GCE AS MARKING SCHEME

SUMMER 2025

AS
ECONOMICS - COMPONENT 2
B520U20-1

About this marking scheme

The purpose of this marking scheme is to provide teachers, learners, and other interested parties, with an understanding of the assessment criteria used to assess this specific assessment.

This marking scheme reflects the criteria by which this assessment was marked in a live series and was finalised following detailed discussion at an examiners' conference. A team of qualified examiners were trained specifically in the application of this marking scheme. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners. It may not be possible, or appropriate, to capture every variation that a candidate may present in their responses within this marking scheme. However, during the training conference, examiners were guided in using their professional judgement to credit alternative valid responses as instructed by the document, and through reviewing exemplar responses.

Without the benefit of participation in the examiners' conference, teachers, learners and other users, may have different views on certain matters of detail or interpretation. Therefore, it is strongly recommended that this marking scheme is used alongside other guidance, such as published exemplar materials or Guidance for Teaching. This marking scheme is final and will not be changed, unless in the event that a clear error is identified, as it reflects the criteria used to assess candidate responses during the live series.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of economic concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

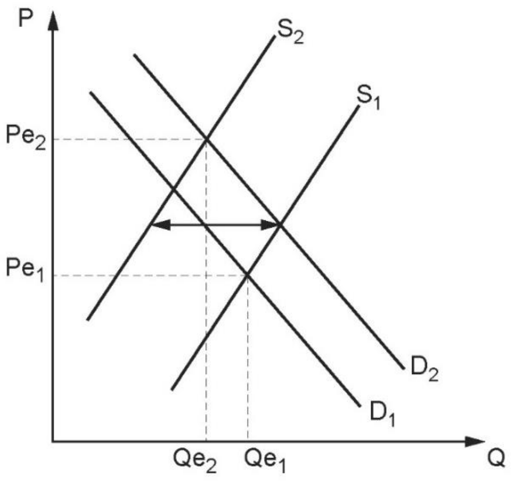
The level-based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

EDUQAS GCE AS ECONOMICS - COMPONENT 2

SUMMER 2025 MARK SCHEME

Q1(a)	**Using Extract A and a demand and supply diagram(s) outline why rents were forecasted to rise so greatly between 2023 and 2026. [6]**		
Band	**AO1**	**AO1**	**AO2**
	2 marks	**2 marks**	**2 marks**
	Is the diagram correct?	*Is understanding of reasons ouitlined?*	*Have the reasons been supported?*
2	**2 marks** Good understanding. of causes of price increase using both demand increase and supply decrease.	**2 marks** Good understanding. Clear understanding of reasons why rent prices would rise due to greater excess demand or supply deficiency or more competition	**2 marks** Good application. Good use of context to support understanding in terms supply: costs rising for landlords (mortage rates and or regulation) and demand factor: increased number of renters.
1	**1 mark** Limited understanding. of causes of price increases using either demand increase or supply decrease. Or both shifts correct but new equilbrium price identified incorrectly.	**1 mark** Limited understanding. Knowledge of why price would rise in rental market due to price increase from P1 to P2 due to changes in demand and/or supply.	**1 mark** Limited application. Context used to support price rises in rental market by supporting either increased demand or decreased supply.
0	**0 marks** No valid diagram.	**0 marks** No valid understanding.	**0 marks** No valid application.

AO1 Diagram



AO1

Decrease in supply:
Landlord interest rate increases would increase the cost of owning the property and so increase costs of supply leading to a decrease in supply.

Increased regulation or red tape would increase the cost of owning the property and so increase costs of supply leading to a decrease in supply.

Increase in demand:

Increased number of renters due to affordability issues leads to an increase in the population looking to rent instead of buy as they are struggling to buy/afford their own homes.

A decrease in supply and increase in demand leads to excess in demand causing prices to rise as bidders offer more to secure their rental.

AO2

Landlord interest rate increases would increase the cost of owning the property and so increase costs.

Increased regulation or red tape would increase the cost of owning the property and so increase costs.

Higher mortgage rates for property buyers would make it more expensive to purchase hence why they are struggling to buy/afford their own homes. As such potential buyers remain looking to rent instead of purchase.

