GCE MARKING SCHEME

SUMMER 2025

ECONOMICS - UNIT 4
1520U40-1

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.

WJEC GCE A LEVEL ECONOMICS – UNIT 4

SUMMER 2025 MARK SCHEME

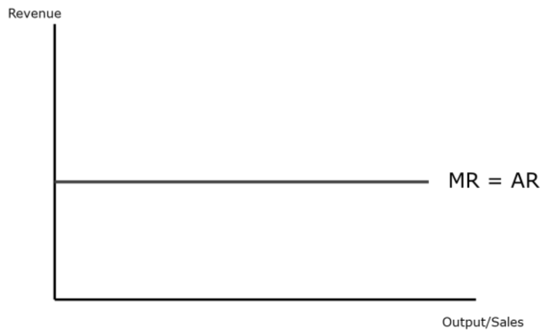
SECTION A

1. (a)	**Explain, using relevant diagrams, the difference between the shape of the average and marginal revenue curves for both perfect competition and monopolistic competition. [10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5-6 marks** Excellent, accurate and comprehensive understanding of both AR and MR curves for perfect competition and monopolistic competition. Accurate diagrams with no errors or omissions. Excellent use of relevant terminology.	
2	**3-4 marks** In the top end of the band there is good understanding of AR and MR curves for perfect competition and monopolistic competition. Good understanding of either AR or MR for both types of market structures. Good understanding of AR and MR for one type of market structure. Mostly accurate diagrams with few errors or omissions. Good use of relevant terminology.	**3-4 marks** A good, accurate and comprehensive analysis of the difference between the shape of the AR and MR curve for perfect competition and monopolistic competition. Diagrams are likely to be embedded within the analysis.
1	**1-2 marks** Some recognition of AR and/or MR curves for one market structure. Diagrams may be attempted but with significant errors or omissions. Limited use of relevant terminology.	**1-2 marks** Limited analysis of the difference between the shape of the AR and/or MR curve for perfect competition and monopolistic competition. Diagrams are unlikely to be embedded within the analysis.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.

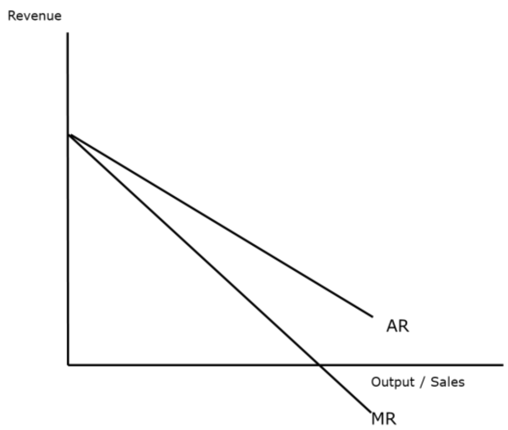
Indicative content:

- Average revenue is the same as the selling price. It is calculated by total revenue / output.
- Marginal revenue is the difference in the total revenue from an additional unit of output. Alternatively, the change in total revenue as a result of a change in quantity sold.

Perfect competition
- Consideration of perfectly competitive market structure.



Monopolistic competition
- Downward sloping MR and AR.



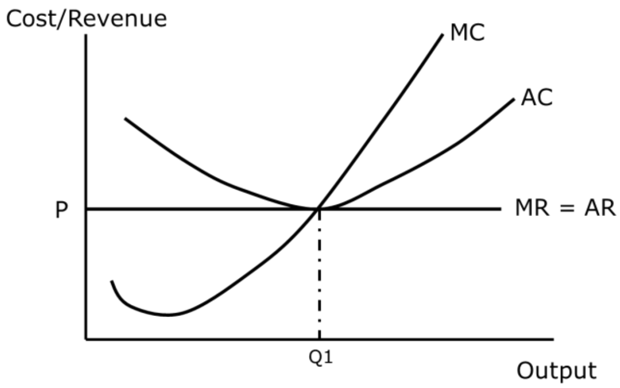
Key differences
AR:
- In perfect market structures, firms are price takers and AR is determined by the industry due to perfect information and homogenous goods / services. This makes the shape perfectly elastic as the firm cannot charge different prices for different output levels.
- Whereas monopolistically competitive firms are price makers due to imperfect knowledge and differentiated goods and services which allows price setting strategies. To sell more goods / services, prices (AR) must be lowered (downward sloping). This can link to the income, substitution and/or diminishing marginal utility effect (demand curve).

MR:
- As prices (AR) is determined by the industry in perfect markets, firms must accept the industry market price. This means that any additional output is sold at the same industry price, MR remains constant and equals to the actual price (AR). This results in both MR and AR being perfectly elastic.
- In monopolistic competition, MR decreases as output rises. To produce at a higher quantity, prices (AR) are lowered meaning that the additional MR falls as output rises. When MR is >0 demand (AR) is price elastic as a fall in price leads to a positive change in TR. When MR is <0 demand (AR) is price inelastic as a price fall leads to a negative change in TR.
- Explanation of why MR falls more rapidly than AR.
- Band 1 awarded if candidates explain MR and AR with no reference to market structures.

1. (b)	**With the use of an appropriate diagram(s), evaluate the view that perfectly competitive markets are the most desirable market structure. [20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5-6 marks** Excellent understanding of the differences between perfect competition and other market structures, showing full understanding of the key features and desirability of each. Both breadth and depth of coverage is excellent. Fully accurate diagram(s) with no errors or omissions. Excellent use of relevant terminology.	**5-6 marks** An excellent analysis of the advantages of perfectly competitive market structures compared to others. Chains of argument are well developed, with diagrams well integrated into the analysis. A range of stakeholders are covered.	**6-8 marks** An excellent critical evaluation of the desirability of the perfect competitive market structure compared to others. Well-developed two-sided answer. A clear judgement is reached at the very highest level that judges the extent to which one structure is more desirable than others. A range of stakeholders are covered.
2	**3-4 marks** Good understanding of the desirability and key features of perfect competition. One market structure is understood well and the other one to a more limited extent, missing key features on desirability. Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band. Mostly accurate diagram(s). Good use of terminology.	**3-4 marks** A good analysis of the advantages of perfectly competitive market structures. Answers in this band show developed chains of argument. Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct.	**3-5 marks** A good evaluation of perfect competition that includes most of the key issues. At least 2 features of market structures are evaluated. A strong two-sided answer with effective points in favour of each market structure, but which never directly answers the question set in terms of coming to a reasoned conclusion.
1	**1-2 marks** Limited understanding of perfect competition. The desirability of neither market structure is well understood, but there is limited understanding of each one. Diagrams attempted but have significant errors.	**1-2 marks** Limited analysis of the advantages of perfectly competitive market structures. Answer tends to lack key economic concepts and avoids technical analysis. Diagrams are unlikely to be integrated.	**1-2 marks** Limited evaluation: candidates may show awareness of some evaluative points but do not develop them. Candidates may recognise advantages of different market structures.
0	**0 marks** No valid knowledge or understanding	**0 marks** No relevant analysis	**0 marks** No relevant evaluation

Indicative content:

- Understanding of perfectly competitive market structure
    - Large number of small identical firms selling homogenous goods / services, very low barriers to entry / exit, prices are determined by the industry, abnormal profits can be achieved in the SR only.
    - Long-run position diagram showing normal profits due to low/no barriers.



