Examiners' Report
June 2016

GCE Economics 8EC0 02

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Introduction

This is the first of the Economics A AS papers (8EC0 02) in the new AS Specification 2015. Candidates’ answers to the questions on this paper have generally been of an expected standard. All questions were accessible to the candidates, although inevitably candidates were scoring more highly on some than others.

In section B candidates failed at times to read the question. Specifically, in 6(b) candidates often only focused on impacts on the economy in general rather than on UK consumers. For the final questions where candidates had a choice, 6(g) was more popular than 6(f). In 6(f) some candidates failed to focus on the ‘success’ aspect of the question, whilst in 6(g) candidates did not always put their answer in the context of the Global Financial Crisis of 2008 - which would have prevented them from reaching top marks. This was an issue in general, with candidates writing answers that were too generic or where they clearly had not fully read and understood the data and articles they had been provided with.

In relation to quantitative skills, some candidates were not able to access the on the calculation questions- they generally tended to either get these questions right or wrong, which again emphasises the importance of them learning the quantitative skills in the new course, including key formulas such as the multiplier and percentage change.

Candidates should be reminded of the importance of making sure their answers are clear and concise. In addition, a plea to any candidates using additional sheets of paper is to make it clear on these extra sheets what question each piece of writing refers to so examiners are confident they have accurately marked a candidate's work. Finally, candidates should be reminded to not write the answer to a question in the space provided for a different question. If a candidate needs more space to answer a question, they should use additional sheets of paper.

Question 1 (a)

This is the first of several short questions where candidates simply need to define a key economic term. Most candidates were able to clearly define these terms. The main problem with a national income definition was the significant number of candidates who said this was the average income of a country, which is incorrect.

1 (a) Define the term 'national income'.

(1)

National income is the amount of goods and services produced. the amount of expenditure on goods and services.

ResultsPlus
Examiner Comments

This answer is clearly a correct definition of national income and so scores 1/1.

1 (a) Define the term 'national income'.

(1)

The average income of a country

ResultsPlus
Examiner Comments

This answer scores 0 marks as national income is not the average income of a country.

ResultsPlus
Examiner Tip

This illustrates the importance of candidates having a sound knowledge of key definitions from the specification.

Question 1 (c)

This is an important concept in macroeconomics and one that candidates should be familiar with. There are 2 marks available so candidates are expected to do a little bit more than just a brief mention of flows of money. Because of the nature of the circular flow of income there is more than one way that candidates can achieve the 2 marks. If discussing injections and withdrawals candidates should give an example or examples of these.

(c) Define the term 'circular flow of income'.

(2)

The flow of money between ~~so~~ households and firms with the injections and withdrawals of money.

ResultsPlus
Examiner Comments

This answer achieves 1/2 for correctly explaining that the circular flow of income is 'the flow of money between households and firms'. To get the second mark they needed a bit more detail than just mentioning injections and withdrawals.

ResultsPlus
Examiner Tip

On 2 mark definition questions, make sure you have clearly done enough for 2 marks.

(c) Define the term 'circular flow of income'.

(2)

~~The~~ The withrawels and injechons that take place in the cycle, businesses produce goods and services for households and households pay for them, they also provide businesses with labour while businesses give them income. When there's more injections this causes a multipler effect.

ResultsPlus
Examiner Comments

This answer achieves the full 2 marks. It accurately describes the circular flow of income with how money flows between households and businesses in exchange for labour and goods and services.

Question 2 (a)

In this question it was very clear that a number of candidates did not know what 'purchasing power parities' was. Many candidates attempted to respond to the question by rearranging the words in the question. In terms of the 2 available marks, 1 was awarded for an understanding that it was about making a comparison between countries, and 2 marks awarded for an accurate definition.

2 The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	**GDP per capita (US$, at PPPs, 2013, rounded)**
UK	38 500
Spain	33 000
Italy	35 500

(Source: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD)

(a) Define the term 'purchasing power parities'.

(2)

A currency converter, allows for comparison between countries with what can be bought for each 'dollar'.

ResultsPlus
Examiner Comments

This candidate clearly has some idea what purchasing power parities are about and they have said it 'allows for comparison between countries'. Therefore this answer scores 1/2.

2 The table below shows GDP per capita at purchasing power parities (PPPs) for a selection of European countries in 2013.

Country	GDP per capita (US$, at PPPs, 2013, rounded)
UK	38 500
Spain	33 000
Italy	35 500

(Source: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD)

(a) Define the term 'purchasing power parities'.

(2)

Purchasing Power parities shows how much of a currency is needed to buy a basket of goods in one country compared to another. It can show the strength of a currency against another or the ~~growth~~ compare economic growth of 2 countries.

ResultsPlus

Examiner Comments

This accurate definition of purchasing power parities achieves the full 2 marks.

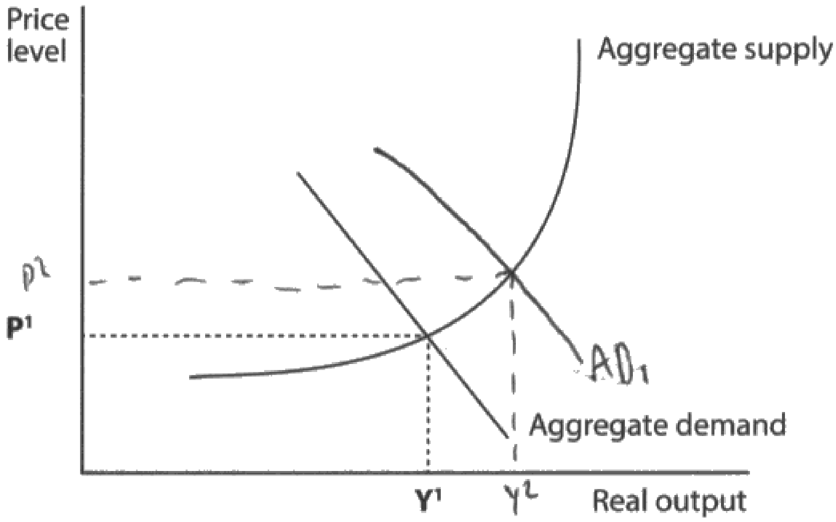
Question 2 (c)

This was a straightforward question that the majority of candidates annotated correctly. One issue that some candidates faced was where they did not show economic growth on the diagram, to get the mark there needed to be an outward shift of real output.

