 1.9% OR For <u>both</u> correct elements with missing/incorrect units <u>and</u> without calculating the difference: eg 2.5 <u>and</u> 1.9</td><td>1 mark</td></tr></table>	Response	Max 3 marks	For the correct answer: 0.6 percentage points <u>or</u> 0.6% <u>or</u> -0.6 percentage points <u>or</u> -0.6% (with or without working shown) OR For the correct answer expressed as a percentage difference: eg the Philippines is 31.6% higher/lower <u>or</u> UK is 24% higher/lower (with or without working shown)	3 marks	For the correct answer but with missing/incorrect unit: eg 0.6 OR For <u>both</u> correct elements but without calculating the difference: (-)2.5% <u>and</u> (-)1.9% OR For the correct answer as a percentage difference but without indicating whether higher or lower: eg 31.6%	2 marks	For the correct method but the wrong answer OR For one correct element: eg -2.5% <u>or</u> 1.9% OR For <u>both</u> correct elements with missing/incorrect units <u>and</u> without calculating the difference: eg 2.5 <u>and</u> 1.9	1 mark	3 AO1 = 1 AO2 = 2
Response	Max 3 marks										
For the correct answer: 0.6 percentage points <u>or</u> 0.6% <u>or</u> -0.6 percentage points <u>or</u> -0.6% (with or without working shown) OR For the correct answer expressed as a percentage difference: eg the Philippines is 31.6% higher/lower <u>or</u> UK is 24% higher/lower (with or without working shown)	3 marks										
For the correct answer but with missing/incorrect unit: eg 0.6 OR For <u>both</u> correct elements but without calculating the difference: (-)2.5% <u>and</u> (-)1.9% OR For the correct answer as a percentage difference but without indicating whether higher or lower: eg 31.6%	2 marks										
For the correct method but the wrong answer OR For one correct element: eg -2.5% <u>or</u> 1.9% OR For <u>both</u> correct elements with missing/incorrect units <u>and</u> without calculating the difference: eg 2.5 <u>and</u> 1.9	1 mark										

MAXIMUM FOR QUESTION 17: 6 MARKS

Question	Part	Marking guidance	Total marks
18	1	<p>Extract B (lines 14–16) states: ‘Central banks use changes in interest rates and other types of monetary policy to affect the inflation rate.’</p> <p>Explain how changes in the interest rate set by a central bank affect the rate of inflation.</p>	<p>6</p> <p>AO1 = 2 AO2 = 2 AO3 = 2</p>

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.

Level	Marks	Descriptor
3	5–6	<ul style="list-style-type: none"> Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. Includes good application of relevant economic principles to support the response. Includes well-focused analysis with a clear, logical chain of reasoning.
2	3–4	<ul style="list-style-type: none"> Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present. Includes reasonable application of relevant economic principles to the question. Includes some reasonable analysis but it might not be adequately developed and may be confused in places.
1	1–2	<ul style="list-style-type: none"> Shows limited knowledge and understanding of relevant economic terminology, concepts and principles. Includes limited application of relevant economic principles to the question. May include some limited analysis but the analysis lacks focus and/or becomes confused.
	0	No creditworthy material

Indicative content:

- understanding of a central bank interest rate
- understanding of inflation and the general price level
- explanation of the link between aggregate demand and inflation
- explanation of how the interest rate may affect the cost of borrowing and the reward for saving and thus may affect consumption, which is part of aggregate demand
- explanation of how the interest rate may affect the cost of business borrowing and the opportunity cost of investing retained profits, thus may affect investment which is part of aggregate demand
- explanation of the impact (relative) interest rates may have on the exchange rate, affecting export and import prices and thus net exports, which is part of aggregate demand
- explanation of how a change in interest rates may change the repayment cost for households and firms in respect of existing loans, changing their spending power and potentially affecting wages
- explanation of the possible impact of central bank action on consumer and producer expectations of future inflation (and thus current behaviour)
- understanding of the fact that a central bank will expect an inverse relationship between the interest rate and inflation.

Note: Some students may support their answer with a diagram(s) but this is not needed for full marks.

Credit valid alternative content.

Question	Part	Marking guidance	Total marks
18	2	To what extent do the data suggest that changes in the interest rate set by a central bank affect the rate of inflation? Use the data in Extract A to support your answer.	6 AO2 = 1 AO3 = 1 AO4 = 4

Examiners are reminded that AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.