Credit any other valid argument

Q1 (b) (i)	**Using Extract C, calculate the difference between the annual interest payments on a house priced at £300,000 for a buyer with a 5% deposit and a buyer with a 40% deposit. Assume that the total sum borrowed remains the same over the year. [5]**
	AO2: 5 marks Calculation of amount borrowed for each (2) 40% = £300 000 x 60/100 = £180 000 5% = £300 000 x 95/100 = £285 000 Then 40% deposit interest rate = 4.5% = 4.5/100 x £180 000 = £8 100 per year (1) 5% deposit interest rate = 5.65% = 5.65/100 x £285000 = £16 102.5 per year (1) Difference of £8 002.5 (1) OFR for correct calculations that calculate the interest cost per year but on whole house value in contrast to borrowed amount = max 3 for £16950 - £13500 with end answer of £3450 Subtract 1 mark for no use of £ sign If using their own initial borrowed amount = max 2 Calc of deposit needed for both = 1

1. (b) (ii)	**Evaluate whether interest rates are the most significant factor that determines the purchase price of houses. [8]**		
Band	**AO1**	**AO3**	**AO4**
	3 marks	**2 marks**	**3 marks**
	Is the understanding of factors accurate?	*Are the effects explained?*	*Is the answer debated and judged?*
3	**3 marks** Excellent understanding of Good understanding of interest rates in terms of cost of loans And understanding of other factor		**3 marks** Excellent evaluation. A reasoned judgement on whether interest rates are the most significant factor that determines the price of houses. Counter argument(s) are present and developed. The evaluation is clearly set in the context of house purchases
2	**2 marks** Good understanding Good understanding of interest rates in terms of cost of loan Or definition of interest rates and understanding of another factor	**2 marks** Good analysis. Developed lines of analysis making use of economic theory to explain the impact on the purchase prices of houses.	**2 marks** Good evaluation. Counter argument(s) are present and developed on other factor than interest rates.
1	**1 mark** Limited understanding. Cost of borrowing only Or other factor only	**1 mark** Limited analysis. There is limited chain of reasoning to explain the impact on the purchase price.	**1 mark** Limited evaluation. Counterpoints are present, but none of them are developed. Judgement (s) that is/are unsupported will be in this band. or a supported one-sided judgment.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

AO1
Interest rates are the reward for saving and cost of borrowing

Interest rates affect the cost of house loans as it is the percentage the buyer has to pay extra to the bank/on top of the loan for borrowing the funds to purchase the house

Other factors that could affect the purchase price:

Consumer confidence: determines whether potential buyers are willing to take the risk of a long term loan/mortgage

Income: Rising incomes makes purchases more affordable.

Mortgage/Loan availability: Ease of loan access determines if loans are possible

Geographical factors: desirable areas can have higher levels of demand.

Stamp duty: a tax paid when buying a property

AO3
Interest rates. A period of high-interest rates will increase cost of mortgage payments and will cause lower demand for buying a house. High-interest rates make renting relatively more attractive compared to buying as the mortgage payments will take a greater % of income and a greater cost of the overall debt to buy the house, so increase the cost of purchasing the house, decreasing demand. Whereas lower interest rates the opposite.

Consumer confidence linked to interest rates. Confidence is important for determining whether people want to take the risk of taking out a mortgage. In particular expectations towards the housing market are important; if people fear house prices could fall or interest rates could rise, people will defer buying.

If demand for house purchase change then prices of houses can change according to rules of demand and supply (may be shown on a diagram).

Allow arguments that argue the interest cost is part of the purchase price, but development of reasoning greater than just cost of interest required for good analysis; for example explaining or showing how it changes total purchase prices of the house

AO4
But depends on Mortgage/Loan availability. Ease of getting a mortgage meant that demand for housing increased as more people were now able to buy. More recently there has been an increase in lending criteria requiring a bigger deposit to buy a house. This has reduced the availability of mortgages and demand fell.

And other factors:

Income/economic growth. With higher economic growth and rising incomes, people will be able to spend more on houses; this will increase demand and push up prices. In fact, demand for housing is often noted to be income elastic (luxury good); rising incomes leading to a bigger % of income being spent on houses. Related to economic growth is unemployment. When unemployment is rising, fewer people will be able to afford a house. But even the fear of unemployment may discourage people from entering the property market.

Supply. A shortage of supply pushes up prices. with supply greater than demand, prices fell. The supply of housing depends on existing stock and new house builds.

Affordability/house prices to earnings. The ratio of house prices to earnings influences the demand. As house prices rise relative to income, affordability falls.

Geographical factors. Many housing markets are highly geographical but desirable areas can perform differently as demand is high and supply limited.

Stamp duty: a tax imposed on buying houses by the government which if descreased would decrease the total amount that is required to be paid when purchasing a house and vica versa.

Credit any other valid argument.

1.(c) (i)	**Explain two factors that could increase private sector investment in the UK. [4]**	
Band	**AO1**	**AO3**
	2 marks	**2 marks**
	Is understanding clear?	*Is explanation clear?*
2	**2 marks** Good understanding. Clear understanding of two factors that increase investment (private sector).	**2 marks** Good analysis. Developed lines of analysis making use of economic theory to explain how the factor could lead to increased investment (private sector).
1	**1 mark** Limited understanding of investment (private sector). One factor that increases investment (private sector) understood.	**1 mark** Limited analysis. There is limited chain of reasoning to explain how the factor could lead to increased investment (private sector).
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.