(c) Diagram A shows the aggregate demand and aggregate supply for a country.
Illustrate actual economic growth on Diagram A.

(1)

Diagram A



ResultsPlus
Examiner Comments

This correct answer achieves 1/1- AD has been correctly shifted out and the new equilibrium point has been shown, with Y2 further out than Y1.

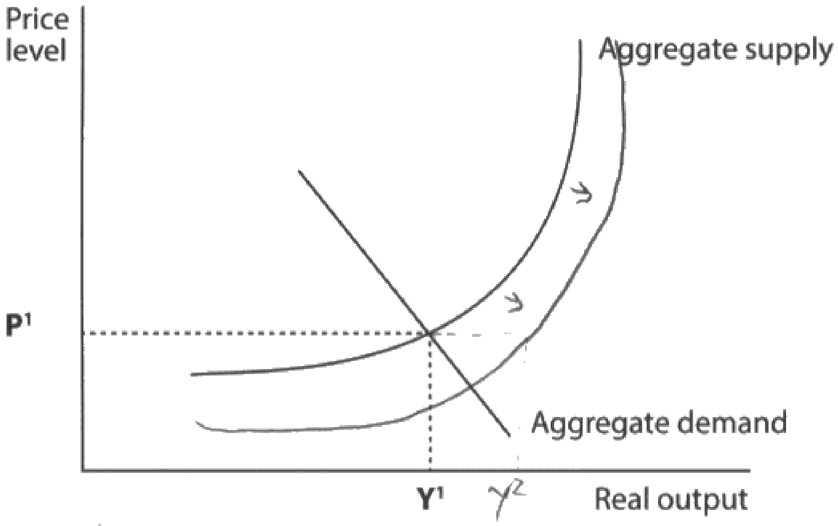
ResultsPlus
Examiner Tip

Do remember to use a black pen throughout your exam paper, including for diagrams.

(c) Diagram A shows the aggregate demand and aggregate supply for a country. Illustrate actual economic growth on Diagram A.

(1)

Diagram A



ResultsPlus
Examiner Comments

This answer is incorrect as they have not labelled the new equilibrium point at the correct place, where the new AS curve crosses the original AD curve.

Question 3 (a)

This is another key definition question and the majority of candidates could accurately and concisely define the claimant count, either with reference to 'unemployment benefits' or 'jobseekers allowance'. Unfortunately a number of candidates referred to 'benefits' in general, which is incorrect.

(a) Define the term 'claimant count'.

(1)

Claimant Count is the number of people who aren't Working that claim Job seekers allowance.

ResultsPlus
Examiner Comments

This correctly refers to 'job seekers allowance' and so achieves 1/1.

(a) Define the term 'claimant count'.

(1)

The number of people who are unemployed and claiming benefits.

ResultsPlus
Examiner Comments

This answer is incorrect because it refers simply to 'benefits'.

Question 3 (b)

This question was a straightforward test of quantitative skills, and most candidates could correctly do the calculations involved. With the renewed emphasis on quantitative skills it is important that candidates practice such questions as part of their economics course.

3 The table below shows claimant count data for the UK.

	Number of Claimants
August 2014	961 149
September 2014	923 240
October 2014	887 771
November 2014	848 085
December 2014	823 880
January 2015	852 934
February 2015	858 344

(Source: http://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=)

(a) Define the term 'claimant count'.

(1)

All those claiming jobseekers allowance.

(b) Calculate the percentage change in the claimant count from August 2014 to February 2015.

(2)

$\frac{\text{new} - \text{old}}{\text{old}} \times 100$

$\frac{858,344 - 961,149}{961,149} \times 100 = -10.69605233\%$ 2dp

-10.70%.

ResultsPlus
Examiner Comments

This candidates has got the correct answer of '-10.70%'.

ResultsPlus
Examiner Tip

Some margin for rounding up/down is allowed on mark schemes but do try to be as accurate as you can with calculations.

3 The table below shows claimant count data for the UK.

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August 2014	961 149
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January 2015	852 934
February 2015	858 344

(Source: http://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=)

(a) Define the term 'claimant count'.

(1)

claimant count measures the ~~am~~ amount of people claiming benefits from the government The measure of benefits claimed by ~~#~~ jobseekers in the economy

(b) Calculate the percentage change in the claimant count from August 2014 to February 2015.

(2)

$$\frac{858344 - 961149}{961149} \times 100 = 10.7\%$$

ResultsPlus
Examiner Comments

This answer only scores 1/2 as the candidate has failed to appreciate that this is a fall in the percentage change in the claimant count.

ResultsPlus
Examiner Tip

Always check whether an answer should be positive or negative in calculation questions.

Question 4 (b)

There are a number of potential answers to this question and any 'likely reason' was awarded. However, a significant number of candidates simply said it was because the UK was exporting more and importing less. This is not a 'reason' for the trade deficit reducing- it is simply saying what a reduction in the trade deficit is.

(b) Explain **one** likely reason for the reduction in the total UK trade deficit in January 2015.

(3)

One likely reason for the reduction in the total UK trade deficit in January 2015 could be due to an increase in exports and a reduction of imports. This would mean that the UK is spending less on trade but earning more from trading which could reduce the deficit.

ResultsPlus
Examiner Comments

Reiterating the point made in the introduction to this question, there is no 'reason' in this answer and so it cannot achieve any marks.

(b) Explain **one** likely reason for the reduction in the total UK trade deficit in January 2015.

(3)

A fall in the UK exchange rate making UK exports more competitive in exports, foreign countries have increased purchasing power therefore demand more UK goods

ResultsPlus
Examiner Comments

This answer has a clear reason and has explained it in a logical step-by-step manner. Therefore this answer achieves 3/3.