(Accept SR and/or LR diagrams of perfect competition)

- Possible benefits of perfect competition:
    - Is the most price competitive market structure due to perfect information and contestability.
    - Higher consumer surplus.
    - Productively, allocatively and X efficient in the LR.
    - Allocatively efficient in the SR.
    - Has little power to control suppliers, engage in anti-competitive practises, exploit consumers and other groups.

- Possible benefits of alternative market structures may include:
    - Other market structures are likely to be more dynamic efficient to the ability to earn more abnormal profits. Monopolistic competition less likely to be as dynamically efficient compared to oligopolies and legal monopolies due to the absence of LR abnormal profits.
    - The desirability of monopolies depends on the type of monopoly.
    - Dynamic efficiencies can result in international competitiveness (X>M), increasing employment, wages, and tax revenues.
    - Abnormal profits can result in higher tax revenue gains for the government.
    - Other market structures such as monopolistic competition and oligopolies can offer differentiated goods / services, therefore, offering a wider choice for different consumer groups.
    - Consumers might be happy to pay higher prices for greater choice and quality (through dynamic efficiencies).

- Evaluation points may consider:
    - What desirability means to different groups in society e.g., consumers, government, suppliers, and employees.
    - Desirability can be judged in the context of factors such as choice, prices, efficiencies, and/or profits to different groups.

- Accept any other relevant argument
- Answer is reversable

<table>
<tr><td>2. (a)</td><td colspan="2">Using numerical examples relating to total and marginal product, explain the law of diminishing returns and how the law impacts on marginal costs. [10]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td></tr>
<tr><td>6 marks</td><td>4 marks</td></tr>
<tr><td>3</td><td>5-6 marks
Excellent, accurate and comprehensive understanding of diminishing returns.

Accurate use of numerical examples showing total and marginal product.

Numerical example is used accurately to describe the law of diminishing returns.

Excellent use of relevant terminology.</td><td></td></tr>
<tr><td>2</td><td>3-4 marks
Good understanding of diminishing returns.

Mostly accurate numerical examples with few errors or omissions.

Accurate numerical examples of either total or marginal product.

Good use of relevant terminology.</td><td>3-4 marks
A good, accurate and comprehensive analysis of how diminishing returns impacts marginal costs.

Numerical examples are embedded within the analysis.</td></tr>
<tr><td>1</td><td>1-2 marks
Some recognition of diminishing returns.

Numerical examples might be attempted but with significant errors or omissions.

Limited use of relevant terminology.</td><td>1-2 marks
Limited analysis of how diminishing returns impacts marginal costs.

Numerical examples are unlikely to be embedded within the analysis.</td></tr>
<tr><td>0</td><td>0 marks
No valid understanding.</td><td>0 marks
No valid analysis.</td></tr>
</table>

Indicative content:

Diminishing returns

- Diminishing returns is the fall in marginal product. It is a short run concept and can be explained by adding a variable factor to production such as labour, while other factors of production remain fixed. It will come a point that when adding labour to other factors of production, the marginal product falls due to lack of capital, capacity, overcrowding etc. In the short term it is not possible to expand all FOP due to factors such as contractual agreements.

- Numerical example: Diminishing returns sets in when worker 3 is employed as there is a fall in MP, despite total output increasing with additional workers.

Number of workers	Total Product (output)	Marginal product
1	30	30
2	70	40
3	90	20
4	100	10

- Accept numerical examples relating to the change in total product as a result of a change in the number of workers ($\Delta TP/\Delta W$) i.e. not just one worker at a time.

Marginal cost

- Marginal costs will rise as diminishing returns sets in. This is shown by the MC curve when it starts to slope upwards.

- As fewer additional units are produced with each additional worker, the unit cost of production rises, increasing MC. This can be shown using the above data: The third worker enabled the firm to rise output by only 20 additional units, compared to the second workers who increased the firm’s output by 40 additional units. Therefore, as worker 3 was employed, the firm incurred higher labour costs with fewer additional units being produced, increasing MC.

Accept any other relevant argument

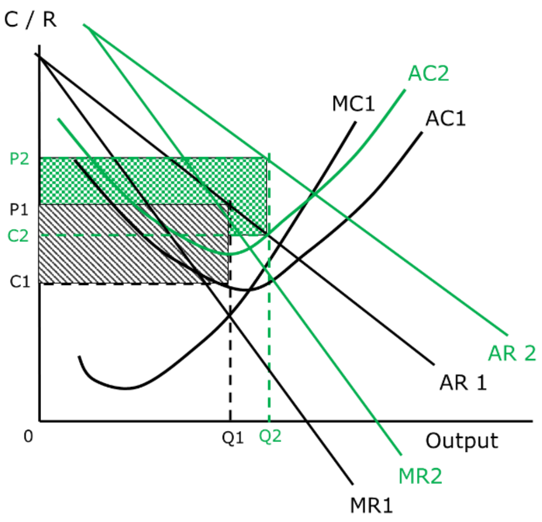
2. (b)	**With the use of an appropriate diagram(s), discuss how a large firm in an oligopolistic market structure can increase both its market share and profits.[20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5-6 marks** Excellent understanding of the ways of increasing market share and profits for a large oligopoly firm. One diagram is fully accurate and shows clearly how a strategy aimed at increasing market share (higher output) may affect profitability. Excellent use of relevant terminology.	**5-6 marks** An excellent analysis of the ways to increase market share and profits for a large oligopoly firm. Excellent and accurate use of a diagram to explain why profits could be higher with increased market share. A clear focus on an oligopoly firm. Strong use of terminology and clear chains of reasoning are present. Economic theory is well used.	**6-8 marks** An excellent evaluation of the ways of increasing market share and profits for a large firm in an oligopolistic market. Strong two-sided answer that comes to an overall judgement supported by the underlying discussion. Evaluation is clearly present either in well integrated judgements or a well-judged final overview.
2	**3-4 marks** Good understanding of the ways of increasing market share and profits for an oligopoly firm. A mostly accurate diagram(s) is used to show impact of increasing market share (higher output), but do not show the effects on profit clearly and accurately. The effect on profit may be inferred rather than shown. Answers which make a good attempt(s) at showing profit but are weaker on strategies to increase market share.	**3-4 marks** Good analysis. Chains of reasoning exist on the ways to increase market share and profit, but there are gaps in the logic. Diagram may be less well integrated and may not be fully accurate in demonstrating how market share and profit can be increased. Answers in this band show developed chains of argument.	**3-5 marks** Good evaluation of the ways of increasing market share and profits for a firm in an oligopolistic market. Strong counterarguments are made with chains of reasoning existing of the ways to increase market share and profits. Some evaluative points may lack development and the answer lacks a reasoned judgement OR evaluation is not integrated. Two ways evaluated.
1	**1-2 marks** Limited knowledge. Diagram is weaker but has some merit in answering the question. Diagram may not relate to increasing market share (higher output) or profitability to a good level.	**1-2 marks** Limited analysis. Links are identified between the ways to increase market share and profit, but technical detail is weak or absent. Diagrams are unlikely to be integrated.	**1-2 marks** Limited evaluation. Some counter-arguments are made but chains of reasoning may not be fully developed. Technical detail is weak or absent.
0	**0 marks** No valid knowledge or understanding.	**0 marks** No relevant analysis.	**0 marks** No relevant evaluation.

