Mark Scheme (Results)

Summer 2014

Pearson Edexcel
International Advanced Level (IAL)
Economics (WEC02) Unit 1

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Supported multiple choice

NB: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

NB: Candidates may achieve up to 3 marks for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number		Mark
1	**2 Knowledge, 2 Application** **Answer C** • Distinguish GNP from GDP **(1) accept an example for a mark** • Define factors of production (land, labour, capital and enterprise) **(1)** • Application for explaining (with example) what is meant by “Malaysian owned factors of production” **(1)** • **Any accurate calculation of change in GNP as MYR or % (1)** **Rejection marks:** • A incorrect because profit is total revenue minus total costs in a given time period **(1)** • B incorrect as this is most commonly understood as GDP **(1)** • D incorrect as this is the Balance of Trade **(1)**	**(4)**

Question Number		Mark
2	**2 Knowledge, 1 Application, 1 Analysis** **Answer: A** • Definition of GDP **<u>growth</u>** **(1)** accept: • increase in the real level of national output measured by the annual percentage change in real GDP **OR** a long-term expansion of the productive potential of the economy. • GDP defined as C + I + G + (*x* – M) **(1)** • Application: net exports included in calculation (*x* - M) therefore decreasing exports reduce Brazilian GDP ceteris paribus **(1)** • Link to injections into circular flow **(1)** • Correct diagram showing left shift in AD **(1)** **(no marks for incorrect diagram)** **Rejection marks:** • B increased consumer spending more likely to increase GDP **(1)** • C increased government spending is an injection and thus likely to increase GDP **(1)** • D decreased imports means withdrawals are reduced and more likely to increase GDP **(1)**	**(4)**

Question Number		Mark
3	**2 Knowledge, 1 Application, 1 Analysis** **Answer: B** • Identification of deflation from stem**(1)** • Definition of deflation: sustained fall in general price level **(1)** • **OR** • Definition of CPI: weighted price index, which measures the change in the prices of different goods and services (1) • **NB must be more than simply "measure of inflation" has to be reference to index or weighted index or monthly change in prices** • Application: a fall in food prices is likely to cause deflation if food is included in the weighted measure **(1)** • August harvest likely to be time of increased domestic food production **(1)** **Rejection marks:** • A incorrect because a depreciation in currency likely to increase inflation due to increased cost of imports or increased demand for exports **(1)** • C incorrect because a reduction in direct taxation is more likely to increase the general price level through increased AD**(1)** • D incorrect because increasing consumption more likely to increase AD and therefore increase inflation **(1)**	**(4)**

Question Number		Mark
4	**1 Knowledge, 2 Application, 1 Analysis** **Answer: A** • Definition of LRAS: the LRAS curve is determined completely independently of demand **(1)** • Position depends upon the quantity and productivity (quality) of factors of production **(1)** • Explanation: competition policy may promote efficiency as more firms compete for customers on price and quality, reducing costs and increasing productivity **(1)** • **Identification of policies to promote competition as example of supply side policy (1)** • **Example of supply side policy EG. labour market reforms (flexibility), education, R&D, privatisation (1)** • Producing more output from same quantity of inputs **(1)** • Suitable diagram which may be classical (inelastic LRAS) or Keynesian **(1)** **Rejection marks:** • B is incorrect a fall in the quantity of imports will not shift LRAS – although it may have an impact upon the price level (movement along the LRAS) as AD increases **(1)** • C is incorrect as a rise in unemployment will not shift the LRAS as unemployed are still participating in the workforce they have not withdrawn from it **(1)** • D is incorrect as an increase in indirect taxation will not shift the LRAS although it may shift the SRAS curve inwards due to higher costs for business **(1)**	**(4)**