ResultsPlus
Examiner Tip

Quality not quantity is important. This answer may look fairly brief but it identifies a reason and explains how/why it would lead to a reduction in the trade deficit.

Question 5 (a)

In this question it was clear who knew their multiplier formula and who did not. Candidates need to be practicing such key calculations as part of their exam preparation.

5 In 2014 the Bank of England estimated the marginal propensity to consume of UK consumers to be 0.5.

In 2014 the Chancellor of the Exchequer announced a £15 billion investment programme into UK road infrastructure.

(Sources: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q405.pdf and https://www.gov.uk/government/news/autumn-statement-2014-16-things-you-should-know)

(a) Using the information above, calculate the total increase in national income, resulting from the £15 billion investment.

(3)

$$\frac{1}{1-\text{mpc}} = \frac{1}{0.5} = 2.$$

£15bn x 2 = £30bn.

ResultsPlus
Examiner Comments

This candidate has the correct answer of '£30bn' and so achieves all 3 marks.

5 In 2014 the Bank of England estimated the marginal propensity to consume of UK consumers to be 0.5.

In 2014 the Chancellor of the Exchequer announced a £15 billion investment programme into UK road infrastructure.

(Sources: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q405.pdf and https://www.gov.uk/government/news/autumn-statement-2014-16-things-you-should-know)

(a) Using the information above, calculate the total increase in national income, resulting from the £15 billion investment.

(3)

Marginal propensity to consume = 0.5

Multiplier = 1 / 1- mpc

= 1 / 1 - 0.5

= 1 / 0.5

= 2

Total increase in NI is 2·1.

ResultsPlus

Examiner Comments

This candidate achieves 2/3 as they have correctly identified the multiplier formula and worked out that the multiplier is 2. Unfortunately the candidate fails to multiply it by £15 billion.

ResultsPlus

Examiner Tip

Always show your working out in calculation questions. That way even if you get the wrong answer at the end (or fail to include it like here) you can still get marks for your working out.

Question 6 (a)

In this question the emphasis is on knowledge and application. Candidates should bear this in mind and focus specifically on what the question is asking them to do. Some candidates are losing precious time by suggesting reasons why real income has changed, which is not what this question is asking of them.

6 (a) With reference to Figure 1, explain the term 'real income'.

(4)

Real income is the amount people earn after taxes have been taken off. In 2012 and 2013 ~~the~~ figure 1 suggests that taxes such as income tax would have been higher than they were in years such as 2007 and 2008. This is because the average weekly household real income was around £610 in 2012 and 2013 whereas in 2007 it was about £643 and in 2008 it was even higher at about £675.

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Examiner Comments

This answer achieves a mark of 3/4. They have appropriate application from figure 1 and have said income is 'the amount people earn...'. Unfortunately they then discuss taxes rather than inflation.

6 (a) With reference to Figure 1, explain the term 'real income'.

(4)

Real income, is the total money that ~~the~~ a household recieves, taking ~~[illegible]~~ inflation into account.
This allows the data to be analysed more effectively because more accurate comparisons can be taken when comparing income in varios years.
The graph shows that the highest levels of real income from 2006 to 2013 was in 2008 with around a £675 average weekly income. The lowest was in 2012 at £610 a week.

ResultsPlus
Examiner Comments

This answer achieves the full 4 marks. There is an accurate definition of real income for 2 knowledge marks and application from figure 1 for the other 2 marks.

ResultsPlus
Examiner Tip

Focus specifically on what the question is asking in this question. The second sentence here is not relevant to the question so the candidate is using up valuable time.

Question 6 (b)

This question demonstrates very clearly the importance of candidates carefully reading the question and making sure they understand precisely what is being asked of them. Far too many candidates gave a very generic answer talking about issues like falling aggregate demand but failed to link their writing specifically to UK consumers. Also key with this question was understanding the concept of real income, bearing in mind this is with inflation already taken into account. Finally, this is also the first question on the exam paper that tests candidates' evaluation skills, and it is important that they are aware of what key words like 'assess' mean.

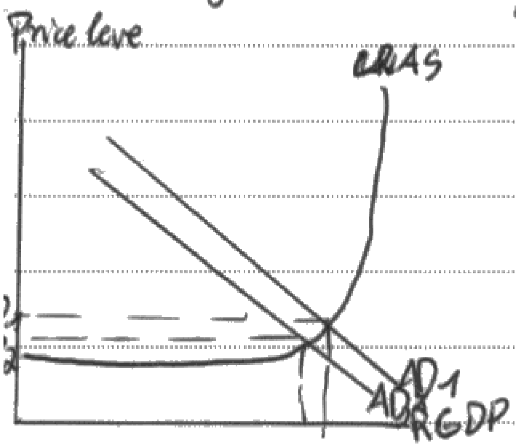
(b) Assess the likely impact of falling real incomes on UK consumers.

(10)

Faling in the real income mean that costumer ~~will~~ confidence will decrease they will gain less for they value in money which mean that they spending may decrease therefore the ~~AD~~ aggregate demand will decrease and shift to the left from AD_1 to AD_2.

Another impact may be that the firm confidence ~~will~~ may decrease as they may see that high inflation is created from short run aggregat supply side which mean that supply sector is not competitive becouse of higher cost which may mean that the firms will be less likely to invest in the UK therefor decreasing AD from AD_1 to AD_2.

Faling in costumers incomes may also mean that beease of fall in consumption there is decrease of price pull inflation as price decrease from P1 to P2 meaning that in long run real income may increase.



It may also mean that there will be derease in the imports however more likel that the imports increase as it may be cheaper to imports good from aboard therefo it all depens on the elastisy of the demand for serten imports.

ResultsPlus

Examiner Comments

This answer is too focused on inflation and general macroeconomic effects. It fails to fully address the focus of the question- the impact on UK consumers. The most relevant paragraph is the first one, however there is some correct economics throughout. Overall this answer was awarded a low level 2 for KAA.