Indicative content:

- Price and non-price strategies can be used to increase both market share and profit of a firm in an oligopolistic market.
- Diagram used needs to show an increased equilibrium output to show a rise in market share.
- Diagram should also attempt to illustrate changes in profits.

- The question is focusing on a large firm trying to increase its market share and profits; therefore, the firm will likely incur costs depending on the strategy used. Several approaches for Oligopolistic firms trying to do this would impact AC and/or MC for the firm. For example, large scale new advertising or gaining greater internal economies of scale. In this case quantity demand or shifts in demand may occur because of its internal strategy. However, the firm would be impacted by a change in its costs to try and increase its market share. For top band answers for AO1 and AO3 the diagram is drawn accurately (AO1) and then explained accurately (AO3) detailing how an appropriate strategy used by a large firm in this market structure (AO1) will cause changes in costs and/or revenues shown using a diagram, leading to increased market share and profits (AO3).

Example diagram showing a strategy of increased advertising to increase market share:

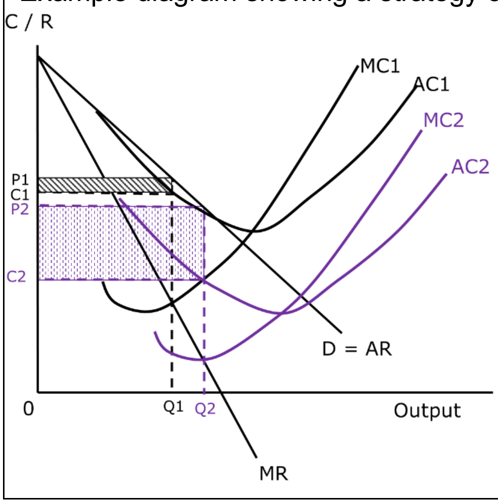


Oligopolies can afford large scale advertising due to long run abnormal profits; this will increase the AC of production (and possibly MC). However, because of increased awareness, the demand is likely to rise, causing a growth in output from q1 to q2. Profits will rise if the rise in demand > the rise in costs (AO3). However, this depends on the success of the advertising campaign and competitor actions (interdependent behaviour of oligopolies). In the short term the costs may outweigh demand. (AO4)

For top band, Q should rise to show higher market share and profits are shown. Furthermore, the impact on costs/revenues, market share and profits as a result of the strategy is explained accurately.

Low band 3 can be awarded for shifting both demand curves due to increased advertising without consideration of changes to costs.

Example diagram showing a strategy of increased internal economies of scale:



Oligopoly firms may gain Internal economies of scale. For example, purchasing economies of scale gained by using the firms market power when buying a greater quantity of raw materials in bulk for a greater discount. Total costs might increase but unit costs will fall. This should result in a reduction in marginal and average costs for the firm, allowing prices to fall, output and profits to rise. (accept a fall in MC only) (AO3). However, the firm could face greater diseconomies of scale impacting unit costs and profits (AO4). A lower price may trigger a price war and so output and/or profits may not rise depending on competitor actions (AO4).

- There are other alternative strategies that can be used to increase market share which do not impact costs. These would include a change of price or change of objective. Diagrams that show this should also be credited. The use of a kinked demand curve is not in the specification and not expected, but if used can be credited as it can show an increase in short term market share with a change of price (movement along its demand curve). This should be credited but not expected. Furthermore, a move from profit maximisation to revenue or sales maximisation. These diagrams cover the idea of lowering prices to achieve greater market share but not a rise in profits.

- For top band marks, profits should be explained using the diagram. If there is failure to show or analyse the likely impact on profits, with a rise in quantity (market share), top band marks cannot be awarded.

- Game theory and collusion can be credited as an alternative diagram to show a change in choice of oligopolies which could include increases to its market share (output), and changes in its profits.

- One fully accurate diagram is enough to gain top band marks for AO1 and AO3, providing more than one strategy "way" has been explained.

- Be careful of diagrams that do not show a change to output (market share) e.g., a shift in AC only. However, movement along the AC curve to demonstrate increasing economies and diseconomies of scale with increased market share can be awarded as a band 2 diagram (impact on market share but not profit), and band 3 if there is clear and effective links to the impact on profit.

Accept any other relevant argument.