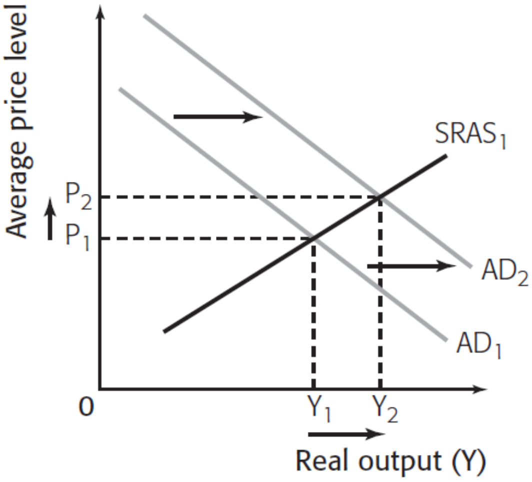
Question Number		Mark
5	**1 Knowledge, 2 Application, 1 Analysis** **Answer: A** • Definition of depreciation: a fall in the value of a currency in a floating exchange rate **(1)** • Explanation: depreciation most likely to decrease export prices and increase import prices **(1)** • Rise in demand for exports and fall in demand for imports increases AD and shift curve to the right (outwards) **(1)** • Rising import prices likely to inject extra costs for business (raw materials and wages to keep up with cost push inflation). This may shift SRAS curve to the left (inwards) **(1)** • New equilibrium will therefore be shift of AD curve to the right <u>and</u> SRAS curve to the left **(1)** • Annotation of the diagram showing shift of AD curve to the right <u>and</u> SRAS curve to the left **(2)** **Rejection marks:** • B AD curve unlikely to shift left (inwards) as lower exports prices and rising demand for exports will shift AD curve right (outwards) and SRAS curve unlikely to shift right (outwards) as higher import prices more likely to increase costs and shift SRAS left (inwards) **(1)** • C very unlikely that AD and SRAS would be unaffected by the depreciation as it would impact upon import and export prices **(1)** • D unlikely as rising demand for exports will increase AD not reduce AD **(1)**	**(4)**

Question Number		Mark
6	**1 Knowledge, 2 Application, 1 Analysis** **Answer: D** • Definition of unemployment: the number of people willing and able to work but who are not able to find suitable employment **(1)** • Application: Rising unemployment means lower taxable income **(1)** • Lower spending, thus lower indirect tax **(1)** • Explanation/analysis: this means lower tax receipts which may increase the budget deficit ceteris paribus **(1)** **Rejection marks:** • A incorrect because rising unemployment may mean increasing supply of labour and downward pressure on wages, at least in the short-run **(1)** • B is incorrect because the Spanish currency is the Euro and its value does not therefore depend upon the Spanish economy **(1)** • C is incorrect as high levels of unemployment are likely to decrease AD (reducing inflation) due to reduced disposable income and less consumer spending **(1)**	**(4)**

Question Number		Mark
7	**1 Knowledge, 2 Application, 1 Analysis** **Answer: C** • C is correct because purchasing bank held assets increases the liquidity (cash reserves) of the banks **(1) OR transfer of new money from B of E to commercial banks (1)** • increasing their ability to lend to businesses and individuals, thereby increasing the money supply **(1)** • identification of policy as aspect of monetary policy **(1)** • likely impact upon interest rates – IE lower interest rates **(1)** • **diagram showing increase in AD as outcome (1)** **No marks for inaccurate diagram** **Rejection marks:** • A is incorrect because any increase in bank lending through newly created money (“money printing”) may increase the money supply and increase AD, increasing inflation **(1)** • B is incorrect because an increase in the supply of pounds is more likely to depreciate the value of the currency in a free floating exchange rate system **(1)** • D is incorrect because although the aim was to increase liquidity in credit markets, one of the consequences may have been to keep business running, maintaining output through the credit crunch **(1)**	**(4)**

Question Number		**Mark**
8	**1 Knowledge, 1 Application, 2 Analysis** **Answer: B** • Definition of HDI: a composite statistic of life expectancy, education, and income indices **(1)** • used to rank countries into four tiers of human development **(1)** the higher the ranking the higher the level of development **(1)** • Application: HDI measures more than GNI per capita **(1)** • **Ireland has higher HDI than Sweden (1)** • GNI per capita does not tell us about quality of life and/or wealth distribution of a country **(1)** • In this case Ireland's higher HDI index and 17% lower GNI per capita would suggest that Ireland <u>must</u> have higher standards of education and/or health than Sweden **(1)** **Rejection marks:** • A incorrect because the HDI index for Ireland is 0.916 (closer to 1.0) and Sweden 0.913. Ireland thus has higher human development on this measure as it is closer to 1.0 **(1)** • C incorrect because the HDI and GNI per capita does not include energy consumption in the calculation**(1)** • D incorrect because the HDI and GNI per capita does not include access to clean water in the calculation**(1)**	**(4)**