ResultsPlus

Examiner Tip

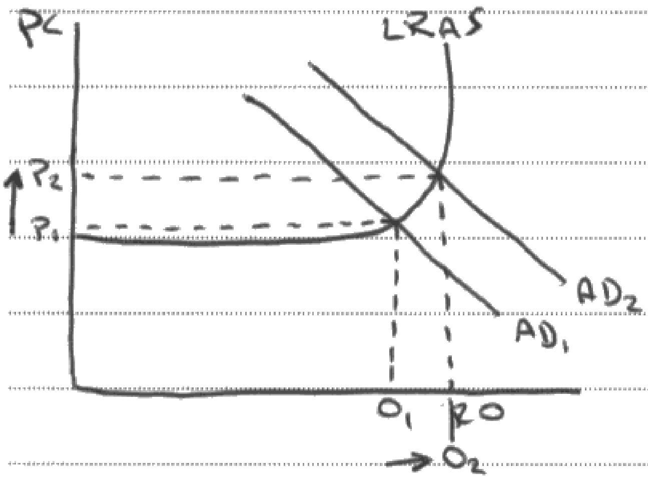
When you're half-way through writing your answer, it's always a good idea to go back to the beginning and read the question again, to make sure you haven't drifted off-topic.

Question 6 (c)

In this question it was important that candidates understood the key relationship between the exchange rate and aggregate demand, via imports and exports. Many candidates explained this nice and clearly and, as long as they knew the economics correctly, this was a fairly straightforward question.

(c) With reference to Extract A, explain the likely effect of a rise in the value of the pound on aggregate demand. SPICED (x - m)

(5)



If the value of the pound rises then this means the imports will become cheaper and exports more expensive which will increase aggregat demand for the UK economy also increasing economic growth, real output and the price level.

In extract A it says inflation is at a record low, well with the value of the pound rising, this will increase demand pull inflation because more people will be consuming so the price level will rise.

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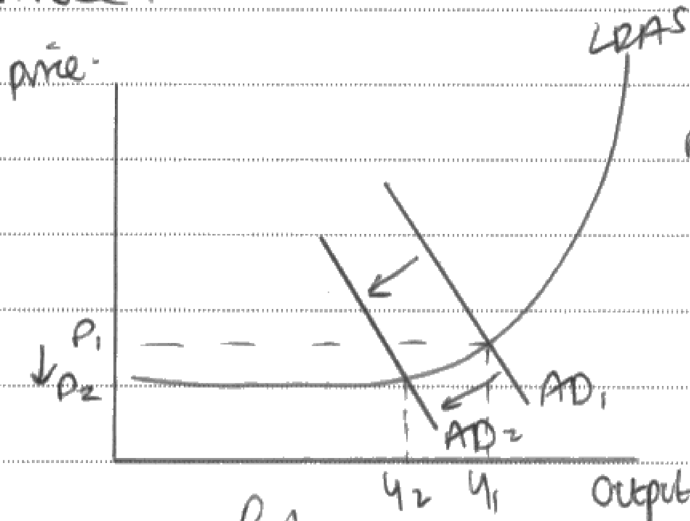
Examiner Comments

This answer starts off correctly, by stating that 'imports will become cheaper and exports more expensive'. However, the rest of this is incorrect. They also have some application about 'inflation is at a record low'. This gives them a total of 3/5, 2 for analysis and 1 for application.

(c) With reference to Extract A, explain the likely effect of a rise in the value of the pound on aggregate demand. AO1, AO2, AO3. SPICED **(5)**

Aggregate demand is the total spending on goods and services in the economy.
If there's a rise in the value of the pound, ~~the~~ ~~ex~~ ~~[illegible]~~ more ~~money you recieve~~ will increase costs when converting into pound, you will get less pounds for your money.

When the pound gets stronger (a rise in the value) the cost of imports becomes cheaper and the cost of our exports ~~[illegible]~~ to other countries becomes dearer. This means imports increase and exports decrease, consequently decreasing net trade in the components of AD and decreasing AD. This is assuming all other components are the staying the same.



Prices decrease in the UK as a result of excess supply and there is a larger fall in GDP.

According the extracts forbes ~~[illegible]~~ the said the lagged effects of this increase in 2015 wont last long and wont be so severe to the economy.

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Examiner Comments

This answer gains the full 5 marks, for clearly explaining the process with appropriate knowledge, application, and analysis.

ResultsPlus
Examiner Tip

In questions about aggregate demand and supply it is always good practice to draw a diagram to back up your explanation.

Question 6 (d)

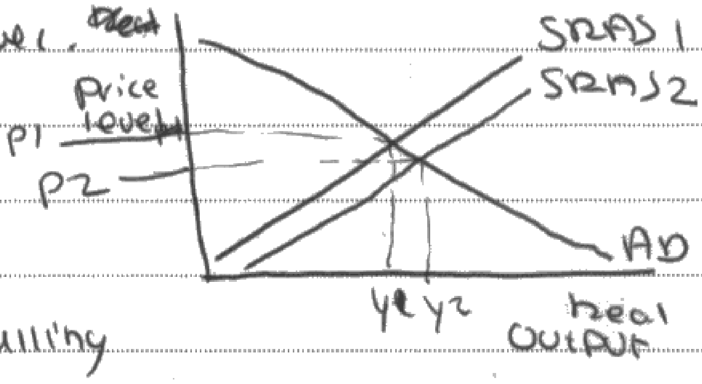
In this question one important point to note was that the question asks for two **likely** reasons. Unfortunately a number of candidates said that one likely reason was that interest rates had been increased. However, the extract (and candidates' general knowledge) shows this is not the case, and so this reason was not awarded any knowledge marks. Many other relevant reasons however were offered by candidates, for which they gained credit. This question also demonstrates the importance of using the case study as much as possible, as there were several reasons that candidates could use included in the information provided.

(d) With reference to the data, explain **two** likely reasons for the UK's falling inflation rate.