Indicative content

AO1
Increased expected future demand/output needs
Increased profits as a source of funds
Decreased interest rates / availability of lending
Increased business confidence
Crowding in caused by increased government spending
Decreased corporation tax

AO3
Private sector investment is spending on capital goods by businesses rather than by government. Business investment represents the spending by businesses to increase their production capacity.

Expected future demand: Increased demand may require firms to respond to increase demand with increased output as such may invest in capital goods to ensure greater productivity and so increased output to meet demand.

Increased profits: Increased profits demand for certain sectors will create greater demand for other firms/suppliers in the economy related to that sector, as they increase supply this could lead to greater profits for these related businesses. Expecting the demand to continue, these related businesses may invest their profits into increasing their capacity in order to meet higher demand in the future.

Lower interest rates / availability of lending: Lower interest rates increases the opportunity for potential investments by firms to create a greater return on investment compared to the cost of borrowing. Thus increasing the attractiveness to invest.

Firms confidence: If firms confidence for the future in terms of potential profits and success if high, then firms often will be willing to take greater risks and invest in future capacity.

Crowding in: The crowding in effects occurs because higher government spending leads to an increase in economic growth and therefore encourages firms to invest because there are now more profitable investment opportunities.

Credit any other valid argument.

1. (c) (ii)	Using Extract D, discuss whether the new-build house market suffers from market failure. [7]		
Band	**AO1**	**AO2**	**AO4**
	2 marks	**2 marks**	**3 marks**
	Is how it could be market failure outlined?	*Is the answer in context?*	*Is the answer debated and judged?*
3			**3 marks** Excellent evaluation. A reasoned judgement on the whether the new-build house market is an example of market failure. Counter argument|(s) are present and developed. The evaluation is clearly set in the context.
2	**2 marks** Good understanding. Clear outline on how it could be a market failure.	**2 marks** Good application. The data is used effectively to support the outline of how the new-build house market is an example of market failure.	**2 marks** Good evaluation. Counter argument|(s) are present and developed on the whether the new-build house market is an example of market failure.
1	**1 mark** Limited understanding. Limited outline on how it could be a market failure.	**1 mark** Limited application. Learner makes limited reference to the data. Data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence.	**1 mark** Limited evaluation. Counterpoints are present, but none of them are developed. Judgement (s) that is/are unsupported will be in this bandor a supported one-sided judgment.
0	**0 marks** No valid understanding.	**0 marks** No valid application.	**0 marks** No valid evaluation.

Indicative content

AO1

Market failure is where there is welfare loss caused by a misallocation of resources (either over allocation or under allocation) caused by:

Asymmetric information/information gap: buyers are unaware of the defects that properties are built with, if they were aware they might value the property as worth less and be willing to pay less.

Decreased consumer sovereignty: A lack of choice in the market gives suppliers more power and the ability to set prices in contrast to accepting prices offered by customers. This also allows them to make excess profits.

Under allocation of resources to goods with external benefits: a lack of supply of houses could lead to external benefits not gained, such as society having better functional human capital.

AO2

Asymmetric information/information gap: About 94 per cent of new-build homeowners report at least one fault once their property is complete with the average property now completed with as many as 157 defects.

Asymmetric information/information gap: Currently voluntary to be part of any regulatory body.
Decreased consumer sovereignty: Yet while housing developers have made record profits, quality due to faults appears low.

Under allocation of resources to goods with external benefits: More than three million new homes have been built in the UK since 2001 and the UK Government target has been 300,000 new homes each year by the mid-2020s. in 20 years more than six million homes should have been built, suggesting too little building.

AO4

Asymmetric information/information gap: press coverage has raised awareness of these problems as indicated by fact that news articles such as “this is money.co.uk” , closing the information gap as consumers are more aware.

Asymmetric information/information gap: house builders can be members of The New Homes Quality Code and New Homes Ombudsman Scheme which can in theory provide consumers with quality assured, but this depends on the standards in these schemes.

Under allocation of resources to goods with external benefits: other housing options such as renting could provide these benefits also.

Credit any other valid argument.

