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International A Level  
In Economics (WEC12)

Unit 2: Macroeconomic performance and  
policy

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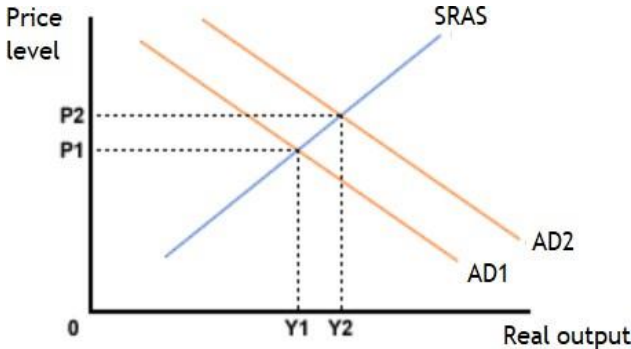
## Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is A</b></p> <p><i>B is not correct as this is a withdrawal</i></p> <p><i>C is not correct as this is a withdrawal</i></p> <p><i>D is not correct as this is neither an injection nor a withdrawal</i></p>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is C</b></p> <p><i>A is not correct as it is most likely that there will be an increase in profits for firms</i></p> <p><i>B is not correct as it is most likely that there will be an increase in the rate of inflation</i></p> <p><i>D is not correct as it is most likely that there will be an increase in government tax revenues</i></p>	(1)
3	<p>QS2: Calculate, use and understand percentages, percentage changes and percentage point changes</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is B</b></p> <p><i>A is not correct as this is the difference in expenditure between 2021 and 2022</i></p> <p><i>C is not correct as this uses the incorrect formula <math>[(\text{new-old}/\text{new}) \times 100]</math> to calculate the percentage change</i></p> <p><i>D is not correct as this uses the incorrect formula <math>[(\text{new}/\text{old}) \times 100]</math> to calculate the percentage change</i></p>	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is D</b></p> <p><i>A is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus</i></p> <p><i>B is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus</i></p> <p><i>C is not correct because this is most likely to lead to a reduction in Brazil's balance of trade surplus</i></p>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is B</b></p> <p><i>A is not correct because this is a monetary policy instrument</i></p> <p><i>C is not correct because this is a monetary policy instrument</i></p> <p><i>D is not correct because this is a monetary policy instrument</i></p>	(1)

<b>6</b>	<b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<b>The only correct answer is A</b> <i>B is not correct as there was disinflation between July and August</i> <i>C is not correct as the rate of inflation was highest in September</i> <i>D is not correct as the rate of inflation increased in September</i>	<b>(1)</b>
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## Section B

Question	In 2022 Belize had a positive output gap of more than 7%.  Explain <b>one</b> likely disadvantage of a positive output gap on the economy of Belize.	Mark
7	<p><b>Knowledge 1, Analysis 2, Application 1</b></p> <p><b>Quantitative skills assessed:</b>  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms</p> <p><b>Knowledge and Analysis</b></p> <p>1 knowledge mark for understanding of a positive output gap e.g.:</p> <ul style="list-style-type: none"> <li>• when actual GDP is more than potential GDP (this may be shown via an accurately drawn/labelled diagram)</li> </ul> <p>OR</p> <p>1 knowledge mark for identification of one characteristic of a positive output gap and up to 2 analysis marks for development of the identified impact, e.g.:</p> <ul style="list-style-type: none"> <li>- A higher rate of inflation <b>(1K)</b> because there is high cost-push inflationary pressure <b>(1AN)</b> as lower levels of unemployment would put an upward pressure on wage rates <b>(1AN)</b> /</li> <li>- A higher rate of inflation <b>(1K)</b> because there is greater demand-pull inflationary pressure <b>(1AN)</b> as AD is relatively high <b>(1AN)</b> /</li> <li>- Deterioration of the environment <b>(1K)</b> because there will be greater demand for goods <b>(1AN)</b> and therefore greater production by firms to meet rising demand, hence pollution <b>(1AN)</b></li> </ul> <p><b>Application</b></p> <p>1 mark for appropriate application, e.g.:</p> <ul style="list-style-type: none"> <li>- In 2022 Belize had a positive output gap of more than 7% <b>(1)</b></li> </ul>	(4)