Question Number		Mark
9a	**Accept any (identified and developed) from:**	
EG	Definition of inflation: sustained increase in the average price level **(1)** Or inflation target: a target range for inflation as measured by CPI or RPI (EG 1%-3%) **(1)** **Main reasons: price stability (1) and to support other macroeconomic objectives (1)** Reference to interest rates **(1)** or inflation **(1)** in extract required for application marks Development may include the following: Reduced inflationary expectations if people believe a low inflation target will be met**(1)** This will then reflect in the wage demands of people in work**(1)** If employees expect low inflation they may be prepared to accept a slower growth of pay **(1)** This reduces the risk of cost-push inflation in the economy**(1)** A fall in inflation expectations can cause an inward shift of the Phillips Curve**(1)**	
	The target gives monetary policy clarity **(1)** and improves the accountability and transparency of monetary decisions by RBNZ**(1)** The RBNZ will report to the New Zealand government, who set the target range **(1)**, an assessment of economic trends and the Bank's best guess about future movements in inflation**(1)**	
	Businesses will not demand high nominal rates of return on potential investment projects **(1)** if they believe that inflation will remain low and stable**(1)** Sustained low inflation improves prospects for higher levels of capital investment in both manufacturing and service industries **(1)** This may increase the productive capacity of the New Zealand economy**(1)**	
	Investment from overseas (FDI) may be attracted **(1)** if foreign firms believe that inflation will remain low and stable**(1)** Sustained low inflation improves prospects for higher levels of investment **(1)** in both manufacturing and service industries **(1)**	**(4)**

Question Number		Mark
9b	Candidates may provide an AD/AS diagram to show how an increase in AD with SRAS remaining the same may raise average prices/inflation through demand-pull inflation Some may provide an AD/AS diagram to show an increase in AD with LRAS remaining the same may raise average prices/inflation through demand pull inflation Award 3 marks for correct diagram as follows: Correct axis = labels **(1)** AD shift correct **(1)** Old PL and Y 1**AND** New PL and Y**(1)**  **Explanation:** AD rises, firms respond partly by raising prices and partly by raising output**(1)** Just how much prices rise will depend upon the slope of the short-run aggregate supply (SRAS) curve **(1)** The steeper the SRAS curve, the more prices will rise and the less output will increase **(1)** AD shifts from AD1 to AD2. Prices rise from P1 to P2, and output rises from Y1 to Y2 (**1**) Demand-pull inflation tends to be associated with a booming economy(1) The more able candidates may draw the SRAS curve steeper as the economy approaches the peak of the trade cycle, i.e. as actual output gets closer to potential output (capacity constraints) award 3 marks Some candidates may also show the likely impact of increased interest rates on AD – reducing capacity constraints. If this is in context/explained then award 3marks **Up to 3 marks for answer <u>without</u> a diagram** **Up to 2 marks for correct diagram with <u>no</u> explanation**	**(6)**

Question Number	2k 2Ap 2An 4Ev	Mark
Knowledge, Application and Analysis – Indicative content		
9c	**Balance of Payments** – A record of all in and outflows in a country arising from economic activity in the domestic and foreign sectors during a given time period. Consists of the current account and the capital account **(1)** **Current Account –** A record of all money flows to and from a country arising from exports and imports of goods and services, as well as transfers of income and other net transfers **(1)** The two factors might include: 1. **Visible Trade Balance –** The sum of *visible (trade in goods)* export revenue minus the sum of trade import expenditure. A positive value is a trade surplus; a negative value is a trade deficit 2. **Invisible Balance –** The net sum of invisible trade, consisting of services, flows of incomes and net transfers • **Services –** The trade in services forms part of the invisible balance. Foreign tourists spending money in the country counts as invisible exports; the purchasing of foreign holidays counts as an invisible import • **Flow of Incomes –** Repatriated profits, dividends from foreign shares and interest payments on foreign bank accounts count as invisible exports • **Net Transfers –** Remittances, foreign aid and grants are counted in the invisible balance **Current Account Balance –**The sum of the visible and invisible trade balances. A positive value is a current account surplus; a negative value is a current account deficit (**1)** **NB If only one factor limit to 5 marks**	**(10)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of reasons and/or data references to NZ such as current account deficit in all years 2007-2012 **If no data references limit to Level 1**
2	4-6	Understanding of reasons and some linking – reduction in current account deficit in year 2007-2012 could be accounted for by rise in export of goods or services, increased tourism, increased returns from foreign investments