SECTION B

<table>
<tr><td>3. (a)</td><td colspan="2">Explain how both quantitative easing and quantitative tightening are expected to work in an economy. [10]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td></tr>
<tr><td>6 marks</td><td>4 marks</td></tr>
<tr><td>3</td><td>5-6 marks
Excellent, accurate and comprehensive understanding of quantitative easing and tightening.
Excellent use of relevant terminology</td><td></td></tr>
<tr><td>2</td><td>3-4 marks
Good understanding of quantitative easing and/or tightening.
Good use of relevant terminology.
To achieve top band 2, there is some understanding of both.</td><td>3-4 marks
A good, accurate and comprehensive analysis of how both quantitative easing and tightening are expected to work in an economy.</td></tr>
<tr><td>1</td><td>1-2 marks
Some recognition of quantitative easing and/or tightening.
Limited use of relevant terminology.</td><td>1-2 marks
Limited analysis of how quantitative easing and/or tightening are expected to work in an economy.</td></tr>
<tr><td>0</td><td>0 marks
No valid understanding.</td><td>0 marks
No valid analysis.</td></tr>
</table>

Indicative content :

Quantitative easing (QE) :
- Is a form of monetary policy that is used to increase the money supply in an economy.
- Is often used to reflate the economy when interest rates are very low.
- Quantitative easing is an asset purchase scheme.
  Quantitative easing in the UK is expected to work through:
- The BoE buying (primarily) UK government bonds. These purchases have the immediate effect of driving up bond prices and reducing bond yields.
- The increase in bond prices means that remaining bond-holders have higher levels of wealth, boosting confidence and possibly consumption (AD).
- The reduction in bond yields means that investors will seek out higher returns from other assets such as property, increasing the value of those assets and in turn reducing their yields too. In addition to the wealth effects arising from this, lower yields make it easier for corporations to access funding via equity and loans.
- Likewise, the increase in liquidity in the system may have made banks more willing to lend, allowing households and firms to access loans. As there is increased borrowing, C and I will rise increasing AD, economic growth, employment, and the price level.

Quantitative tightening (QT):
- Quantitative tightening is the opposite of quantitative easing.
- QT is when the central bank sells the bonds back to the markets so the money supply within the market is reduced.
- This will occur when the central banks QE programme has stabilised the economy and when it is time to withdraw the requirement for this monetary support programme, and to avoid risk of inflation.

Student might consider tapering as a way of reversing quantitative easing:
- Tapering the scaling back of QE, a gradual fading out of bond purchases, reducing bond prices, and the growth of the money supply in an economy.
- Central banks would prefer to fade out its QE programme before quantitative tightening due to the potential for sudden economic shocks.
- If candidates confuse QT with tapering but understands QE award a maximum band 2 for AO1.

3. (b)	To what extent is inflation more harmful than deflation for an economy? [20]		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5-6 marks** Excellent understanding of the differences between inflation and deflation and their costs to different stakeholders. Both breadth and depth of coverage is excellent. The different types of inflation and deflation are demonstrated. Excellent use of relevant terminology	**5-6 marks** An excellent analysis of the costs of inflation and deflation with good depth of explanation and range aimed at different stakeholders. Chains of analysis are well developed	**6-8 marks** Excellent evaluation. Well-developed two sided answer that qualifies the relative demerits of both inflation and deflation, looking at the underlying causes, and impacts on a range of stakeholders. A clear judgement is reached at the very highest level as to the extent of which one is worse.
2	**3-4 marks** Good understanding of the differences between inflation and deflation and their costs. Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band. There is good understanding of inflation and deflation but knowledge of the costs of one of them is limited. There is some understanding of the types of inflation and/or deflation. Good use of terminology	**3-4 marks** A good analysis of the costs of inflation and deflation. Answers in this band show developed chains of analysis. Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct. The range may be limited, or depth of explanation may be lacking for inflation or deflation. Imbalanced analysis of the costs of inflation or deflation.	**3-5 marks** A good evaluation that includes most of the key issues. A strong two-sided answer with qualified points against both deflation and inflation, but which never directly answers the question set in terms of coming to a reasoned conclusion. At least 2 costs are evaluated
1	**1-2 marks** Limited understanding of the differences between inflation and deflation and their costs. Superficial understanding of the types of inflation and deflation. The range of costs is limited for either inflation or deflation.	**1-2 marks** Limited analysis of the costs of either inflation or deflation. Costs lacks depth of explanation. Answer tends to lack key economic concepts and avoid technical analysis.	**1-2 marks** Limited evaluation. The answer is two sided and attempts to argue that both are bad, but qualification is quite limited and underdeveloped.
0	**0 marks** No valid knowledge or understanding	**0 marks** No relevant analysis	**0 marks** No relevant evaluation

Indicative content:

- Inflation is a process of sustained increases in the price level over time. Causes include demand-pull and cost-push.
- Deflation is a process of sustained falls in the price level over time. Causes are also demand and/or supply related.

Inflation:
- The impact will depend on the underlying causes (cost-push vs demand pull), the extent to which it has been anticipated, its relative level/how high it is, its duration and so on.

Key problems of inflation include:
- Redistributive effects
  - Low income/fixed income to high income
  - Low skilled to high skilled
  - Private sector to public sector (fiscal drag)
  - Savers to borrowers
- Macro effects
  - Damage to confidence, hitting I/FDI
  - Downward pressure on the exchange rate
  - Risk of rising interest rates in response
  - Risk of rising unemployment (cost-push)
  - Risk of wage/price spiral developing
- Efficiency effects
  - Disguises inefficiency
  - Interferes with price mechanism
- Other effects
  - Menu costs
  - Shoe leather costs.

Deflation:
- Much will depend on the cause of deflation (supply-side vs demand side), how long it stays for (risk of deflationary expectations) its extent, the surrounding policy environment etc.

Key problems include:
- Liquidity trap renders monetary policy powerless/real interest rates rise-less spending- higher unemployment.
- Rising real burden of debt increases savings, further depressing AD.
- Demand deflation shrinks profits, causing layoffs.
- Increase in the real value of national debt.
- Incentive to defer spending until a future date contributes to a deflationary spiral. Economic stagnation-lower growth and rising unemployment.
- Even supply-side deflation carries the risks of ‘second round’ effects.
- Real wage unemployment - sticky wages create a situation of excess supply of labour.

Evaluation points may consider:
- Comparing causes of inflation to deflation to provide a judgement on which is worse.
- Considering other factors such as duration, inflationary expectations, the global situation, and the effectiveness of current policies being used.
- Economic agents probably want some inflation - low and stable- but not deflation.
- Consideration of different economies / economies at different stages of development.

Accept any other relevant argument

4. (a)	**Explain how both discretionary and automatic government fiscal policy can lead to budget (fiscal) deficits.** **[10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5-6 marks** Excellent, accurate and comprehensive understanding of both discretionary and automatic government fiscal policy. Excellent use of relevant terminology.	
2	**3-4 marks** Good understanding of discretionary and/or automatic government fiscal policy. Good use of relevant terminology. To achieve top band 2, there is some understanding of both. Good understanding of discretionary and automatic fiscal policy changes without clear reference to these key terms.	**3-4 marks** A good, accurate and comprehensive analysis of how both discretionary and automatic government policy can lead to budget / fiscal deficits.
1	**1-2 marks** Some recognition of discretionary and/or automatic government fiscal policy. Some recognition of the impact of fiscal policy on budget (fiscal) deficit. Limited use of relevant terminology.	**1-2 marks** Limited analysis of how discretionary and/or automatic government policy can lead to budget / fiscal deficits.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.