(6)

~~Inflation is the cost of borrow~~

Inflation is a sustained increase in the general price level. Inflation measured by the CPI fell from 4% in 2012 and ~~it was~~ Oct in 2014 it was around 5%. ~~...~~
UK inflation is affected by oil prices. The effect of this cost push inflation means because oil prices fell from around $100 a barrel to $50 a barrel that costs of production for firms who use oil as a raw material, such as energy firms decreased. This decrease in costs of production ~~...~~ has increased short run aggregate supply and therefore decreased the general price level. ~~...~~



Another reason for the falling inflation rate is the effect of the ~~ex~~ ~~exchange rate~~ interest rates. An increase in the interest rate ~~the~~ increases cost of borrowing and decreases inflation.

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Examiner Comments

In this answer the candidate correctly identifies two relevant reasons. However, the second reason is about higher interest rates, so they cannot achieve the knowledge mark here. The rest of the question is clear, well-applied, and well-analysed, so this is the only mark they have missed out on.

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Examiner Tip

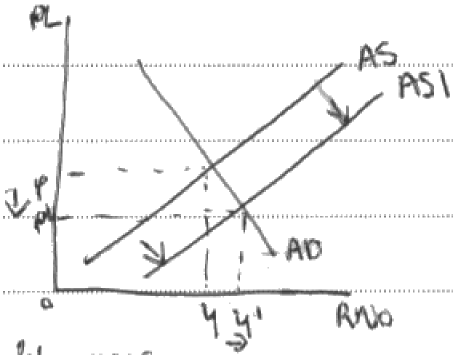
Do ensure your answers are correct in terms of the economic situation explained in the figures and extract.

(d) With reference to the data, explain **two** likely reasons for the UK's falling inflation rate.

(6)

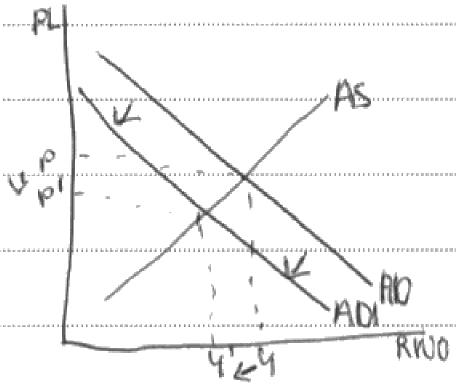
Inflation rate is the general price of goods and services in economy.

From the extract a contributing factor that caused a fall in interest rates was the decrease in commodity prices (global oil prices which roughly halved since Summer 2014), with a decrease in commodity prices



means cost of production decreases so they can supply more which leads to lower prices

Another likely reason is due to falling real incomes which leads to less aggregate demand as they have less disposable income to buy things. so it decreases the inflation rate



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Examiner Comments

This answer includes two relevant reasons which are well applied and analysed, and as such earns the maximum mark of 6/6.

Question 6 (e)

This question was one that candidates needed to read properly to ensure they were writing a relevant answer. The key word really was 'concerned'- should the MPC be concerned about the risk of deflation? Candidates need to ensure their answers focused specifically on deflation- whether this was a risk or not. Many candidates picked up on the reference to Japan in extract B, and the more able answers went on to explain why exactly Japan found deflation so hard to shift once it had set in. Other good answers referred to the fact that the UK was close to deflation and issues around the ability of the Bank of England to cut interest rates further bearing in mind they are already at 0.5%. There were many other relevant points that candidates made, both for KAA and for evaluation.

(e) With reference to Extracts A and B and your own knowledge, discuss whether the MPC should be concerned about the risk of deflation in the UK economy.

(15)

The MPC should always be concerned about deflation at this moment in time however not so very much as the world economy are all doing except from those countries that have never had a grip on their economy (Portugal, Greece, Italy & Spain). However deflation is something to still ~~[illegible]~~ worry about as once you have it "you can't get rid of it" as banks know how to coupe with an increasing inflation by raise interest rates to stop people from spending a start saving to stop deflation you would do the opposite by decrease interest ~~[illegible]~~ rates however due to the fact that interest rate are so low there is nothing central banks will be able to do to stop their countries from going ~~&~~ into deflation as interest are at 0.5% at this moment ~~[illegible]~~ in time. Which is why ~~&~~ I believe ~~[illegible]~~ the MPC in England should be very much so be concerd about deflation as it has already hit the EU who are currently at 0.3% deflation and have no way of getting out of it meaning the CBE should increase interest rates so that they have a way of combating deflation when it hit the UK

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Examiner Comments

This answer very clearly explains the problem of monetary policy being unable to deal with deflation. Unfortunately, that is all it says. There is no evaluation of this or any other points discussed. Overall therefore this answer achieves a level 2 for KAA, and no marks for evaluation.

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Examiner Tip

Make sure in advance of the exam that you know which questions, such as this one, require evaluation.

(e) With reference to Extracts A and B and your own knowledge, discuss whether the MPC should be concerned about the risk of deflation in the UK economy.

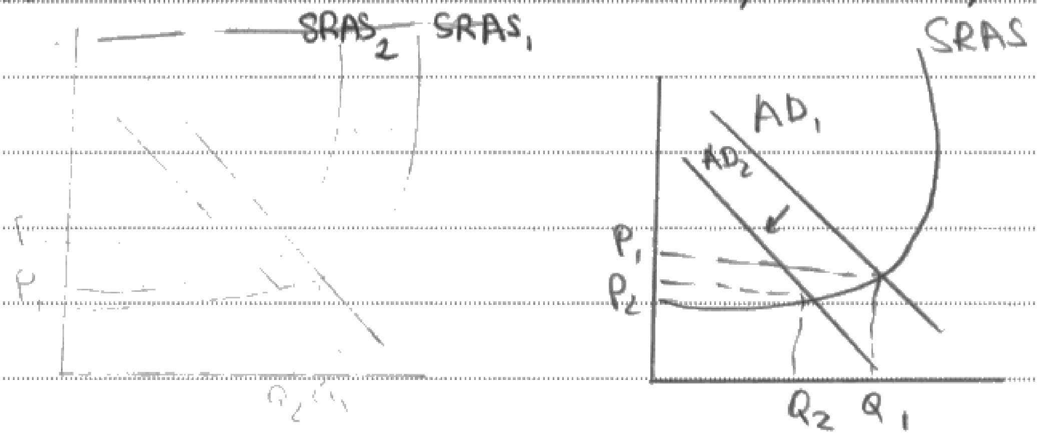
(15)

Deflation is a fall in prices over a certain period of time (usually 6 months). According to extract B, the problem with deflation is that once you have it, you can't get rid of it, because government can use a monetare policy such as decreasing the interest rate in terms to increase spending and ~~the~~ to decrease ~~t~~ savings, but they don't have the policy tools to deal with deflation when interest rates are almost as low as possible. It might be caused by an assumption of government, that with decreasing the interest rate, people will spend more, however, there might be the liquidity trap, which means that people will not to start to spend more.