Evaluation on next page

Evaluation – Indicative content			
	• Here we are looking for development and evidence of judgement as to the most significant factors • Fall in imports indicates that deficit may be short term • Depend upon size of deficit (compared to GDP) • Fall in inflation may reduce deficit in long term		

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation – rebuilding following earthquake reduced visiting tourists and increased New Zealand people holidaying abroad
2	3-4	For evaluative comments supported by relevant reasoning – such as increasing income likely to increase imported goods, rebuilding likely to increase imports of capital equipment and materials for construction, strong dollar likely to increase imports and reduce exports

Question Number		Mark
2K 2Ap 4An 6Ev – Indicative content		
9d	Factors discussed may include: • rising incomes • capacity constraints • booming construction • rising wealth through house price (asset price) increases	**(14)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Definition of inflation and identification of factors leading to inflation: demand-pull - result of increasing aggregate demand (AD) in the economy. cost-push - result of an increase in the costs of production in an economy, leading to a fall in short-run aggregate supply (SRAS) **NB if no data references limit to Level 1**
2	4-6	Definitions and factors identified along with some development of analysis to NZ data such as: rising incomes; capacity constraints; booming construction; rising wealth through house price(asset price)increases Expect to see a diagram representing demand-pull inflation AND/OR cost-push inflation at this level
3	7-8	Clear understanding and analysis of the ways in which demand-pull and cost-push inflation may increase inflationary pressures

Evaluation – Indicative content		
	• rising incomes effect will depend upon marginal propensity to save and distribution of income • capacity constraints effect will depend upon long term growth of productive potential • booming construction may be short term and not sustained after earthquake rebuild • rising wealth through house price (asset price) increases may be short term • forecasts are always uncertain	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number	Indicative Content	Mark
2K 2Ap 4An 6Ev – Indicative content		
9(e)	• Inflation defined - the rate of increase in the general price level simple example: 10% inflation rate means prices overall are 10% higher than a year ago. • Interest rates are the cost of borrowing, or the price of money. A 10% interest rate is the return a saver will get, or the amount a borrower will have to pay, over a year. • Aim of interest rate changes to increase or decrease AD • Trade-off between inflation, growth and interest rates • Economic growth is strong, output gap has been closed, pressure for higher inflation. One example would be that when unemployment is low, additional demand for labour will tend to push up the growth in wages. • Higher interest rates discourage borrowing by both households and companies and encourage saving and will tend to slow the economy. • Lower rates encourage borrowing and have the opposite effect. • Increasing the rate of saving (the opportunity cost of spending has increased) • The rise in mortgage interest payments will reduce homeowners' real 'effective' disposable income and their ability to spend. Increased mortgage costs will also reduce market demand in the housing market • Business investment may also fall, as the cost of borrowing funds will increase. Some planned investment projects will now become unprofitable and, as a result, aggregate demand will fall. • Higher interest rates could also be used to limit monetary inflation. A rise in real interest rates should reduce the demand for lending and therefore reduce the growth of broad money.	**(14)**

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects or identification of one or more points. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of effects of interest rate changes with reference to the NZ data Material is presented with some relevance but there are likely to be passages which lack proper organisation.

		Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the effects of interest rate changes in NZ Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content

- Impact will depend upon magnitude of interest rate changes
- Time lag factor- rate changes may take a long time to feed through into inflation
- Higher rates may mean lower investment which may reduce LRAS thus increasing inflationary pressures
- Many loans will be fixed rate so change in base rate may have little impact
- Commercial banks may not necessarily change their rates (it is the commercial banks who "create the money")
- Impact from change in AD will depend upon position on the LRAS curve

Level	**Marks**	**Descriptor**
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples. NZ figures show sharp fall in CPI in 2012- not expected from GDP growth and lower interest rates
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples. Effort to explain the fall in CPI - e.g. fall in CPI perhaps caused by strong currency making imports cheaper – rise in interest rates may strengthen currency and decrease exports further increasing current account deficit