Indicative content:

AO1
- Discretionary government policy is intentional government policies that deliberately increase or decrease government spending and/or taxation in an economy. As a result of these policy changes, budget / fiscal deficits can occur.
- Automatic government policy is natural changes in government spending and/or taxation due to the current stage of the economic cycle (e.g., booms versus recessions). These do not involve changes to the rate of taxes or spending policies but occur when the amount of tax revenue received, and government spending required changes through the business cycle.
- A budget / fiscal deficit occurs when government spending is greater than tax revenues.

AO3
- Discretionary government policy: In times of low economic growth / recession, the government may prefer an increase in its budget / fiscal deficit as a consequence to encouraging economic growth. For example, cutting tax rates to boost spending. In 2009, this occurred when VAT tax rates were cut during the financial crisis. The government may increase its spending to provide a greater injection into the circular flow during a recession, in the hope for a positive multiplier effect and increased AD, this can increase the budget / fiscal deficit.
- Automatic government policy: In times of low economic growth / recession, confidence and spending is reduced. This automatically reduces the amount of tax revenue that is received through taxes such as VAT and corporation tax. With lower tax revenues, budget / fiscal deficits can occur. Unemployment is likely to rise, which increases government spending on welfare, increasing the budget / fiscal deficit.

Accept any other relevant argument

Markers note – If candidates explain changes in fiscal policy generically to show an increase in the budget deficit e.g., lower taxes, higher government spending links to an increased deficit, award band 1 marks only.

4. (b)	**Discuss the view that it is always appropriate to tighten fiscal policy during periods of economic downturn as a way of reducing a budget (fiscal) deficit. [20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5-6 marks** Excellent understanding of the appropriateness of tightening fiscal policy during periods of economic downturn to reduce the fiscal deficit. Both breadth and depth of coverage is excellent. Clear understanding of tightening fiscal policy (both taxation and government spending effects). Clear understanding of the links between a fiscal deficit and an economic downturn. Excellent use of relevant terminology.	**5-6 marks** An excellent one-sided analysis of the appropriateness of tightening (contractionary) fiscal policy to reduce the fiscal deficit during periods of economic downturn. Chains of argument are well developed. There is a clear focus on the impacts of this policy during an economic downturn (recession).	**6-8 marks** Excellent evaluation. Well-developed two sided answer that qualifies the appropriateness of contractionary policy to reduce the deficit during an economic downturn. A clear judgement is reached at the very highest level as to the extent to which the policy will / will not enable the reduction of the fiscal deficit during this period.
2	**3-4 marks** Good understanding of the appropriateness of tightening fiscal policy during periods of economic downturn to reduce the fiscal deficit. Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band. There is a good level of understanding of most of the key concepts within the question (fiscal policy, fiscal deficit, economic downturn). Good use of terminology.	**3-4 marks** A good one-sided analysis of the appropriateness of tightening (contractionary) fiscal policy to reduce the fiscal deficit during periods of economic downturn. Answers in this band show developed chains of argument. Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct.	**3-5 marks** A good evaluation that includes most of the key issues. A strong two sided answer that qualifies the appropriateness of contractionary policy to reduce the deficit during an economic downturn, but which never directly answers the question set in terms of coming to a reasoned conclusion. At least 2 impacts are evaluated.
1	**1-2 marks** Limited understanding of the appropriateness of tightening fiscal policy during periods of economic downturn to reduce the fiscal deficit. Superficial understanding of the key concepts in the question.	**1-2 marks** Limited one-sided analysis of the appropriateness of tightening (contractionary) fiscal policy to reduce the fiscal deficit during periods of economic downturn. Answer tends to lack key economic concepts and avoids technical analysis.	**1-2 marks** Limited evaluation. The answer is two sided and attempts to argue both sides of the use of contractionary fiscal policy during this period, but qualification is quite limited and underdeveloped.
0	**0 marks** No valid knowledge or understanding.	**0 marks** No relevant analysis.	**0 marks** No relevant evaluation.

Indicative content:

- Understanding of tightening fiscal policy (austerity) – reduction in government spending / higher taxation.
- Understanding of a fiscal deficit – Where government spending is greater than tax revenue in a financial year.
- Cyclical deficit is the term used to describe a fiscal deficit due to current economic conditions.
- Understanding of an economic downturn – Shrinking GDP growth.

Why it might be appropriate:

- During an economic downturn, total spending in the economy falls, causing higher unemployment. This results in lower tax revenues for the government (Income tax, VAT etc). At the same time there is an increase in welfare spending (universal credit) to those that lose jobs which causes GS to exceed tax revenue (cyclical fiscal deficit).
  - Consideration of the impact this may have on government debt if not controlled.
  - Consideration of the need to act upon this in order to reduce the fiscal deficit, for example, public sector cuts to reduce the GS burden due to greater welfare payment demands.
  - Higher taxes may allow the government to receive greater tax revenues. This allows them to spend more on welfare during times of recessions to help those affected by job cuts and redistribute incomes.
  - To promote greater confidence in the economy.
  - The impact on reducing inflation to ease the cost of living during economic downturns.
  - Increased crowding in (opposite to crowding out) (resource and financial).

Why it may not be appropriate:

- Argument should consider why contractionary fiscal policy might be inappropriate during economic downturns and how it may not actually reduce the fiscal deficit during this period.
  - Consideration of the impact on a reduction of GS on AD in an economy. public sector cuts will put greater pressure on public organisations, leading to spending cuts, job cuts, and a negative multiplier effect within the economy due to the reduction of an injection into the circular flow. Thus, leading to a reduction in tax revenues and a continued fiscal deficit despite reduced GS.
  - Consideration of the impact of higher taxes during an economic downturn when confidence and spending is already falling.
  - The impact of such policies will be felt even greater during economic downturns when spending and confidence is already falling. In theory, expansionary policies might be more appropriate during economic downturns to boost AD to encourage positive output growth.
  - Laffer curve considerations of a tax rise on total government revenue.
  - The negative impact of such policies may be felt greater amongst lower income households who depend on public services more than higher income households.
  - Inflation, if high during an economic downturn is likely to be due to cost-push reasons and so contractionary demand policies may not ease any cost-of-living problems.