Question	<p>Between October 2022 and February 2023 consumer confidence increased in the eurozone.</p> <p>Draw an AD and SRAS diagram to show the likely impact of this increase in consumer confidence in the eurozone.</p>	Mark
8	<p><b>Knowledge 1, Application 3</b></p> <p><b>Quantitative skills assessed:</b>  <b>QS4:</b> Construct and interpret a range of standard graphical forms  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms</p>  <p><b>Knowledge</b>  Correctly drawn diagram with correctly labelled AD/SRAS curves showing the original equilibrium price level and real output <b>(1)</b></p> <p><b>Application</b>  Up to 3 marks for the following information included on the diagram:</p> <ul style="list-style-type: none"> <li>• Drawing AD shifted to the right <b>(1)</b></li> <li>• Showing correct higher price level <b>(1)</b>  (not rewarded if 'price' is used on the axis)</li> <li>• Showing correct higher real output <b>(1)</b>  (not rewarded if 'quantity' is used on the axis)</li> </ul> <p><b>NB Award maximum of 1 mark where an LRAS curve has been drawn.</b></p>	(4)

Question	<p>It was estimated that an increase in investment of \$150 million in an economy would eventually result in an increase in the country's national income of \$1 500 million.</p> <p>Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.</p>	Mark
9	<p><b>Knowledge 1, Application 3</b></p> <p><b>Quantitative skills assessed:</b>  <b>QS1:</b> Calculate, use and understand ratios and fractions  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms</p> <p><b>Knowledge</b>  1 mark for knowledge of multiplier formula</p> <ul style="list-style-type: none"> <li>• Multiplier = <math>1/(1-MPC)</math> or <math>1/MPW</math></li> </ul> <p><i>OR</i></p> <p>1 mark for understanding of marginal propensity to consume (MPC)</p> <ul style="list-style-type: none"> <li>• <math>MPC = \Delta C/\Delta Y</math></li> <li>• MPC is the proportion of one additional unit of income that is spent by households</li> </ul> <p><b>Application</b>  Calculate that the multiplier ratio = <math>\\$1\,500\text{mn}/\\$150\text{mn} = 10</math> <b>(1)</b>  Calculate that <math>(1-MPC)</math> or <b>MPW</b> = 0.1 <b>OR</b> <math>1/10</math> <b>(1)</b>  Calculate that the MPC = 0.9 <b>(1)</b></p> <p><b>NB If the correct answer is given (0.9), award full marks regardless of working</b></p> <p><b>NB If the answer is given as 0.9 million/\$0.9/\$0.9 million, award only 3 marks</b></p>	(4)

Question	With reference to the chart, explain <b>one</b> possible effect of the change in the rate of unemployment between Q3 2020 and Q4 2022 on the public finances of Malta.	Mark
10	<p><b>Knowledge 1, Analysis 2, Application 1</b></p> <p><b>Quantitative skills assessed:</b></p> <p><b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge</b></p> <p>1 mark for definition of rate of unemployment or public finances, e.g.</p> <ul style="list-style-type: none"> <li>• The rate of unemployment refers to the percentage of the total workforce that is unemployed but is actively seeking employment and willing to work</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• Improvement in public finances/government budget <b>(1)</b></li> </ul> <p><b>Analysis</b></p> <p>Up to 2 marks for linked expansion, e.g.</p> <ul style="list-style-type: none"> <li>• This decrease in the rate of unemployment leads to a fall in the number claiming/receiving unemployment benefits <b>(1)</b> leading to reduced government spending <b>(1)</b></li> </ul> <p><b>Or</b></p> <p>This decrease in the rate of unemployment leads to an increase in the number of people paying income tax <b>(1)</b> leading to an increase in government tax revenues <b>(1)</b></p> <p><b>Application</b></p> <p>1 mark for appropriate link to Q3 2020 and Q4 2022 in the chart:</p> <ul style="list-style-type: none"> <li>• Between Q3 2020 and Q4 2022 annual rate of unemployment decreased from 4.9% to 2.9% / Unemployment rate decreased by 2 percentage points during the period shown <b>(1)</b> The unemployment rate has fallen by 40.8% <b>(1)</b></li> </ul>	(4)