Moreover, deflation leads to the recession, Because the prices are too low, so businesses have low profits and therefore can not afford to expand and develop. Likewise, since the businesses have lower profits caused by not enough of demand,

there the cyclical unemployment might increase. So, more people are unemployed and more people need to have welfare benefits from government, which increase the government spending and the budget deficit.
~~Furthermore, in the long run~~
However, in the short run, since the prices are low, the exports might increase and the trade competitiveness will also increase, which will lead to decrease in the trade deficit, which is good for an economy. So, in the long term, since there is increase in demand on the pound, the currency will appreciate and come stronger which might help to stabialise the economy and increase economic growth.
Moreover, government have an opportunity cost when deciding to increase welfare benefits, they might instead invest money in infrustructure to improve the economy by multiplier and boosting or they can either give subsidies to the firms for them to recover or stabialize. However, the subsidies might not

not be high enough, so won't help.
Also, the voluntary unemployment might also increase because the wages are too low because of the low profits.



However, as there is a deflation, and prices are low people will start to consume more and therefore boost an economy. On the other hand, ~~that~~ during the time of deflation people are more likely to save money, rather than spend

ResultsPlus
Examiner Comments

This answer has some good explanation of the problems the MPC has in trying to deal with deflation to start off with and also talks about the risk of deflation leading to a recession. They also have some good evaluation about how it might improve competitiveness. Unfortunately, it does drift off-topic towards the end. Overall therefore this answer is a level 3 for KAA and a level 2 for evaluation.

Question 6 (f)

The key word in this question is 'successful'. Candidates are expected to discuss arguments that the MPC has and has not been successful in keeping inflation on target since 2011. Less able answers failed to truly address this specific demand of the question, and instead focused simply on explaining the monetary policy transmission mechanisms. This is obviously an important part of it but to access top levels there also needed to be a clear answer to the question. In both (f) and (g) candidates need to remember that their answer should include a 'substantiated judgement' as part of level 3 evaluation.

Answer EITHER

(f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

OR

(g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

(20)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 6 (f)** ☒ **Question 6 (g)** ☐

Write your answer here:

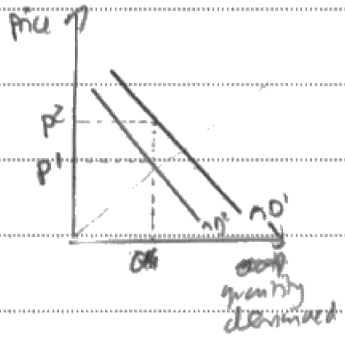
Inflation is the sustained rise in the general price level
The Uk's target for inflation is 2% +/- 1%.

One one hand, it could be considered that the MPC has been successful because it took around a year to get within the target bracket of inflation. ~~assum~~ Since that point, the inflation has been in the target range, until recently. This is shown as in Jan 2011 inflation rate was 4% and fell to within target range of 2% +/- 1% in April 2012.
// On the other hand, people could be of the opinion that the MPC has not been successful because all that has happened is that ~~there~~ trend is a fall in inflation. This means it was inevitable for there to be periods of good levels

of inflation, however, it carried on falling and was not controlled. Therefore the MPC has only been successful in decreasing inflation, not controlling it. This is shown ~~as~~ in October 2011 inflation peaked at around 5.2% and since then the general trend has been a fall in inflation rates: October 2011 = 5.2%, October 2012 = around 2.3%, October 2013 = 2.1%.

However, controlling inflation takes time, therefore the MPC may have inflation under control, however we do not see the effects immediately. The strategy can already be planned and put into action, and now it is just preventing any drastic changes until the plan is totally successful.

Although, this may be true, many feel that the MPC cannot have it under control, since inflation is now at a record low and is looking to go negative.
This lack of control will reduce consumer confidence. This leads to a fall in consumption and therefore a fall in aggregate demand. This will then mean a further decrease in the general price level, which may cause a fall in inflation to an even lower level, possibly forcing it into deflation



*Overall, there should always be caution when interest rates are falling, as they are now, however, with the possibility of cutting interest rates, the MPC shouldn't need to be too worried about inflation.

There will always be ups and downs in ~~the~~ inflation but the MPC should look to avoid deflation, otherwise the UK is at risk of experiencing what Japan did between 1999 and 2012 of several years of deflation, thus proving its difficulty to escape.

Overall the inflation will be very hard to control and in my opinion the MPC has not been successful as of yet. They have reduced it but not controlled it. They need to ensure it does not reduce any further otherwise they will experience deflation

ResultsPlus
Examiner Comments

This answer focuses primarily on the data in figure 2 to discuss whether the MPC have or have not been successful in controlling inflation. This is important and should be a part of the answer to this question. However this should really be going along with some economic concepts to explain how monetary policy works to achieve a higher level. Overall this answer is a level 3 for KAA and a level 2 for evaluation.

ResultsPlus
Examiner Tip

Remember to make use of transmission mechanisms when explaining key concepts such as monetary policy.