1. (d) Using the data, discuss whether making homes easier to buy is beneficial to the UK economy. [10]			
Band	**AO2**	**AO3**	**AO4**
	3 marks	**3 marks**	**4 marks**
	Is the answer in context?	*Are the consequences explained?*	*Is the answer debated and judged?*
3	**3 marks** Excellent application. The data is used very effectively to support arguments on whether making homes easier to buy is beneficial to the UK economy. Answer is thoroughly embeded in the data and text.	**3 marks** Excellent analysis. Detailed lines of analysis explaining the possible consequence(s) to the UK economy. All stages in the process are fully explained.	**4 marks** Excellent evaluation. A reasoned judgement as to the extent that whether making homes easier to buy is beneficial to the UK economy. The evaluation is clearly set in the context.
2	**2 marks** Good application. The data is used effectively to support arguments on whether making homes easier to buy is beneficial to the UK economy.	**2 marks** Good analysis. Developed lines of analysis explaining possible consequence to the UK economy.	**2 – 3 marks** Good evaluation. Judgement on whether making homes easier to buy is beneficial to the UK economy. Counter argument(s) are present and developed.
1	**1 mark** Limited application. Learner makes limited reference to the data. Data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence.	**1 mark** Limited analysis. Limited development of possible consequences. There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial.	**1 mark** Limited evaluation. Counterpoints are present, but none of them are developed. Judgement (s) that is/are unsupported will be in this band. or a supported one-sided judgment.
0	**0 marks** No reference is made to the context.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

Indicative content

AO2
House prices expected to continue to rise at 5.5 per cent average growth in house prices over the next four years which is either beneficial due to wealth effects or harmful as increases income inequality.

Rents rising by 25% over the next four years will make it even more difficult for renters to afford a place to live, making it easier to purchase a house would enable some renters to afford a property and live in an area to provide labour to firms.

Interest rates have risen in 2022 causing mortgages to become more expensive, decreasing the affordability of house purchase.

Decrease in stamp duty decreases the costs of house purchase increasing ability to purchase and enable labour to locate nearer to firms.

Mortgage guarantee scheme extension: High Street lenders to continue to offer mortgages to borrowers with a deposit of just 5% under a government guarantee scheme to help current renters to become 1st time buyers. government is offering a partial guarantee, improving the affordability of a 1st house.

Increased homebuilding – of 300,000 new homes each year by the mid-2020s alongside demand due to help to buy methods lead to higher output for homebuilders.

AO3
Could increase prices further and increase overvaluation as properties increase in value their owners feel wealthier, A positive wealth effect can increase confidence and propensity to consume leading to increased AD and GDP/economic growth.

Could increase prices further and allow equity withdrawal (increase overvaluation as properties increase in value their owners could take out a second loan based on the increase in house price), providing funds for purchases of high price items and increased GDP/economic growth.

Decrease in stamp duty decreases the costs of house purchase: This increases the quantity of properties bought and sold. This can increase mobility of labour, increasing the labour supply and increased productivity and potential GDP/economic growth.

Mortgage guarantee scheme: increases the affordability of housing to those with lower cash deposits, and/or with a stamp duty decrease increase the mobility of labour and decrease geographic unemployment.

Increased homebuilding – could increase output in the construction industry which contributes to actual GDP directly and lower unemployment as jobs are created both through direct employment and associated firms in the supply chain.

Increased homebuilding – could increase the population of towns and cities, leading to higher consumption for goods and services in the local economy and decreased local unemployment.

Increased homebuilding – could increase output in the construction industry leads to increased profits and funds for investment. Investment increased potential output, increasing long term potential economic growth.

Increased homebuilding and lower stamp duty and mortgage extension scheme – could decrease prices and improve affordability, allowing lower incomes to access ownership of an asset. Thus decreasing income inequality as asset ownership can increase in value over time.

AO4
Depends on if supply keeps up with demand: as could increase prices further and increase overvaluation – could lead to greater wealth inequality as those who already own a property benefit, but those that do not find it harder to purchase a property and benefit from its use.

Depends on if prices rises further due to excess in demand, causing employees to request higher wages to counter the higher price of mortgages and contributing to wage inflation.

Depends on if buyers can afford properties if interest rates rise: With increasing prices and increased ease of borrowing, it could lead to buyers owning properties they in fact cannot afford. Eventually when interest rates rise, borrowers could find affording the repayments difficult and default on their loans. The government has guaranteed these debts and so would be liable to cover the loss. As such would increase the spending of UK Government and any budget deficit could increase – though Lenders will still carry out affordability checks as stipulated by Bank of England regulation to decrease this issue.

Depends on proportion of imported items used to build and then furnish homes. If a large proportion is imported it may harm net exports (value of X- value of M).

