

No.	Answer	Mark
(a)	<p>Knowledge 3, Application 1, Analysis 1</p> <p>Knowledge/understanding:</p> <ul style="list-style-type: none"> • The circular flow of income model is used to show flows of income and spending between the different sectors of the economy. • Injections into the circular flow are exports, government spending and investment • Withdrawals/leakages from the circular flow are taxation, saving and imports • The circular flow shows how national income and gross domestic product are calculated. <p>Application:</p> <ul style="list-style-type: none"> • Examples of injections, eg spending by firms on new technology, government expenditure on the NHS, or exports of cars • Examples of withdrawals such as income tax, savings accounts or the purchase of oil or copper from abroad <p>Analysis:</p> <p>Linked development of a point</p> <ul style="list-style-type: none"> • The circular flow is a simple model to create understanding and makes many assumptions that are not realistic • The model suggests that an economy is in equilibrium when injections are equal to withdrawals 	5



(b)	<p>Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p>Knowledge and analysis</p> <p>Two marks for the identification of two reasons (1 + 1)</p> <ul style="list-style-type: none"> • Depreciation has made imports relatively more expensive which has reduced demand for imports if they are not necessities, or caused higher costs of production for importing manufacturers • Value of imports has decreased, decreasing the size of the current account deficit • Withdrawals from the circular flow have reduced • Depreciation has made exports relatively cheaper which has increased their demand and generated higher profits and employment in exporting industries • Value of exports has increased with the effect of also reducing the size of the current account deficit (in theory, this could create a current account surplus) • Injections into the circular flow have increased • The primary and secondary income sections of the current account also may influence the overall current balance. <p>Application</p> <ul style="list-style-type: none"> • Costs of oil and copper have risen for car manufacturers • The price of UK-made cars abroad has fallen <p>Evaluation</p> <p>Two marks for evaluative comments, or the linked development of one comment</p> <ul style="list-style-type: none"> • The exchange rate varies on a daily basis so the effect on the trade balance is constantly changing • The impact on the value of imports is likely to be significantly less than the impact on the value of exports as so many of the UK's imports are necessities such as raw materials and fuel, and are therefore price inelastic • The current account deficit or surplus can be influenced by flows of money in the primary and secondary income sections as well as the trade balance, and these flows are less influenced by exchange rate changes. 	8
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(c)	Knowledge 2, Application 2, Analysis 4 <ul style="list-style-type: none"> The multiplier is the number of times a rise in national income exceeds the rise in injections of demand that caused it. The multiplier is affected by the marginal propensity to consume, to save, to tax and to import The multiplier is calculated using the formula $1/(1-MPC)$ or $1/MPW$ i.e. $1/(MRT + MPM + MPS)$ Marginal propensity to consume/save is influenced by direct tax rates, uncertainty, job security, expectations of the future, interest rates, age and composition of a household Marginal propensity to tax is influenced by the stance of the government, the state of the economy, fiscal rules and the desire to pay down the national debt Marginal propensity to import is influenced by the exchange rate, availability of goods and services domestically, seasonal influences on tourism, political situations, protectionism and globalisation The multiplier is influenced by the amount of spare capacity in an economy as the economy responds to the injection 	12
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	<p>Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.</p> <p>Use of generic or irrelevant information or examples.</p> <p>Descriptive approach which has no chains of reasoning or links between causes and consequences.</p>
Level 2	3-5	<p>Displays elements of knowledge and understanding of economic principles, concepts and theories.</p> <p>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.</p> <p>A narrow response; chains of reasoning are developed but the answer may lack balance.</p>
Level 3	6-8	<p>Demonstrates accurate knowledge and understanding of the concepts, principles and models.</p> <p>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.</p>



		Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.
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No.	Answer	Mark
(c)	Evaluation 4	
Cont.	<ul style="list-style-type: none"> It is difficult to estimate the exact size of a multiplier effect as the process occurs over a reasonable length of time and marginal propensities can change during that time The most significant influence on the size of the multiplier is likely to be the marginal propensity to consume as consumption makes up the largest component of aggregate demand If short run aggregate supply is inelastic, the full multiplier effect is unlikely to occur as increases in aggregate demand will lead to higher prices rather than a full increase in real national output Government spending on large scale public projects such as HS2 or infrastructure tends to have a higher multiplier effect than industry-specific investment The size of the multiplier tends to change over the course of an economic cycle as when confidence is low, the marginal propensity to consumer drops significantly and the marginal propensity to save rises 	

Level	Mark	Descriptor
	0	No evaluative comments
Level 1	1-2	<p>Identification of generic evaluative comments without supporting evidence/ reference to context.</p> <p>No evidence of a logical chain of reasoning.</p>
Level 2	3-4	<p>Evaluative comments supported by relevant reasoning and appropriate reference to context.</p> <p>Evaluation recognises different viewpoints and/or is critical of the evidence.</p>



No.	Answer	Mark
(d)	<p>Knowledge 3, Application 3, Analysis 3</p> <ul style="list-style-type: none"> • A reduction in the interest rate will reduce borrowing costs, ie a fall to 0.5% or back to 0.25% • Households may borrow more and increase consumption, for example on housing with lower priced mortgages, or on higher priced goods and services such as cars and furniture • Investment is now cheaper to fund, making more investment projects seem profitable • Firms will purchase more capital goods and technology and will be able to increase output • Investment will lead to a growth in productivity levels, thus increasing real output and hence employment • A fall in the interest rate will cause hot money to flow out of the country, reducing the exchange rate, encouraging inward foreign direct investment in the UK • The fall in the exchange rate will encourage greater tourism into the UK and purchases of UK exports, increasing injections into the circular flow • Further rounds of quantitative easing beyond the £435bn spent already could be planned, creating money to buy government bonds from banks, giving them further cash to lend to the real economy • Quantitative easing has been shown to create wealth inequality with the wealthiest 10% seeing their real wealth rise by £350,000 whereas the least wealthy 10% seeing their real wealth rise by just £3,000 • QE drives up the demand for government bonds and raises their price, causing the yield or interest rate to fall, further reducing borrowing costs for businesses and households 	15

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	<p>Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.</p> <p>Use of generic or irrelevant information or examples.</p> <p>Descriptive approach which has no chains of reasoning or links between causes and consequences.</p>
Level 2	4-6	Displays elements of knowledge and understanding of economic principles, concepts and theories.



		<p>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.</p> <p>A narrow response; chains of reasoning are developed but the answer may lack balance.</p>
Level 3	7-9	<p>Demonstrates accurate knowledge and understanding of the concepts, principles and models.</p> <p>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.</p> <p>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.</p>

No.	Answer	Mark
(d)	<p>Evaluation 6</p> <ul style="list-style-type: none"> • Consumption largest component of aggregate demand, so a rise in consumption will have a significant impact on real growth • Interest rates are already very low at 0.75%, so it is unlikely that a reduction in the rate will have a significant impact on encouraging further consumption or investment • Uncertainty around Brexit and since the global financial crisis has discouraged consumption and investment which has a stronger impact than a fall in the interest rate • Firms are reluctant to invest in new technology until a stronger economy occurs • Reductions in the interest rate have a negative impact on savers and on pension funds • Lower interest rates mean that firms who are stockpiling cash have lower returns, so may cut spending plans further • Restarting quantitative easing may not be effective as it has been shown to raise asset prices for the wealthy, causing significant inequality • A weak exchange rate has been created by uncertainty and so is unlikely to encourage greater inward foreign direct investment • Monetary policy has lost much of its potency with the interest rate being so low and many economists suggesting fiscal policy would be a better tool to encourage growth and investment 	



Level	Mark	Descriptor
	0	No evaluative comments
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5-6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