Evaluation points may consider:

- The size of the fiscal deficit.
- How long the economic downturn is expected to last.
- The total amount of national / public sector debt and whether the government can take on more debt.
- If debt is always a bad thing.
- The amount of public sector cuts / tax rate rises.
- The ability of public organisations to run with reduced budgets.
- Whether other policies are more suitable e.g., monetary policy if interest rates are currently high.
- The current situation in meeting other government objectives compared to the current fiscal deficit / national debt amount and which requires greater prioritising at that time.
- The context of different economies such as developing versus developed, the ease of borrowings, and credit scores of economies.
- Accept any other relevant argument.

SECTION C

5. (a)	**Other than the human development index (HDI), explain measures of economic development and why they might be suitable for indicating living standards. [10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5-6 marks** Excellent, accurate and comprehensive understanding of the measures of economic development (other than HDI). At least two measures (other than the HDI) fully described. Excellent use of relevant terminology.	
2	**3-4 marks** Good understanding of the measures of economic development (other than HDI). At least two measures (other than the HDI) identified with at least one measure fully described. Good use of relevant terminology.	**3-4 marks** A good, accurate and comprehensive analysis of the suitability of measures of economic development (other than HDI). Two measures are analysed explaining their suitability for measuring living standards. There is clear reference to the measurement of living standards.
1	**1-2 marks** Some recognition of the measures of economic development (other than HDI). At least one measure (other than the HDI) identified / described. Multiple measures identified but not described. Limited use of relevant terminology.	**1-2 marks** Limited analysis of the suitability of measures of economic development (other than HDI). One measure is analysed explaining their suitability for measuring living standards.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.

Indicative content:

AO1

- Understanding of development: rise in living standards / quality of life. Note that development is a broad term, and candidates could consider a range of ideas and concepts.
- Living standards measure the material welfare of citizens such as their income levels, health, and access to goods and services in a country.
- Other than the HDI, the following are some examples of other measures of economic development:
    - Changes in national income on its own (GDP, GNP, GNI, PPP, per capita)
    - The economic structure of an economy.
    - Access to health e.g. Doctors per 1000 people.
    - Access to education e.g. Proportion of children of certain ages enrolled in primary school / average class sizes.
    - Access to the internet: Percentage of households.
    - Mobile phone usage: Mobile phone ownership per person.
    - UN Sustainable Development Goals (Millennium Development Goals).
    - Purchasing power of the median wage.
    - Accept other plausible measures not listed in the specification such as access to clean drinking water, birth / death rates, gender inequality and other compound indices e.g. The Better Life Index, The Happy Planet Index, The Human Suffering Index.
- There is a requirement for clear links to be made to the measure. E.g. describing access to health alone would be generic and would not allow top band marks to be awarded.

AO3

- Each measure explained in detail, linking to their suitability as a measure of living standards.
- Band 2 analysis can be achieved when at least two measures have a strong chain of argument which is clearly linked to their suitability as an economic development indicator.
- Markers note: candidates that considers two/three elements of the HDI index as standalone measures can achieve band 2 marks only (3 for AO1 and 3 for AO3).

Accept any other relevant argument.

<table>
<tr><td>5. (b)</td><td colspan="3">To what extent is poor governance (institutional weakness) the biggest obstacle facing LEDCs aiming to raise their level of economic development? [20]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td><td>AO4</td></tr>
<tr><td>6 marks</td><td>6 marks</td><td>8 marks</td></tr>
<tr><td>3</td><td>5-6 marks
Excellent understanding of poor governance and other obstacle(s) affecting the development of LEDCs.
Both breadth and depth of coverage is excellent.
At least two obstacles are fully understood which includes poor governance.
There is clear understanding / reference to economic development of LEDCs.
Excellent use of relevant terminology.</td><td>5-6 marks
An excellent analysis of the impact of poor governance on the development of LEDCs.
Chains of analysis are well developed.
There is clear and direct reference to LEDCs.
There is clear and direct reference and focus to economic development and its indicators.</td><td>6-8 marks
An excellent critical evaluation of the impact of poor governance compared to other obstacle(s) affecting the development of LEDCs.
A clear judgement is reached at the very highest level that considers the extent to which poor governance is the biggest obstacle facing LEDCs.
A clear comparison of different obstacles facing LEDCs.</td></tr>
<tr><td>2</td><td>3-4 marks
Good understanding of poor governance affecting the development of LEDCs.
Some understanding of poor governance and one other obstacle affecting the development of LEDCs.
Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band.
There is a narrow focus of poor governance, for example only focusing on corruption.
Good use of appropriate terminology.</td><td>3-4 marks
A good analysis of the impact of poor governance on the development of LEDCs.
Answers in this band show developed chains of reasoning.
Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct.
There is some / imbalanced reference to LEDCs and/or development indicators at the lower end of this band.
Direct references to economic development at the top of this band.</td><td>3-5 marks
Good evaluation.
A strong two sided answer that qualifies the impact of poor governance and other obstacle(s) on the development of LEDCs but which never directly answers the question set in terms of coming to a reasoned conclusion.
At least 2 obstacles are evaluated.
There is some / imbalanced reference to LEDCs and/or development indicators at the lower end of this band.
Direct references to economic development at the top of this band.</td></tr>
<tr><td>1</td><td>1-2 marks
Limited understanding of poor governance and/or other obstacles affecting the development of LEDCs.
At least one obstacle is considered which may include poor governance.</td><td>1-2 marks
Limited analysis of the impact of poor governance on the development of LEDCs.
Answer tends to lack key economic concepts and avoid technical analysis.
There is a lack of focus to LEDCs and/or development.</td><td>1-2 marks
Limited evaluation of different obstacle(s) facing LEDCs.
The candidate attempts to evaluate the impact of poor governance on LEDCs but the evaluation is underdeveloped or limited.
There is no/little reference to economic development.</td></tr>
<tr><td>0</td><td>0 marks
No valid knowledge or understanding.</td><td>0 marks
No relevant analysis.</td><td>0 marks
No relevant evaluation.</td></tr>
</table>

Indicative content:

- Understanding of development: rise in living standards / quality of life
  - Note that development is a broad term, and candidates could consider a range of ideas and concepts.
- Understanding of poor governance: A consideration of the negative decision making made by governments and businesses. This includes corruption, maladministration (flaws in policy / decision making), government failure and weak judicial systems. Issues that may arise from this include:
  - Failure to effectively raise funds from the tax base because the administrative infrastructure is inadequate.
  - Mismanagement of public finances such as overspending, leading to a larger fiscal deficit and national debt.
  - Lack of confidence in the judicial system can have a negative impact on I and FDI – there is little incentive to start businesses, and a lack of intellectual property (IP) rights is likely to restrict innovation.
  - Corruption can cause a lack of public investment into core services, tax revenue instead being spent on vanity projects or simply embezzled, implying a significant opportunity cost. Similarly, corruption may mean that resources are not allocated optimally, operating instead to support vested interests.
  - Systemic bribery can drive up business costs and can limit the access of low-income groups to basic services, increasing inequality as well as breaking the contract between the government and the governed, leading to increased tax avoidance.
  - Corruption and poor governance reduce genuine competition between firms and therefore results in poor resource allocation, higher prices and lower quality than might otherwise have been the case.
  - Corruption inside education systems leads to poor outcomes if teachers are underpaid and students have to pay for results –there is little incentive to try and hence the workforce will not have the skills needed to support growth and development.
  - One of the Sustainable Development Goals is (by 2030) to substantially reduce corruption and bribery in all their forms.
  - Accept arguments relating to government failure.