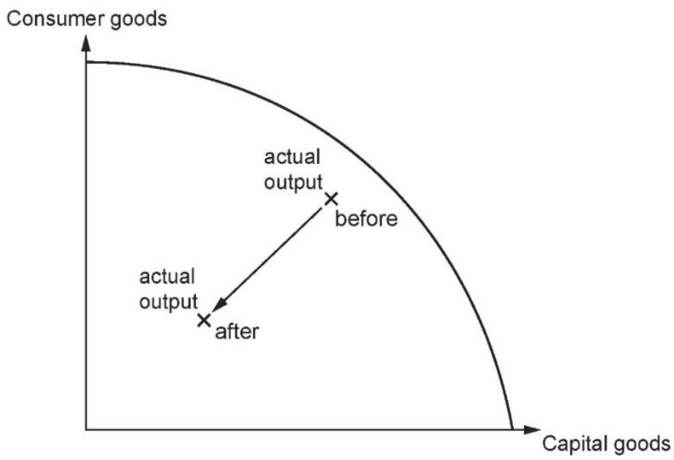
Credit any other valid argument.

2. (a) (i)	**Using a PPF diagram, outline how large declines in industrial production led to mass unemployment during the Great Depression. [4]**	
Band	**AO1**	**AO2**
	2 marks	**2 marks**
	Is understanding correct?	*Is reason supported?*
2	**2 marks** Good understanding of how large declines in industrial production can lead to mass unemployment, for example decreased supply and therefore decrease needs for labour and will decrease labour to minimise costs / avoid losses / ensure profit	**2 marks** Good application. Supported with an accurately labelled diagram indicating a movement in from near the PPF boundary and actual output **far away** from the maximum potential output/PPF boundary.
1	**1 mark** **L**imited understanding. of how mass unemployment could occur for example decreased output, leads to decreased demand for labour and therefore less jobs available.	**1 mark** Limited application. Supported by a diagram showing limited application: For example, just a point of actual output far away from the maximum potential output/PPF boundary. OR a shift in both PPF boundary and actual output at a much greater rate
0	**0 marks** No valid diagram.	**0 marks** No valid application.

AO1
A large decline in industrial output would lead to firms producing less output. As less output occurs, producers will require less labour, firms will decrease labour to decrease their costs of production / ensure profit / avoid losses.

Producers will decrease their number of employees by a large percentage of their workforces and so a greater % of those willing and able to work will be without employment/jobs.

AO2



2 (a) (ii)	**Assess the possible impact of mass unemployment on the demand for goods with an income elasticity of demand of + 2. [6]**		
Band	**AO1**	**AO3**	**AO4**
	2 marks	**2 marks**	**2 marks**
	Is the understanding accourate of Luxury goods?	*Are the impacts of a decrease in share price explained?*	*Is the answer debated and judged?*
2	**2 marks** Good understanding. Clear understanding of an income elasticity of demand of +2. Normal elastic and as such luxury where demand changes at a greater rate than income and in the same direction as income	**2 marks** Good analysis. Developed lines of analysis making use of economic theory to explain why a increase in unemployment could lead to decreased demand for luxury goods.	**2 marks** Good evaluation. Judgement as to the possible impact on the demand for goods with an income elasticity of demand of +2. Counter argument is present and developed.
1	**1 mark** Limited understanding. Limited understanding. Understands income elasticity of demand.	**1 mark** Limited analysis. There is limited chain of reasoning to explain why a increase in unemployment could lead to decreased demand for luxury goods.	**1 mark** Limited evaluation. Counterpoints are present, but none of them are developed. Judgement (s) that is/are unsupported will be in this band. One-sided judgment would be in this band.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

AO1

A YED of + 2 indicates a luxury good with income elastic demand as such for every 1% change in income, demand changes by 2% and in same direction as income

AO3

Mass unemployment could decrease income to be spent on expensive goods as they do not have the disposable income to continue to purchase them or a luxury that they cannot afford anymore. Thus, leading to decrease demand at a greater than proportional rate/significant rate compared to income for the luxury/expensive good.

Mass unemployment would decrease confidence and worries about the economy and increase the reluctancy to spend on expensive goods. Thus, leading to decrease demand at a greater than proportional rate/significant rate compared to income for the luxury/expensive good.

AO4

It depends on interest rates: This decrease could be made significantly worse with the associated increase in interest rates in the US which could lead to higher costs of borrowing to purchase luxury goods, however if interest rates decrease then households that still benefit from jobs and income might be able to borrow and purchase luxury goods.

It depends on if the customers of that luxury good have been affected by mass unemployment, it is possible that that particular customer base such as those on higher incomes/higher skilled occupations have not been affected by lower incomes and so do not demand less of the good.