Question Number	K2 Ap2 Indicative Content	Mark
10a	• Current Account – A record of all money flows to and from a country arising from exports and imports of goods and services **(1)** • as well as transfers of income and other net transfers **(1)** • Current Account Balance –The sum of these visible and invisible trade balances**(1)** • a positive value is a current account surplus **(1)** • a negative value is a current account deficit(**1)** • exports injection into circular flow **and/or** imports withdrawals from circular flow **(1)** • **Link to data needs to be clear for application marks – up to 2 marks for 2 different, accurate data references**	**(4)**

<table>
<tr><th>Question Number</th><th colspan="2">Indicative Content</th><th>Mark</th></tr>
<tr><td colspan="4">K2 Ap2 An2 Ev4– Indicative content</td></tr>
<tr><td>10b</td><td colspan="2">Interest rates are the cost of borrowing, or the price of money. A 10% interest rate is the return a saver will get, or the amount a borrower will have to pay, over a year.
Aim of interest rate changes to increase or decrease AD
Trade-off between inflation, growth and interest rates
Appreciation that low interest rates stimulate AD by encouraging borrowing and spending (by consumers and businesses) and discouraging saving
Negative interest rates – rates that are lower than inflation – encourages spending in the short term as deposits will lose value in the long term
Businesses may therefore invest in productive assets partly to meet the rising demand but also to take advantage of low borrowing costs</td><td>(10)</td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">A completely inaccurate response</td></tr>
<tr><td>1</td><td>1-3</td><td colspan="2">Shows some awareness of reasons and/or data references</td></tr>
<tr><td>2</td><td>4-6</td><td colspan="2">Understanding of effects of low interest rates on private investment and business activity</td></tr>
<tr><td colspan="4">Evaluation – Indicative content</td></tr>
<tr><td></td><td colspan="2">Evaluation should include reference to some of the drawbacks of low interest rates such as:
Risk of asset price bubbles
Risk of inflation
Shock of increased rates and impact upon borrowers and falls in disposable income as consumers and businesses have to meet higher borrowing costs
Currency depreciation and imported inflation
Effect may depend upon magnitude of rate changes
Time lag effects</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">No evaluative comments.</td></tr>
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<tr><td>2</td><td>3-4</td><td colspan="2">For evaluative comments supported by relevant reasoning.</td></tr>
</table>

Question Number		Mark
2K 2Ap 4An 6Ev – Indicative content		
10(C)	• GDP – includes x – m • Export of commodities contributes substantially to Australia's GDP • Examples of commodities data • Definition of a commodity • Thus increases in global commodity prices may increase Australian GDP • On the other hand, falling global commodity prices may decrease Australian GDP • Long term trade surplus appreciates currency and reduces international competitiveness • This will depend upon the availability of cheaper alternatives for Australia's trading partners **NB If no data references limit to Level 1**	**(14)**

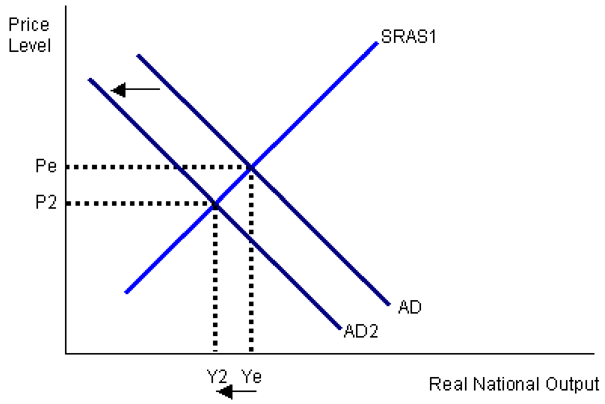
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects or identification of one or more points. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of effects of changes in commodity prices Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the effects of effects of changes in commodity prices upon Australian economy. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation on next page