Answer EITHER

(f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

OR

(g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

(20)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 6 (f)** ☒ **Question 6 (g)** ☐

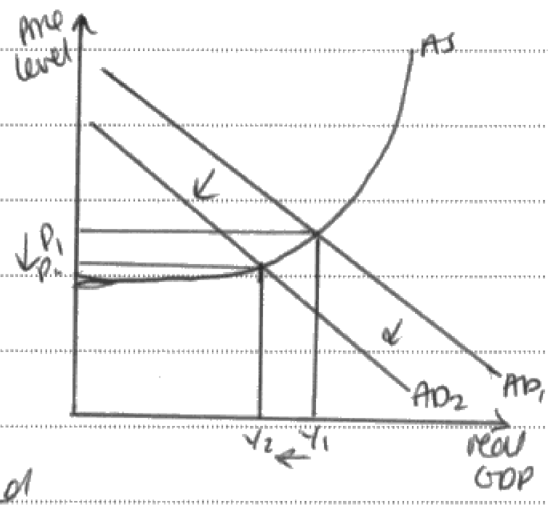
Write your answer here:

The MPC are tasked with an inflation target of 2% within a tolerance range of ±1%. Since 2011 the inflation ~~rate~~ rate has decreased from 4% in 2011 to around 0.5% in 2014. ~~This~~ This was achieved by the MPC primarily through their manipulation of interest rates through the financial crisis ~~cuts in interest rates to 0.5% in order~~ to firstly decrease inflation by increasing interest rates. Though inflation is out of tolerance level, it is ~~th~~ only 0.5% out of tolerance in 2014 than the 1% ~~upwards~~ upwards in 2011.

However, while interest rates ~~this~~ worked initially, recovery in the UK has been slow, and the inflation rate has now fallen extremely low alongside interest rates. These record low interest rates of 0.5% show the failure of the MPC to effectively ~~more~~ en stimulate consumption and AD to increase inflation to the target level away from risk of deflation, showing little control over the inflation rate and unsuccess on the MPC's part.

But, this decrease in inflation is also partly due to the state of the world economy, with the EU in deflation and oil prices sinking. This shows that the MPC cannot entirely be held responsible as they managed to maintain inflation within the target range between April 2012 and October 2014 despite the EU's deflation toward 2015.

However, this keeping in target range may be more due to consumers increasing borrowing on the low interest rates in order to buy on credit. This ~~would~~ may become a problem as national debt rises and the MPC cannot raise interest rates to deter borrowing without risking a total collapse in consumption. As shown on the diagram below, an increase in interest rates will deter investment and consumption, shifting AD to the left, decreasing price level from P_1 to P_2 and decreasing output from Y_1 to Y_2. This would put downward pressure on AD and causes ~~disinflation~~ decreased inflation, and possibly deflation, which would cause the MPC to decrease interest rates again to stimulate consumption. Therefore effectively creating a loop of increased and decreased inflation and interest rates showing the unsuccess of the MPC's efforts to control inflation



~~But~~ However, the MPC's decisions are not yet ~~to seem not ...~~ in place, as it takes time for consumers to adjust to new interest rates, and even then the banks can charge different rates. Meaning we do not yet know the confirmed ~~continued~~ effects of the MPC's interest rate cut, as the economy may well bounce back from low inflation to back within tolerance, from demand-pull inflation or cost-push inflation if oil prices rise (cost push) or investment / government spending increases (demand-pull), the MPC may be successful. Moreover, if the MPC increase interest rates by a small amount, this may have little to no effect on consumer spending and keep inflation healthy.

However, if the multiplier is large, any change in interest rates will have a significant impact on consumption, moving AD further left and increasing decreased rate of inflation toward deflation, making the MPC unsuccessful trying to control inflation.

ResultsPlus
Examiner Comments

This is a more able response than the previous one. While it has some of the same points about referring to figure 2 it takes this a step further and discusses, for example, the current state of the world economy and the multiplier effect. The evaluation in particular in this question is more developed than in the first answer. Overall therefore, this answer achieves a high level 3 for its KAA and a low level 3 for evaluation.

Question 6 (g)

This was the more popular of the two essay questions. There tended to be less answers to this question that didn't focus on answering it. However, what did hold back a lot of candidates was that the question did not ask them to evaluate demand-side policies. The question specifically refers to the Global Financial Crisis of 2008. To get top marks candidates' answers needed to be in the appropriate context. For example a discussion of using high interest rates to combat high inflation is clearly not in the context of the UK economy over the last few years. As mentioned on section (f), it is important that candidates remember that their answer should include a 'substantiated judgement' as part of the criteria for level 3 evaluation.

Answer EITHER

(f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

OR

* UK left too early
* US slowly out, they say that why they are better off (economy)

(g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

* Fan National debt + deficit.

(20)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 6 (f)** ☐ **Question 6 (g)** ☒

Write your answer here:

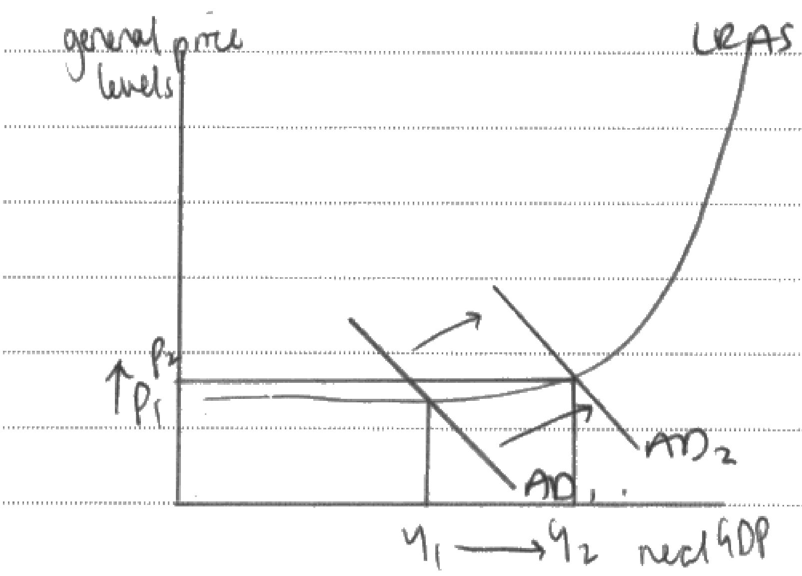
Demand-side policies are policies that stimulate aggregate demand. The policies they used in the global financial crisis of 2008 ~~to~~ were monetary (expansionary) and fiscal (expansionary). Both the US and UK used these policies.