Credit any other valid argument

2. (b)	**Explain how an increase in the US trade surplus could depreciate the currencies of other countries.** **[5]**	
Band	**AO1**	**AO3**
	3 marks	**2 marks**
	Is understanding of exchange rates accurate?	*Is the reasoning explained?*
3	**3 marks** Excellent understanding. Understanding of currency flows in terms of demand and supply of each countries of currency	
2	**2 marks** Good understanding. Understanding of one currency flow for one country that determines exchange rates Only considers demand or supply of currency	**2 marks** Good analysis. Developed lines of analysis making use of economic theory to explain why the exchange rate could depreciate
1	**1 mark** Limited understanding. Understanding an exchange rate	**1 mark** Limited analysis. Partial analysis, but its use of economic theory is superficial.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.

AO1
The exchange rate is the rate at which one currency trades against another on the foreign exchange market.

The exchange rate can be influenced by a trade surplus with more currency flows in than out and a trade deficit for the other country with more currency flows out than in.

The trade surplus could lead to increase in supply of foreign currency and increased demand for US$, leading to the foreign currency to depreciate versus the US$ that would appreciate.

The trade surplus could lead to decreased demand for foreign currency due to decreased imports leading to the foreign currency to depreciate whilst decreased supply of US$ causing the dollar to appreciate.

AO3
Trade surplus for the USA means a greater value of exports than imports leading the currency to appreciate as the demand for the USA dollar = demand for exports and capital inflows.

A trade surplus for the USA could be caused by decreased imports into the USA, leading to decreased demand for the foreign currency.

Any trade deficit for other countries means a greater value of imports than exports from the USA would suggest more supply of the other countries currency to buy USA dollars in order to buy USA exports, potentially leading to excess supply and a depreciation in the exchange rate of the country that is exporting to the USA.

Credit responses that focus on policy makers intervention to depreciate to improve trade balance in response to the USA trade surplus

A diagram is not required but is creditable.

Credit any other valid argument.

Markers note: If argument is on the US$ appreciating (and inferring other countries exchange rate thus depreciates) then max 3.

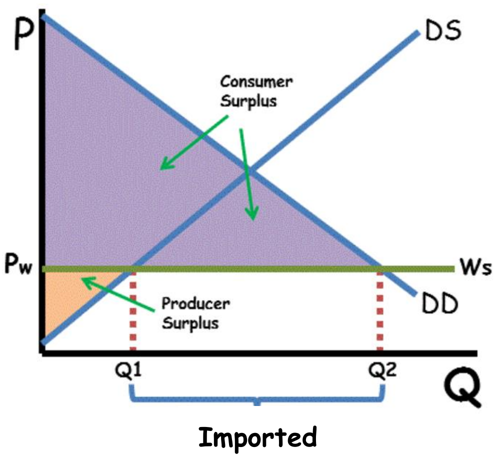
<table>
<tr><td>2. (c)</td><td colspan="2">Using a diagram or diagrams, explain how a tariff on agricultural goods could affect consumer and producer surplus within the US agriculture market. [6]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td></tr>
<tr><td>3 marks</td><td>3 marks</td></tr>
<tr><td></td><td>Is diagram/are diagrams correct?</td><td>Is impact on consumer and producer surplus explained?</td></tr>
<tr><td>3</td><td>3 marks
Excellent understanding.
2 diagrams or one diagram showing how tariffs on agricultural goods could affect consumer and producer surplus within the US agriculture market.
With increased producer surplus and decreased consumer surplus.</td><td>3 marks
Excellent analysis.
Detailed lines of analysis explaining why US consumer surplus would decrease and why producer surplus for US producers would increase due to higher tariff price and a change in quantity (for either economic agent).

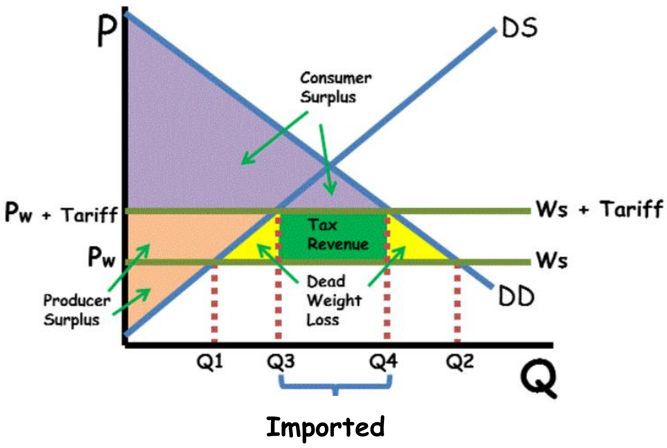
All stages in the process are fully explained.</td></tr>
<tr><td>2</td><td>2 marks
Good understanding.
2 diagrams or one diagram showing how tariffs on agricultural goods could affect consumer and producer surplus within the US agriculture market.
With increased producer surplus OR decreased consumer surplus.