Accept any other relevant argument

- Poor governance links to the development of LEDCs:
  - Each of the issues identified above (plus any other relevant ones) are likely to have a direct impact on living standards, whether through the impact on per capita income, health, education, or rights more broadly.
  - Inequality will mean that households do not have access to basic health, education, and housing, which reduces living standards.
  - Embezzlement by senior government officials means that public services will be at a higher cost and lower quality than is necessary, again impacting on health, education, and income.
  - An absence of competition and innovation will mean that purchasing power of households will be lower than it might otherwise be, again reducing living standards.
  - MEDCs may restrict foreign aid to LEDCs with poor governance.

- Other obstacles can include (but must be linked to economic development for band 2+) are:
  - Endowment with natural resources (natural resource curse).
  - Low levels of health and education.
  - Low life expectancy.
  - MEDC trade policies.
  - Poor levels of infrastructure, capital, and technology.
  - High levels of public sector debt.
  - Rapid population growth.

- Evaluation points may consider
  - Comparing the relative severity of obstacles to one another to form a judgement on which is worse.
  - It would be untrue to say that one obstacle is always more severe than others as LEDCs are vastly different to one another and face different severities of the different obstacles.
  - The consideration of the extent to which the government can overcome the obstacles.

Markers note: If a candidate only considers poor governance as an obstacle for LEDC development the maximum that can be awarded is:

AO1 band 2 (4 marks)
AO3 band 3 (6 marks)
AO4 band 1 (2 marks)

Total 12 marks

Markers note: If a candidate only considers other obstacles other than poor governance the maximum that can be awarded is:

AO1 band 1 (2 marks)
AO3 band 1 (2 marks)
AO4 band 1 (2 marks)

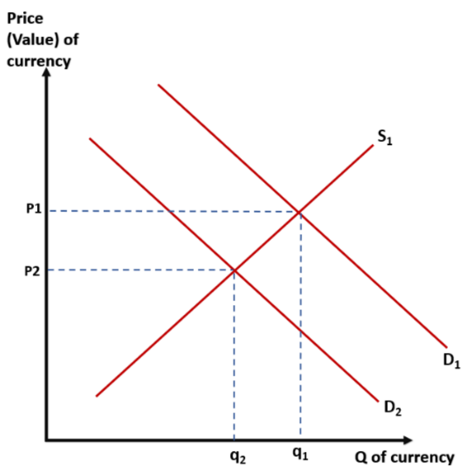
Total 6 marks

6. (a)	**Using an exchange rate diagram(s), explain how and why a country might manipulate its exchange rate as a form of protectionism. [10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5-6 marks** Excellent, accurate and comprehensive understanding of how countries can manipulate its exchange rate. Accurate diagram(s) with no errors or omissions. Excellent use of relevant terminology.	
2	**3-4 marks** Good understanding of how countries can manipulate its exchange rate. Mostly accurate diagram(s) with few errors or omissions. Good use of relevant terminology.	**3-4 marks** A good, accurate and comprehensive analysis of why a country might manipulate its exchange rate as a form of protectionism. Diagram(s) is likely to be embedded within the analysis.
1	**1-2 marks** Some recognition of how countries can manipulate its exchange rate. Diagram(s) may be attempted but with significant errors or omissions. Limited use of relevant terminology.	**1-2 marks** Limited analysis of why a country might manipulate its exchange rate as a form of protectionism. Diagram(s) are unlikely to be fully embedded within the analysis. There is limited focus on protectionism.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.

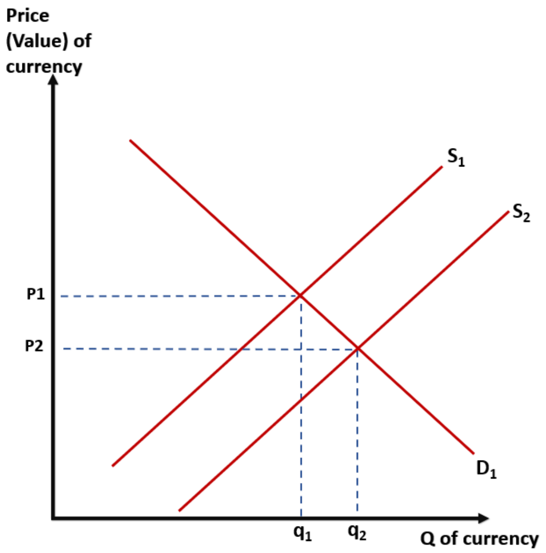
Indicative content:

AO1:
For AO1 candidates are expected to describe ways of manipulating an exchange rate, using a diagram(s).

- The central bank using interest rates to manipulate the demand for the currency:
  - Lower interests will make it less attractive for foreign investors to save in the country's banks due to a smaller return on the investment. This will reduce demand for the currency. The demand curve will shift left from D1 to D2 as shown below.
  - Higher interest rates will increase hot money flows into an economy and therefore increase the demand (D2 to D1) and therefore increases value of a currency.



- Using currency reserves to manipulate the exchange rate:
    - A central bank might purchase foreign currency on the FOREX by using reserves of its own currency. This will increase the supply of its own currency on the FOREX, as shown in the diagram below (S1 to S2), which will depreciate its own exchange rate.



    - A central bank might purchase its own currency on the FOREX by selling its reserves of its foreign currency. This will increase the demand of its own currency and reduce its supply on the FOREX, causing the currency to appreciate.
- Using quantitative easing
    - An expansion of QE may bring down bond yields due to the QE programme of buying bonds which increases bond prices. The fall in bond yields might cause an outflow of hot money, increasing supply of the currency onto the FOREX. QE may also put downward pressure on interest rates impacting the demand for the currency.

- Candidates do not have to consider ways to appreciate a currency to achieve top band marks for AO1.