<b>Question</b>	<p>In 2022 average house prices increased by 6% in India. For example:</p> <ul style="list-style-type: none"> <li>• in the city of Bengaluru, average house prices increased by 9%</li> <li>• in the city of Ahmedabad, average house prices increased by 3%</li> </ul> <p>With reference to the data, explain what is meant by the 'wealth effect'.</p>	<b>Mark</b>
<b>11</b>	<p><b>Knowledge 2, Application 2</b></p> <p><b>Quantitative skills Assessed:</b>  <b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms.</p> <p><b>Knowledge</b>  Up to 2 marks for defining the wealth effect, e.g.:</p> <ul style="list-style-type: none"> <li>• When an increase in asset prices e.g. house prices <b>(1)</b>  <b>results in</b> an increase in consumer confidence /  an increase in consumption and/or  AD <b>(1)</b></li> </ul> <p><b>Application</b>  Up to 2 marks applying this to the context of India, e.g.:</p> <ul style="list-style-type: none"> <li>• Average house prices increased by 6% in India <b>(1)</b></li> <li>• In Bengaluru average house prices increased by 9% <b>(1)</b></li> <li>• In Ahmedabad average house prices increased by 3% <b>(1)</b></li> </ul>	<b>(4)</b>

## Section C

Question		Mark
12 (a)	<p>Define the term 'GDP per capita' (Figure 1).</p> <p><b>Knowledge 2</b></p> <ul style="list-style-type: none"> <li>Total income/output/expenditure <b>(1)</b> per head/per person <b>(1)</b></li> <li>GDP/ population <b>(1)</b></li> </ul>	<b>(2)</b>

Question		Mark
12 (b)	<p>With reference to Figure 1, explain the likely impact of higher real incomes on subjective happiness.</p> <p><b>Knowledge 2, Application 2</b></p> <p><b>Quantitative Skill Assessed</b>  <b>QS4:</b> Construct and interpret a range of standard graphical forms  <b>QS9:</b> Interpret, apply and analyse information in written, graphical and tabular forms.</p> <p><b>Knowledge</b></p> <p>1 mark for identifying the likely impact, e.g.</p> <ul style="list-style-type: none"> <li>The greater the real income/GDP per capita, the higher the subjective happiness/living standards <b>(1)</b></li> </ul> <p>1 mark for linked expansion/development</p> <ul style="list-style-type: none"> <li>People can afford to purchase more goods and services/have greater purchasing power <b>(1)</b></li> <li>People may be less anxious about their job prospects/have greater job security <b>(1)</b></li> <li>People are less worried about making payments <b>(1)</b></li> <li>There is no impact once a person has reached a certain level of income <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for application to Figure 1, e.g.:</p> <ul style="list-style-type: none"> <li>Between 2020 and 2022 real GDP per capita in the UK increased from around £29 500 <b>(1)</b> to £32 900 <b>(1)</b></li> <li>Between 2010 and 2019 real GDP per capita in the UK increased from around £29 900 <b>(1)</b> to £33 500 <b>(1)</b></li> <li>Between 2020 and 2022 real GDP per capita in the UK increased <b>(1)</b> by nearly £3 400 <b>(1)</b></li> <li>Real GDP per capita was highest in 2019 <b>(1)</b> at £33 500 <b>(1)</b></li> </ul> <p><b>NB Do not credit answers that consider a decrease in real GDP per capita and an associated decrease in subjective happiness</b></p>	<b>(4)</b>