Or if a full tariff diagram showing implementation of a tariff and new consumer and producer surplus.</td><td>2 marks
Good analysis.
Developed lines of analysis making use of economic theory to explain why US consumer surplus would decrease OR why producer surplus for US producers would increase due to higher tariff price and change in quantity.

Or impact on both due to a change in price</td></tr>
<tr><td>1</td><td>1 mark
Limited understanding.
One diagram showing limited understanding. For example, a diagram just showing implementation of tariff.</td><td>1 mark
Limited analysis.
Partial analysis, but its use of economic theory is superficial.
Explanation of how a tariff increases prices.</td></tr>
<tr><td>0</td><td>0 marks
No valid diagram.</td><td>0 marks
No valid analysis.</td></tr>
</table>

AO1





AO3

A 20% tariff on imports into the USA could increase the price of imports from PW to PW+Tariff, increasing the prices paid by USA consumers.

If the price of imports rise to PW+T then consumer surplus could fall from ABC to CDE (labels to be added to diagram) as the total difference between the price paid by the consumer and the price willing to be paid (determined by marginal utility/satisfaction) decreases as there are less USA consumers willing to purchase (Q3 to Q4) at the higher price level.

However, if the price of imports rise the USA producers are able to produce more as the higher price covers the marginal cost of the good, as such increasing USA quantity from Q1 to Q3. They also benefit from higher price thus increasing the total difference between price gained and marginal cost of the good, increasing producer surplus.

2. (d)	**Evaluate whether expansionary fiscal policy is an effective method to achieve all government macro-economic policy objectives. [9]**		
Band	**AO1**	**AO3**	**AO4**
	2 marks	**3 marks**	**4 marks**
	Is the understanding of expansionary fiscal policy accurate?	*Are the affects of the policy on some objectives explained ?*	*Is the answer debated and judged?*
3		**3 marks** Excellent analysis. Detailed lines of analysis using economic theory to explain how expansionary fiscal policy can achieve some government policy objectives. All stages in the process are fully explained.	**4 marks** Excellent evaluation. A reasoned judgement on the extent to which expansionary fiscal policy an effective method to achieve all government macro-economic policy objectives. The evaluation has a clear overall judgment. Counter arguments are present and developed.
2	**2 marks** Good understanding. Good understanding of both elements of fiscal policy.	**2 marks** Good analysis. Developed lines of analysis making use of economic theory to explain how expansionary fiscal policy can achieve some government policy objectives.	**2-3 marks** Good evaluation. Judgment on whether expansionary fiscal policy an effective method to achieve all government macro-economic policy objectives. Counter arguments are present and developed.
1	**1 mark** Limited understanding. Understanding shown of one element of fiscal policy.	**1 mark** Limited analysis. There is limited chain of reasoning on how expanstionary fiscal policy can achieve some government policy objectives.	**1 mark** Limited evaluation. Counterpoints are present, but none of them are developed. Judgement (s) that is/are unsupported will be in this band or a supported one-sided judgment.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

AO1
Fiscal policy involves the government changing the levels government spending and taxation in order to influence aggregate demand (AD) and the level of economic activity.

Expansionary fiscal policy is increased government spending and/or decreased taxation.

AO3
Discretionary use of government spending.

Use of government spending through increased capital spending leads to increased aggregate demand and GDP and lower unemployment. This would be further increased by the Multiplier effect.

Use of government spending through increased current spending leads to increased consumption and aggregate demand and GDP and lower unemployment. This would be best achieved through a real wage increase public sector wages.

Use of taxation
Decrease direct taxation such as income tax could lead to higher disposable incomes and lead to increased consumption and aggregate demand and GDP and lower unemployment. This would be best achieved through a decrease of income tax on those on lower incomes as they have a greater marginal propensity to consume.

Decrease indirect taxation such as VAT could lead to lower costs for firms and so lower prices. As AS shifts outward, due to lower costs, price levels fall and this could lead to increased consumption and aggregate demand due to an extension along the AD curve and increased GDP and lower unemployment.

AO4
But it could lead to higher inflation due to lower unemployment, if unemployment decreases too low and labour becomes scarce increasing their bargaining power for increased wages.

Higher inflation could lead to worsening of exports and increased imports as one countries goods become more expensive than other countries. Whilst increased GDP and incomes could lead to increased imports. Both worsening net trade.

As such it depends on the type of government spending and taxation policies – if they can influence the LRAS then there is a possibility to avoid the inflation challenges from low unemployment. Increased spending on infrastructure or training, could increase the productive potential of the economy helping to achieve sustainable economic growth. Decreased corporation tax could encourage investment again helping to increase LRAS and achieve sustainable economic growth.

However, even here it depends on how effectively the government spending is allocated and whether businesses respond and invest in contrast to paying out higher returns to shareholders.