AO3:
For AO3 candidates are expected to analyse why the currency manipulation is a form of protectionism.

- Depreciating a currency from P1 to P2 will raise the price of imports and make exports cheaper. This is a form of protectionism as the country is trying to promote its domestic industries by making alternatives abroad more expensive to purchase for its own citizens. It will also make its own industries cheaper; more price competitive to international customers. This will be more effective for price elastic goods.
- A currency appreciation wouldn't be a form of protectionism, so cannot be awarded for AO3. The analysis should focus on how a currency depreciation would lead to a form of protectionism and the impact it will have on the country.

<table>
<tr><td>6. (b)</td><td colspan="3">Moldova is one of the poorest countries in Europe. If a country such as this were to join the European Union (EU), assess the extent to which this will benefit existing EU members. [20]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td><td>AO4</td></tr>
<tr><td>6 marks</td><td>6 marks</td><td>8 marks</td></tr>
<tr><td>3</td><td>5-6 marks
Excellent understanding of the benefits and drawbacks of EU expansion to existing members.

Both breadth and depth of coverage is excellent.

There is clear understanding and reference to a relatively poor European country (Moldova) joining the EU, and the impact this will have on existing members.

Excellent use of relevant terminology.</td><td>5-6 marks
An excellent analysis of the impact of EU expansion to existing members when a relatively poor European country joins.

Chains of argument are well developed.

There is clear and direct reference to a relatively poor European country (Moldova) joining the EU.</td><td>6-8 marks
An excellent critical evaluation of the overall impact of EU expansion to existing members when a relatively poor European country joins.

A clear judgement is reached at the very highest level that considers the extent to which a poor European country joining the EU is beneficial for current members.

There is a clear comparison of both sides of the argument.</td></tr>
<tr><td>2</td><td>3-4 marks
Good understanding of the benefits and drawbacks of EU expansion to existing members.

Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band.

The range of points might be limited than in band 3. Alternatively, a fair range of points identified but not developed well, thus the depth of understanding is not present to allow for band 3.

Good use of appropriate terminology.</td><td>3-4 marks
A good analysis of the impact to existing members of EU expansion.

Answers in this band show developed chains of reasoning.

Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct.</td><td>3-5 marks
Good evaluation.

A strong two sided answer that qualifies the impact to current EU members of EU expansion which never directly answers the question set in terms of coming to a reasoned conclusion.

At least 2 factors are evaluated.</td></tr>
<tr><td>1</td><td>1-2 marks
Limited understanding of the benefits and drawbacks of EU expansion to existing members.

At least one benefit / drawback is considered.</td><td>1-2 marks
Limited analysis of the impact to existing members of EU expansion.

Answer tends to lack key economic concepts and avoid technical analysis. Chains of reasoning are limited / superficial.</td><td>1-2 marks
Limited evaluation of the impact to current EU members of EU expansion.

The candidate attempts to to provide a two-sided answer, however, is underdeveloped or superficial.</td></tr>
<tr><td>0</td><td>0 marks
No valid knowledge or understanding.</td><td>0 marks
No relevant analysis.</td><td>0 marks
No relevant evaluation.</td></tr>
</table>

Indicative content:

- The EU is a single market made up of 27 countries (members) that have common set agreements on:
  - Free trade (goods and services).
  - Free movement (labour, capital).
  - Regulations / standards.
  - Member fees.
  - EU members are expected to adopt the Euro currency overtime.
  - Many poorer non-EU members already have agreements in place with the EU.

- The EEA includes EU countries, Iceland, Liechtenstein, and Norway. It allows these countries to be part of the EU's single market.

Benefits to existing member may include:
- Access to cheaper and/or skilled labour through increased migration from the relatively poor country gaining membership.
- Increased trade from the new member states as a result of free trade and the reduction of protectionism. Existing members may experience reduced import costs and increased export revenue. However, it depends on what the poorer country specialises in and the purchasing power of its citizens.
- New members will have to pay fees to join the EU, which can be redistributed to help existing members. However, it is likely that poorer countries will experience the most financial support, and existing "rich" countries will have to contribute more.
- Overtime once new members have adopted the Euro, this can eliminate further barriers of trade between EU countries, reducing import costs and increasing export revenues for existing members.
- Existing members will gain greater powers in global negotiations.
- Existing members with more developed infrastructure / networks may attract greater FDI due to a larger EU market. FDI might prefer to target already established EU countries with better support infrastructure already in place. Firms can experience greater economies of scale with a growth in the EU market.

However,
- Countries may already be integrated to the EU without needing to join, and therefore existing members have already established benefits of trade, labour movement, and/or investment.
- Existing members will be expected to contribute more to the EU to help support EU expansion. It was reported in 2023 that many EU member states would become net contributors rather than net receivers as a result of EU expansion into poorer countries and to maintain stability of the EU.
- Current members may have less power on decision making of EU legislation and policy as a result of increased decision makers from new poorer EU countries. However, different existing members already have differences in their relative power on policy and legislation.
- Trade benefits to existing members depend on the relative income levels and specialisations / comparative advantages of the new relatively poorer countries that join. The purchasing power of citizens in these countries are likely to be lower and therefore the benefits of export trade to these countries might be limited.
- Risks of businesses (investment) moving to poorer countries with lower costs within the expanded EU, leading to unemployment and lost tax revenues to existing members.
- Risks of too much migration into existing members and the pressures on public finances to support population growth.
- Not all existing members use the Euro.

Evaluation points may consider:
- A number of non-EU European countries already have trade deals with the EU, so the extent of the benefits to existing members depends on what deals are already in place before relatively poor countries take full EU membership.

- What the poorer country specialises in.
- The skills of the labour force within the poorer country.
- The amount existing members already trade with the new poorer country, and vice versa. Some existing members will receive greater benefits than others depending on how much they already trade with the new poorer EU member.
- How geographically close the new poorer member is to existing members. This may determine factors such as migration and trade.
- Short term / long term integration effects on existing members.
- Countries within the EU are all vastly different. For example, they have vastly different income levels, not all are required to use the Euro, they contribute different amounts as part of membership and have different relative power in EU policy. Therefore, the benefits and drawbacks will differ between each existing member.

Accept any other relevant argument

Markers notes:
- If candidates focus on the pros and cons to new members only – a maximum of band 1 marks awarded.
- Band 3 marks to be awarded only if there is a continuous focus on the impact to current members as result of a relatively poor country gaining EU membership.
- Benefits and drawbacks should focus on a range of EU issues, i.e., not just focusing on free trade alone. A well-developed but narrow focus can only achieve band 2 marks only.