Question	Examine the likely impact on the UK's real output of 'the rising cost of energy' (Extract A, line 4).	Mark
12 (c)	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Quantitative Skill Assessed</b>  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge</b>  1 knowledge mark for understanding of real output, e.g.: <ul style="list-style-type: none"> <li>• GDP/income adjusted for inflation <b>(1)</b></li> </ul> <i>AND</i>  1 knowledge mark for identifying the impact: <ul style="list-style-type: none"> <li>• Fall in UK's real output (this can be shown on an accurately drawn AD/AS diagram) <b>(1)</b></li> </ul> <p><b>Analysis</b>  Up to 2 marks for analysing the impact (1+1), e.g.: <ul style="list-style-type: none"> <li>• Net trade is likely to decrease <b>(1)</b> and as net trade is a component of AD (C+I+G+(X-M)), AD is likely to fall (this can be shown on an accurately drawn AD/AS diagram) <b>(1)</b></li> <li>• May result in AD shifting to the left <b>(1)</b> because the value of imports will increase/ Imports are withdrawals from the circular flow of income <b>(1)</b></li> <li>• May result in SRAS shifting to the left <b>(1)</b> as energy is a key input used in the production process (this can be shown on an accurately drawn AD/AS diagram) <b>(1)</b></li> </ul> <p><b>Application</b>  Up to 2 marks for reference to Extract A, e.g.: <ul style="list-style-type: none"> <li>• Price of natural gas rose by more than 100% <b>(1)</b></li> <li>• The UK is a net importer of natural gas <b>(1)</b></li> </ul> <p><b>Evaluation</b>  Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: <ul style="list-style-type: none"> <li>• The magnitude of the increase in the cost of energy/price of natural gas is very large at 100% <b>(1)</b> so the impact on UK's real output is likely to be highly significant <b>(1)</b></li> <li>• Real output may not fall/may increase if exports of UK services <b>(1)</b> are rising at a faster rate than UK imports of goods <b>(1)</b></li> <li>• Impact on real output depends on elasticity of the LRAS <b>(1)</b>; real output will only decrease if AD lies on the elastic segment of the LRAS <b>(1)</b></li> <li>• Real output may not fall in long-run <b>(1)</b> if other components of AD rise, e.g. consumption <b>(1)</b></li> </ul> </p></p></p></p>	<b>(8)</b>

	<ul style="list-style-type: none"> <li>• Depends on the reliance on natural gas <b>(1)</b> as to the extent of the shift in AS <b>(1)</b></li> <li>• Forward markets may reduce the impact in the short-run <b>(1)</b> so SRAS may not shift <b>(1)</b></li> </ul>	
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Question	With reference to Figure 2 and Extract A, analyse <b>two</b> factors that influence business investment.	Mark
12(d)	<p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Quantitative Skill Assessed</b></p> <p><b>QS5:</b> Calculate and interpret index numbers</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge and analysis</b></p> <p>1 knowledge mark for identifying each factor and 1 analysis mark for linked development of each factor (2+2) e.g.:</p> <ul style="list-style-type: none"> <li>• Less economic activity <b>(1K)</b> there will be lower investment as firms expect future demand to decrease/increase more slowly <b>(1AN)</b></li> <li>• Business confidence/expectations <b>(1K)</b> as firms have less confidence about the state of the UK economy, they are likely to invest less due to greater uncertainty about the future <b>(1AN)</b></li> <li>• High costs of bureaucracy and strict planning regulations <b>(1K)</b> deter firms from investing as a result of the higher cost of production <b>(1AN)</b></li> <li>• Lower profits <b>(1K)</b> result in less funds being available to pay for investment <b>(1AN)</b></li> </ul> <p><b>NB Knowledge and analysis can focus on increased investment</b>  <b>NB Analysis mark can only be awarded when the Knowledge mark is in context</b></p> <p><b>Application</b></p> <p>1 mark for use of Figure 2, e.g.,</p> <ul style="list-style-type: none"> <li>• Between 2010 and 2016, the index of business investment increased from nearly 71 to 102 / Between 2016 and 2020, business investment decreased by nearly 22% / In 2020 business investment decreased significantly <b>(1)</b></li> </ul> <p><i>AND</i></p> <p>1 mark for use of Extract A, e.g.,</p> <ul style="list-style-type: none"> <li>• The UK's rate of economic growth has been low since 2020 / The UK's real GDP at the end of 2022 was smaller than it was at the start of 2020 / The UK's decision to leave the European Union in 2016 / Construction of infrastructure projects, such as building power plants and energy facilities / Global health crisis of 2020 /</li> </ul>	<b>(6)</b>