It could worsen the fiscal deficit if government spending rises above the taxation revenue increasing national debt levels – however this depends as in the long run economic growth could increase, leading to increase in tax base.

Credit any other valid argument.

Q2 (e) Using the data, assess the importance of the central bank's role in creating monetary and financial stability within an economy. [10]				
Band	**AO1**	**AO2**	**AO3**	**AO4**
	2 marks	**2 marks**	**3 marks**	**3 marks**
	Is role of a central bank understood?	*Is the answer in context?*	*Is the benefit of stability explained?*	*Is the answer debated and judged?*
3			**3 marks** Excellent analysis. Detailed lines of analysis explaining the benefits of their role in monetary and financial stability. All stages in the process are fully explained.	**3 marks** Excellent evaluation. A reasoned judgement as to the extent of importance of the central bank in creating stability. The evaluation is clearly set in the context.
2	**2 marks** Good understanding of the role of a central bank in providing stability.	**2 marks** Good application. The data is used effectively to support arguments on the role of a central bank in providing stability.	**2 marks** Good analysis. Developed lines of analysis making use of economic theory to explain the benefits of their role in monetary OR financial stability.	**2 marks.** Good evaluation on whether the central bank is important to creating stability. Counter argument(s) are present and developed.
1	**1 mark** Limited understanding of the role of a central bank in providing stability.	**1 mark** Limited application. Learner makes limited reference to the data. Data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence.	**1 mark** Limited analysis. There is limited chain of reasoning of the benefits of their role in monetary OR financial stability.	**1 mark** Limited evaluation. Counterpoints are present, but none of them are developed. Judgement (s) that is/are unsupported will be in this band One-sided judgment will be in this band.
0	**0 marks** No valid understanding.	**0 marks** No valid application.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

AO1

A central bank is responsible for managing a countries monetary policy and maintaining the supply of money in the economy. In the UK the central bank is the Bank of England. In the US it is the Federal Reserve.

Functions: Physical money supply. The central bank is responsible for issuing the country's currency (notes and coins).

Lender of last resort. The central bank is also the lender of last resort. This means that if commercial banks suffer a shortfall of cash, then they can always borrow money from the central bank.

Setting Monetary policy to influence money supply through interest rates and quantitative easing. They set interest rates according to predictions of future inflation. Quantitative easing to improve liquidity in financial markets.

Monitor high street banks: Central bank ensures high street banks are financially safe and look at the entire financial system to reduce risks and keep it safe.

AO2
Oversee financial regulation: Deregulation in the financial markets, loans were made available to “sub-prime” borrowers (borrowers who previously would not qualify for a house loan).

Lender of last resort: The banks and financial institutions that had lent large amounts to sub-prime borrowers could not recover their funds lent so required financial support.

Interest rates: Due to share prices rising to very high levels in 1928 and 1929 the U.S. central bank decided to increase interest rates.

Monitor high street banks: Lender of last resort: Between 1930 and 1932 the USA experienced four extended banking panics where large numbers of bank customers simultaneously attempted to withdraw their savings in cash. By 1933 1/5 of the banks in existence in 1930 had failed.

AO3
Money supply. The central bank is responsible for issuing the country’s currency (notes and coins). They need to print enough to meet demand, without causing excess inflation. This allows transactions to occur, allowing consumption and investment – thus avoiding a decrease in GDP.

Lender of last resort. The central bank is also the lender of last resort. This means that if commercial banks suffer a shortfall of cash then they can always borrow money from the central bank. This is an important function has it helps maintain liquidity and confidence in the banking system. This helps the banks always be able to lend to households and firms – ensuring consumption and investment to continue.

Setting interest rates. The central bank often has an inflation target of CPI 2% +/-1 (UK) 2% over the longer term (US). The Bank produces an inflation forecast and set interest rates according to predictions of future inflation. This ensures price stability and so households are confident to spend their income now and not wait until the future, whilst firms are confident to produce output as they know households wish to consume now rather than in the future.

Monitor high street banks: Central bank ensure high street banks are financially safe and look at the entire financial system to reduce risks and keep it safe so money flows to where it is needed most. This helps the banks always be able to lend to households and firms – ensuring consumption and investment to continue.

AO4
Clearly their roles is important but it should be undertaken sensibly as decreasing interest rates too low can cause asset price bubbles as happened when The Federal Reserve (US central bank) from 2001 to 2004 decreased interest rates to low levels.

And maybe they do not need to always intervene, as should they rescue failed firms? As by 1933 1/5 of the banks in existence in 1930 had failed. Though the resulting economic fall out was and is regarded as significant.

The Government still has a duty to ensure economic stability using fiscal policy, trade policy and regulations. Should the central bank be solely responsible for monetary and financial stability?

Credit any other valid argument.