Level	Marks	Descriptor
3	5–6	<ul style="list-style-type: none"> Includes sound evidence that indicates the extent to which changes in the interest rate set by a central bank affect the rate of inflation. Includes a supported overall judgement concerning the extent to which changes in the interest rate set by a central bank affect the rate of inflation.
2	3–4	<ul style="list-style-type: none"> Includes limited evidence that indicates the extent to which changes in the interest rate set by a central bank affect the rate of inflation. Attempts a judgement concerning the extent to which changes in the interest rate set by a central bank affect the rate of inflation.
1	1–2	<ul style="list-style-type: none"> Includes evidence that does not clearly indicate the extent to which changes in the interest rate set by a central bank affect the rate of inflation. May include an unsupported judgement concerning the extent to which changes in the interest rate set by a central bank affect the rate of inflation.
	0	No creditworthy material

Indicative content:

- all three countries had higher inflation at the end of the period than at the beginning, despite interest rates rising in all three and this does not indicate an inverse relationship
- the inflation rate in Pakistan rose from 6.7% in 2019 to 10.7% in 2020 after the interest rate almost halved in the first few months of 2020, suggesting an inverse relationship
- the inflation rate in the Philippines rose from 2.4% in 2020 to 5.8% in 2022 after the central bank cut the interest rate to 2.00% at the end of 2020 and kept it at that level until mid-2022, suggesting an inverse relationship
- the inflation rate in the UK rose from 0.9% in 2020 to 2.6% in 2021 after the central bank cut interest rates to 0.10% in 2020, suggesting an inverse relationship
- the inflation rate in the UK fell from 9.1% in 2022 to 7.3% in 2023 after the central bank increased the interest rate throughout 2022 and 2023, suggesting an inverse relationship
- the rate of increase in inflation in the Philippines slowed down between 2022 and 2023 after the central bank raised interest rates in several steps from 2.00% to 6.50%, suggesting a possible inverse relationship but with other factors also contributing to inflation
- the UK's inflation rate went from being below that of the Philippines (2.6% compared to 3.9%) in 2021 to being above it (9.1% compared to 5.8%) in 2022, despite the two countries' interest rates rising broadly in line with each other, suggesting other factors contribute to inflation
- the inflation rate in Pakistan fell from 10.7% in 2020 to 8.9% in 2021 despite a large reduction in the interest rate by the central bank at the beginning of 2020, suggesting a cut in interest rates did not increase inflation
- the inflation rate in Pakistan rose rapidly from 8.9% in 2021 to 29.2% in 2023, despite the central bank raising interest rates from their low point of 7.00% in 2020 to 22.00% early in 2023, suggesting a rise in interest rates did not reduce inflation

- there is likely to be a time lag before a change in interest rates affects inflation as firms and consumers take time to adjust their behaviour and the time lag may differ between countries
- the data do not show a consistent relationship suggesting other factors are likely to affect the rate of inflation, eg other government policies, demand-side shocks and changing wage levels
- the data are drawn from the period in which many countries experienced unusual economic conditions as a result of the global pandemic and this limits the ability to make a clear judgement
- it is reasonable to conclude from the data that changes in the rate of interest can have an inverse relationship with inflation but only after a time lag and that other factors have an influence.

Note: While good answers are likely to draw on the data for more than one country, it is possible to achieve the highest level by considering data for only one of the countries.

Credit valid alternative content.

MAXIMUM FOR QUESTION 18: 12 MARKS

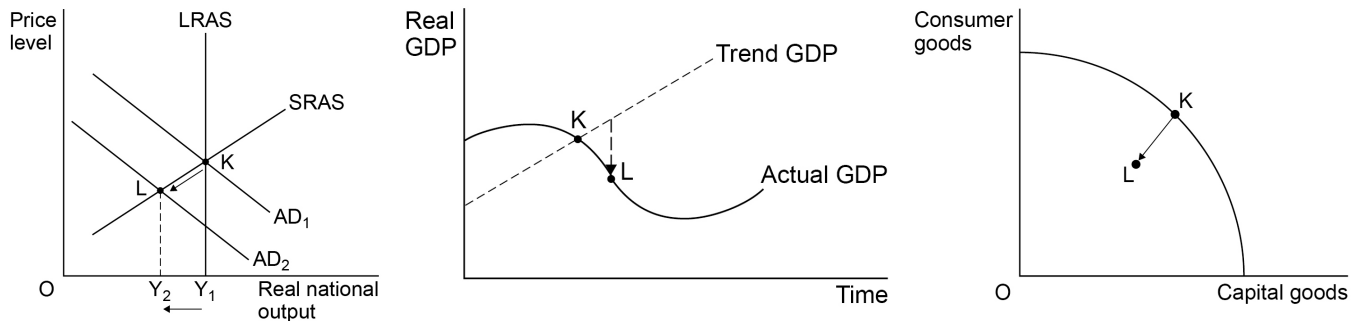
Question	Part	Marking guidance	Total marks
19		<p>Extract B (lines 18–19) states: ‘Some economists think keeping interest rates high can cause a negative output gap’.</p> <p>With the help of a diagram, explain how high interest rates can cause a negative output gap.</p>	<p>9</p> <p>AO1 = 2 AO2 = 4 AO3 = 3</p>