Evaluation – Indicative content		
	Evaluation might include: • Impact will depend upon PED for commodities (causes of this include availability of substitutes) • If PED inelastic, falling prices reduce revenue • If PED elastic falling prices increase revenue • Long term agreements with export partners may reduce impact • Impact will be less if economy is more diversified (less reliant upon commodity exports) • Less extraction of commodities may lessen environmental degradation and make growth more sustainable	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number	2K 2Ap 2An Indicative Content	Mark
10d	Slower growth in export markets may lead to falling demand for exports **(1)** May lead to lower AD in Australia which may mean lower inflation **(1)** and increasing unemployment **(1)** **Application** **Accurate/valid reference to data required for application marks** **Analysis** impact will depend upon the rate at which growth slows in the export markets **(1)** AD/AS diagram showing inward (left)shift in AD, correctly labelled and annotated achieves 3 marks	**(6)**

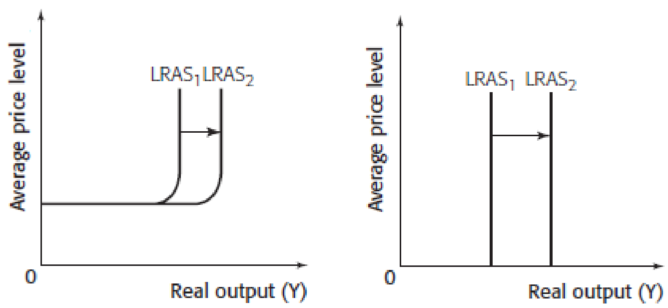
Question Number		Mark
2K 2Ap 4An 6Ev– Indicative content		
10(e)	Understanding of Government spending: **Government expenditure** as current, capital and transfer payments together with some understanding of **Government revenue** from direct tax, indirect tax and sales of goods, services and privatisation **Expect candidates to cover at least one of the following costs or benefits**: **In the short run:** Lower government spending may decrease AD and economic growth Lower government spending may decrease AD and increase unemployment and spending on benefits Lower government spending may decrease AD and reduce direct tax and indirect tax receipts Diagram may be included which shows inward movement of AD curve such as:  **In the long run:** Lower government spending today may mean that **taxes will be lower in the future** and this may increase spending by private sector businesses and households increasing AD and economic growth. Lower level of government borrowing means that the Government has to spend less each year in debt-interest payments to holders of government bonds **the opportunity cost is reduced** because interest payments might be used in more productive ways, for example an increase in spending on infrastructure or education	**(14)**

Reduced transfer of income from people and businesses that pay taxes to those who hold government debt and cause a redistribution of income and wealth in the economy

Reduced capital spending on infrastructure may decrease the long run productive potential of he economy (LRAS curve shift)

Many economists oppose high government spending believing that a rising share of GDP taken by the state sector has a **negative effect on the growth of the private sector of the economy**. They are sceptical about the benefits of higher government spending believing that the scale of waste in the public sector is high – money that would be better used more efficiently by private firms

Diagram may be included which shows left (inward) movement of LRAS curve (if capital spending falls) or right (outward) movement of LRAS if efficiency is increased:



Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects or identification of one or more points. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of effects of reduced government spending in Australia. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and analysis of the effects of effects of a reduced government spending in Australia. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content		
	• Long term or short term effects and the relative importance of each effect • Impact will depend upon size of multiplier • Impact will depend upon magnitude of cuts – the larger the cuts the greater the impact on AD • Impact will depend upon how close to full capacity the economy is (closer to full capacity the less impact on output and employment) • **Automatic (built-in) stabilisers explained**: • Falling government spending (reduced benefit payments) and taxation increases (progressive taxes and purchase taxes) • GDP growth falling or negative, rising government spending and taxation falls. • In short-term this may stabilise fluctuations in GDP • **Evaluation may also include positive impact of government spending** • **Government borrowing can benefit economic growth:** positive macroeconomic effects in the long run if it is used to finance extra capital spending that leads to an increase in the stock of national assets. For example, higher spending on the transport infrastructure improves the supply-side capacity of the economy promoting long-run growth. And increased government spending in health and education can bring positive effects on labour productivity and employment. • **Government spending as a tool of demand management:** Keynesian economists would support the use of changing the level of government spending as a way of fine-tuning or managing the level of aggregate demand. An increase in spending can increase AD when other sectors of the economy are seeing reduced spending. EG. Government spending important in stabilising demand and output at a time of global uncertainty. Government spending can keep real national output closer to potential GDP so that large negative output gaps are avoided.	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

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