At the start of the recession the govt ~~used~~ implemented expansionary fiscal policy. They temporarily cut taxes (VAT) to 15% from 17% and increased government spending ~~on~~ infrastructure in order to create jobs and increase confidence in ~~spe~~ consumer spending. This was effective because it stimulated a rise in confidence as products became slightly cheaper and ~~people had~~ unemployment slowly began to reduce. Unlike the great depression, where they cut govt spending and increased taxes (to focus on balancing the budget), the aim of the 2008's crisis policies were to increase demand and actual growth. However this came with consequences of a growing budget deficit and ~~an~~ National debt.

Aswell as this ~~they govt.~~ labour govt used expansionary ~~f~~ monetary policy by lowering the base rate to 0.5, this was not effective enough so they used quantitative easing. Banks could borrow money from the Bank of England cheaper and therefore this meant the banks were more likely to say yes to loans and therefore consumers and businesses could invest in the economy, achieving ~~growth~~ potential growth and a positive output gap. This was only effective because the govt helped banks by giving the money and not letting them collapse like they did in the great depression. This lead to consumer confidence staying the same or decreasing minimaly. ~~Eventually~~

Eventually the govt increased VAT ~~ago~~ but increased it to 20% as people got richer and demanded more goods. In the end, the UK govt saw a recovery period being successful and so they quickly phased out the policies. However, this meant a reduction in confidence but by only a little. The USA on the other hand slowly phased out these policies which helped in the long run because it wasn't quickly back to normality.

In conclusion, the size of the effectiveness depends on whether the increase in govt spending and reduction of taxes was large enough to make a difference. It also depends where we are on the curve, whether the policies will cause too much inflation and not much growth - on this hand we know we are on the elastic part of the Keynsian curve ~~because~~ so as demand increases so too does GDP but not ~~so~~ price, by much.



There is a greater increase in GDP than price.

It also depends on what curve we are on to which policies we should implement.

ResultsPlus
Examiner Comments

This is a more able answer where the candidate has discussed both expansionary fiscal and monetary policies. There is also a lot of context to their points, where they have clearly tried to relate what they are writing to the Global Financial Crisis of 2008. They have also included a number of good evaluative points, including about the elasticity of the AS curve, for example. Overall this answer achieved a high level 4 for KAA and a high level 2 for evaluation.

ResultsPlus
Examiner Tip

In essay questions it is always good practice to break up your points into separate paragraphs so the structure of your argument is clearer.

Answer EITHER

(f) Evaluate whether the MPC has been successful in controlling the UK's inflation rate since 2011.

(20)

OR

(g) Evaluate demand-side policy responses to the Global Financial Crisis of 2008.

(20)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 6 (f)** ☐ **Question 6 (g)** ☒

Write your answer here:

One demand side policy would be monetary policy. Monetary policy is about controlling interest rates and the value of the pound. ~~I~~ During the financial crisis, interest rated dropped by 5%. ~~~~ This was done to try and stimulate the economy as more people would be able to borrow and then spend that money on starting their own businesses. The value of the pound, however, wasn't controlled by the ~~governm~~ government and controls itself. ~~Another~~ Advantages of using monetary policy would be that you can get more people to start businesses as they can borrow money and the government could reduce the value of the pound to try and increase the amount of exports. However, disadvantages would be that now the base rate is at 0.5%, there is no room to decrease it further if there is another recession. Another ~~disadvantage would be that~~ demand-side policy would be fiscal policy. Fiscal policy is all about taxing and spending. The government can decrease taxes to increase consumer spending, or they can increase taxes and therefore increase government spending. Advantages of fiscal policy would be that there isn't as much of a time lag as there is with other policies, it can increase consumer spending and therefore boost the economy, however, disadvantages would be that there is alway an opportunity cost as increased taxes would ~~increase~~ decrease ~~government~~ consumer spending and decreased taxes would decrease government spending.

Overall the demand side policies were quite successful ing getting the

UK out of the financial crisis as interest rates were cut and the government were able to use the amount of taxes to stimulate growth, even though there was an opportunity cost.

ResultsPlus
Examiner Comments

In this answer the candidate has explained the concepts of both fiscal and monetary policy and explained how they could help to boost aggregate demand in the economy. However, there is no context in terms of relating it to the Global Financial Crisis of 2008, and the analysis could be more developed. They also try to bring in the exchange rate but do not really explain it correctly. There are evaluation comments here but they are of a somewhat brief nature and, again, could do with a bit more development. Overall therefore this answer is a high level 2 for KAA and a low level 2 for evaluation.

ResultsPlus
Examiner Tip

Remember to ensure your answer is focused on the specific context given by the question.

Paper Summary

Based on their performance in this exam, candidates are offered the following advice:

- Ensure you manage your time effectively: it does say in the exam paper to spend 25 minutes on section A and 1 hour 5 minutes on section B. If candidates spend too long on section A they are in danger of running out of time for the 15 and 20 mark questions at the end of the exam paper.
- Ensure you are aware of key definitions, for example claimant count, purchasing power parities, and circular flow of income that were tested in this paper.
- Be aware of all formulae and quantitative skills.
- Ensure you carefully study and understand the figures and extracts provided in section B. These form the context for the questions, and answers should be related to this context and not be entirely theoretical.
- Remember to keep your answers within the space provided. If you run out of space you should ask for additional paper and clearly indicate which question you are writing about.
- It is indicated on the front of the exam paper that 'there may be more space than you need'.
- There is no need to repeat the question back to the examiner - save yourself some time and get straight on with answering the question.
- Don't spend too much time on long introductions when a question has only asked to, for example, 'explain two reasons...'. Here, marks will only be awarded for your explanation of your reasons so you should start immediately with your first reason.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx

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