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.

Level	Marks	Descriptor
3	7–9	<ul style="list-style-type: none"> Is well organised and develops one or more of the key issues that are relevant to the question. Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. Includes good application of relevant economic principles and/or good use of data to support the response. Includes well-focused analysis with a clear, logical chain of reasoning. Includes a relevant diagram, that will, at the top of this level, be accurate and used appropriately to support their explanation.
2	4–6	<ul style="list-style-type: none"> Includes one or more issues that are relevant to the question. Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present. Includes reasonable application of relevant economic principles and/or data to the question. Includes some reasonable analysis but it might not be adequately developed and may be confused in places. May include a relevant diagram to support their explanation.
1	1–3	<ul style="list-style-type: none"> Is very brief and/or lacks coherence. Shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely. Demonstrates very limited ability to apply relevant economic principles and/or data to the question. May include some very limited analysis but the analysis lacks focus and/or becomes confused. May include a diagram but the diagram is likely to be inappropriate or inaccurate in some respects, or not used.
	0	No creditworthy material

Indicative content:

The expected diagram shows a shift to the left in aggregate demand, leading to a short-run macroeconomic equilibrium below the normal capacity level of output. However, students may illustrate the same effect on either an economic cycle diagram or a production possibility boundary diagram.



Relevant issues include:

- the meaning of interest rates
- the meaning of a negative output gap
- reference to **Extract B** and how high interest rates could increase the risk of a negative output gap and job losses
- explanation of how high interest rates affect aggregate demand, for example:
 - may lead to an increase in saving and a reduction in consumption eg if it reduces consumer confidence
 - may increase the repayments on existing debts, including the national debt, perhaps reducing government spending
 - may lead to lower investment by increasing firms' borrowing costs and increasing the opportunity cost of using retained profits to invest, especially if it reduces business confidence
 - may reduce net exports if the high interest rates cause the exchange rate to be high, leading to relatively expensive exports and relatively cheap imports
- explanation of how a reduction in aggregate demand would cause the movement from K to L on the relevant diagram
- explanation of how this would result in a negative output gap.

Credit valid alternative content.

Question	Part	Marking guidance	Total marks
20		<p>Extract C (line 10) states: ‘Budget balances rise and fall in different phases of the economic cycle.’</p> <p>Analyse how the budget balance is affected by the different phases of the economic cycle.</p>	<p>12</p> <p>AO1 = 3 AO2 = 4 AO3 = 5</p>

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives.

Level	Marks	Descriptor
3	9–12	<ul style="list-style-type: none"> Is well organised and develops one or more of the key issues that are relevant to the question. Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. Includes good application of relevant economic principles and/or good use of data to support the response. Includes well-focused analysis with a clear, logical chain of reasoning. May include a relevant diagram that is accurate and used appropriately to support their explanation.
2	5–8	<ul style="list-style-type: none"> Includes one or more issues that are relevant to the question. Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present. Includes reasonable application of relevant economic principles and/or data to the question. Includes some reasonable analysis but it might not be adequately developed and may be confused in places. May include a relevant diagram to support their explanation.
1	1–4	<ul style="list-style-type: none"> Is very brief and/or lacks coherence. Shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely. Demonstrates very limited ability to apply relevant economic principles and/or data to the question. May include some very limited analysis but the analysis lacks focus and/or becomes confused. May include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.
	0	No creditworthy material

Indicative content:

- the meaning of the budget balance
- the meaning of budget deficits and surpluses
- analysis of the concept of the economic cycle, using appropriate terms to identify different phases (for example boom, recession, depression and recovery or any other recognised terms)
- analysis of how phases of the cycle in which economic activity is falling or low could reduce government receipts from taxes such as those on income, profits and expenditure
- analysis of how phases of the cycle in which economic activity is falling or low could increase elements of government spending such as welfare payments or other social protection
- explanation of why these factors could result in a reduced budget surplus or a rising budget deficit

- analysis of how expansionary fiscal policy to counter falling or low economic activity could increase the likelihood of a reduced budget surplus or an increased budget deficit
- analysis of how phases of the cycle in which economic activity is rising or high could increase government receipts from taxes such as those on income, profits and consumption
- analysis of how phases of the cycle in which economic activity is rising or high could reduce elements of government expenditure such as welfare payments or other social protection
- explanation of why these factors could result in an increased budget surplus or a reduced budget deficit
- analysis of how contractionary fiscal policy to counter the risk of rising inflation could increase the likelihood of a rising budget surplus or a falling budget deficit.

Credit valid alternative content.

Question	Part	Marking guidance	Total marks
21		<p>Extract C (lines 8–9) states: ‘many economists argue that contractionary fiscal policy is now needed to reduce inflation’.</p> <p>Use the extracts and your knowledge of economics to assess whether contractionary fiscal policy is the best way to reduce inflation.</p>	<p>20</p> <p>AO1 = 3 AO2 = 4 AO3 = 5 AO4 = 8</p>

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question. More weight should therefore be given to AO4 than AO1, AO2 and AO3.

Level	Marks	Descriptor
5	17–20	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.
4	13–16	<p>Sound, focused analysis and some supported evaluation that:</p> <ul style="list-style-type: none"> • is organised, showing sound knowledge and understanding of economic terminology, concepts and principles but some minor errors may be present • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.
3	9–12	<p>Some reasonable analysis but generally unsupported evaluation that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.
2	5–8	<p>A fairly weak response with some understanding that:</p> <ul style="list-style-type: none"> • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.
1	1–4	<p>A very weak response that:</p> <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.
	0	No creditworthy material

Indicative content:

- the meaning of inflation
- the meaning of contractionary fiscal policy
- price stability as one of a number of government objectives
- alternative explanations for inflation including:
 - cost-push and imported influences (**Extract C**)
 - demand-pull influences (**Extract B**)
- analysis and evaluation of the problems governments have in controlling inflation (**Extract B**) including:
 - lack of control over world commodity prices
 - the need to manage aggregate demand during and after the global pandemic
 - changes in the budget balance that tend to occur in different phases of the economic cycle
- analysis and evaluation of the impact of contractionary fiscal policy on aggregate demand and costs of production
- analysis and evaluation of possible policy conflicts resulting from contractionary fiscal policy
- evaluation of the likely effectiveness of contractionary fiscal policy in reducing aggregate demand including:
 - time lags
 - uncertain value of the multiplier effect
 - effectiveness depends on the size/balance of the tax rises/spending cuts
 - effectiveness depends on which taxes are raised and which areas of spending are cut
- evaluation of the impact of reduced aggregate demand on different causes of inflation
- evaluation of negative and potentially unintended consequences of contractionary fiscal policy in the context of other government objectives including:
 - risk of higher unemployment
 - impact on inequality for example if health and education spending is reduced
 - risk of lower economic growth for example if infrastructure spending is reduced
 - risk of lower productivity contributing to a falling surplus or rising deficit in the current account of the balance of payments
- analysis and evaluation of alternative policies that may be more effective at reducing inflation including:
 - contractionary monetary policy (**Extract A**)
 - supply-side policy
- analysis and evaluation of the potential to combine policies in order to increase their effectiveness
- an overall assessment of whether contractionary fiscal policy is the best way to reduce inflation.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Credit valid alternative content.

Assessment Objectives Grid

	AO1	AO2	AO3	AO4	Total
Section A					
01	1				1
02	1				1
03			1		1
04		1			1
05		1			1
06		1			1
07	1				1
08		1			1
09			1		1
10	1				1
11	1				1
12		1			1
13			1		1
14	1				1
15			1		1
Section B					
16.1	3				3
16.2	3				3
17.1	1	2			3
17.2	1	2			3
18.1	2	2	2		6
18.2		1	1	4	6
19	2	4	3		9
20	3	4	5		12
21	3	4	5	8	20
Unit total	24	24	20	12	80