	Rising cost of energy in 2022 <b>(1)</b>	
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<b>Question</b>	With reference to the information provided, discuss supply-side policies that the UK Government has introduced to increase the country's productive capacity.	
<b>12(e)</b>	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Quantitative Skill Assessed</b></p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge, Application and Analysis (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Understanding of supply-side policies: designed to increase productivity, competition, and incentives in an economy – it can be shown via a shift outward of the LRAS creating both actual and potential growth</li> <li>• Increasing the level of welfare benefits: “increased financial support for childcare” – more people are likely to join the workforce and increase participation rates – less economic inactivity, help employment reach pre-crisis levels; this will increase potential output, shifting LRAS <ul style="list-style-type: none"> <li>○ the above policy will incentivise workers to work longer and harder, so increasing output per worker and productivity</li> </ul> </li> <li>• Incentives to encourage investment: tax incentives in the form of “100% tax relief on business investment” – lower costs would encourage firms to invest in R&amp;D/technological advancements, hence increasing productivity and LRAS</li> <li>• Incentives to encourage investment: subsidies to firms for investment in new technologies (in “artificial intelligence”), reduces production costs, increases investment, and hence increases productivity and LRAS</li> <li>• Deregulation of labour markets – “Relaxing immigration rules to attract more workers” - would make labour markets more flexible and help firms keep up with changing demand. This may prevent wage inflation and enable firms to increase productive capacity</li> </ul> <p>NB To achieve Level 3 the response must be policy the UK Government <b>has</b> introduced</p>	
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
<b>Level 2</b>	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.

		Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
<b>Level 3</b>	7-8	Demonstrates an accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
<p><b>Evaluation (6 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Significant time lags and implementation lags for these supply-side policies</li> <li>• Creates an opportunity cost for the UK Government: it could lead to greater productivity if “£20 billion” was spent in other sectors e.g. healthcare/training</li> <li>• Effectiveness of the policies discussed: <ul style="list-style-type: none"> <li>○ No guarantee that childcare support will incentivise workers to join the labour force and take up jobs</li> <li>○ Tax relief is offered for only three years, after which investment into capital/technology will fall and there will be less innovation</li> <li>○ Subsidies could lead to greater x-inefficiency in firms / increase the UK’s fiscal deficit and national debt</li> <li>○ Immigration rules only relaxed for five sectors; other sectors will see wage increases as labour shortages will continue to exist, can cause inflationary pressures</li> </ul> </li> <li>• Other supply-side policies might be more effective: <ul style="list-style-type: none"> <li>○ Cutting the costs of bureaucracy for firms and relaxing the planning regulations required for construction – this would reduce costs and raise efficiency; more jobs and therefore output created by “power plants and energy facilities”</li> <li>○ Investment in education, training and skills – “no measures to improve the skills of the workforce”. This investment will increase human capital and productivity: “workers in the UK have lower skills than workers of other advanced economies”</li> <li>○ Reducing corporation tax – reduces production costs, thus increasing potential output</li> </ul> </li> </ul>		
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1-2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	3-4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	5-6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

## Section D

<b>Question</b>	Evaluate the likely macroeconomic effects of an increase in interest rates on a country of your choice.	
<b>13</b>	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Quantitative Skill Assessed</b></p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge, Application and Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Definition/understanding of interest rate</li> <li>• Identification that interest rates are a monetary policy instrument</li> <li>• Deflationary policy</li> </ul> <p>Effects include:</p> <ul style="list-style-type: none"> <li>• Decrease in consumption (C) as it creates a disincentive to spend; also consumption decreases as cost of borrowing rises and there is a greater incentive to save in South Korea as the return on saving increases</li> <li>• Create negative wealth effects: higher interest rates will raise the cost of borrowing, so individuals will be less likely to borrow to purchase houses - this will contribute to a decrease in house prices, reducing confidence and consumption in South Korea</li> <li>• Reduces spending as consumers with variable rate loans/mortgages see interest repayments increase, decreasing discretionary incomes</li> <li>• Decrease in investment (I), as the cost of borrowing to finance investment rises increasing firms' cost of production in South Korea</li> <li>• Decrease in the net trade balance (X-M) as it will put an upward pressure on the exchange rate, meaning imports become relatively cheaper (greater demand), and exports become relatively expensive (lower demand)</li> <li>• AD shifts inwards leading to (may be shown diagrammatically): <ul style="list-style-type: none"> <li>○ fall in South Korea's economic growth as real output falls</li> <li>○ lower demand-pull inflationary pressure as price level falls</li> <li>○ rise in unemployment as lower real output means less workers are likely to be employed in South Korea</li> <li>○ negative multiplier effects: further reduction in real output</li> </ul> </li> </ul> <p><b>NB Award a maximum of Level 3 for answers with no reference to a country in their answer</b></p> <p><b>NB Negative effects can be discussed as KAA and positive effects can be discussed as EV (or vice versa)</b></p>	
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>



	0	No rewardable material.
<b>Level 1</b>	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
<b>Level 2</b>	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
<b>Level 3</b>	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
<b>Level 4</b>	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
<p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Significance of the size of the increase in the base rate of interest: 2.25 pp is a relatively large increase in one year and may have the desired impact on the economy of South Korea</li> <li>• Changes in the interest rate usually have an 18 to 24 month time lag before their full effects are filtered through South Korea’s economy</li> <li>• Consumption and investment may not fall if both consumer and business confidence is relatively high in South Korea</li> <li>• Commercial banks in South Korea may not pass the higher rates to firms or consumers, thereby less likely to reduce consumption and investment</li> <li>• Impact on real output will depend on the size and value of the multiplier</li> <li>• Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in South Korea’s economy</li> <li>• It is unlikely that changes in the interest rate by the central bank will be able to control cost-push inflation e.g. caused by rising energy prices</li> <li>• Impact may be limited if the central banks of other countries have also increased their base interest rates</li> </ul>		

<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
<b>Level 3</b>	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

<b>Question</b>	Evaluate possible causes of inflation. Refer to a country of your choice in your answer.	
<b>14</b>	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Knowledge, Application and Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Understanding of inflation</li> <li>• “Between January 2022 and January 2023 Turkey’s inflation rate increased by nine percentage points”</li> </ul> <p>Possible causes include:</p> <ul style="list-style-type: none"> <li>• Increase in AD (Demand-pull) as a result of - <ul style="list-style-type: none"> <li>○ higher consumption/lower savings</li> <li>○ higher levels of gross/net investment</li> <li>○ higher government spending/public expenditure</li> <li>○ higher net trade/increase in exports/fall in imports</li> </ul> </li> <li>• Reflationary policies increasing AD as a result of <ul style="list-style-type: none"> <li>○ fiscal policy and/or monetary policy</li> <li>○ excessive growth of money supply e.g. through QE</li> </ul> </li> <li>• Decrease in SRAS (Cost-push) as a result of - <ul style="list-style-type: none"> <li>○ increase in indirect taxes</li> <li>○ rise in costs of raw materials and energy</li> <li>○ decrease in the external value of the currency making imports relatively more expensive</li> </ul> </li> <li>• Decrease in LRAS as a result of - <ul style="list-style-type: none"> <li>○ weak competition policy</li> <li>○ decrease in productivity</li> <li>○ decrease in net migration</li> <li>○ lack of technological advancements</li> <li>○ no improvements in education and skills</li> </ul> </li> </ul> <p>Credit use of relevant AD/AS diagrams</p> <p><b>NB Award a maximum of Level 3 for answers with no reference to a country in their answer</b></p>	
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
<b>Level 2</b>	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context.

		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
<b>Level 3</b>	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully, or some stages are omitted.
<b>Level 4</b>	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
<p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Significance of the most important factor changes over time</li> <li>• It is likely to be a combination of factors contributing to inflation</li> <li>• Magnitude of the inflation will be dependent on the size of any shifts in AD and AS: it is likely to be relatively large for Turkey</li> <li>• Demand-pull inflation (increase in AD) is not often seen as negative as the increase in AD can be controlled by monetary policy</li> <li>• Fiscal policy and/or monetary policy takes time to impact AD</li> <li>• Cost-push inflation (decrease in SRAS) is often seen as more negative as central banks have very limited tools to control it</li> <li>• If the external value of the currency increases then the relative price of imports will decrease</li> <li>• Prices of raw materials and oil are highly volatile and likely to decrease as global supply increases</li> <li>• Supply-side impacts (decrease in LRAS) are likely to have a very long-term effect only causing inflation after a significant time lag</li> </ul>		
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.