Examiners' Report
June 2018

GCE Economics A 8EC0 02

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Introduction

This report provides feedback on 8EC02 'The UK Economy - Performance and Policies'. Candidates' responses to the questions have largely been of an expected standard.

Section A highlights the need for candidates to be accurate in their definitions. Many candidates are losing marks because they cannot clearly define key economic concepts such as gross domestic product (GDP) and recession. Quantitative skills are also an important skill and, whilst there appears to have been some progress in this area compared to last year's paper, there is still an opportunity for improvement here. It is vital that candidates can calculate key quantitative measures such as percentage change as well as being able to correctly interpret data presented in a variety of forms.

In section B it is essential that the candidates read the question carefully. Many have evaluated questions which do not necessitate them to do so. This meant they were unable to devote the right amount of time for higher mark questions. Candidates must ensure they are answering the precise question set. For example, for Q6(c) candidates needed to explain only one factor and for Q6(d) they had to explain two factors. Several candidates have spent time explaining one additional factor for each of these questions; hence they were not able to maximise their efficiency in terms of managing their time.

For the questions where candidates had a choice, Q6(f) and Q6(g) were nearly as popular as each other. In Q6(f) many candidates failed to focus on 'government policies' referred to in the question and, as such, lacked context required to access the top level. 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 they had been provided with. In Q6(g) candidates who focused their answer convincingly on the impact on UK's macroeconomic objectives were likely to achieve more highly as they offered a clear perspective to their answer. Another significant point to recall in both Q6(f) and Q6(g) is, to quote the Level 4 knowledge, application and analysis criteria, there needs to be 'logical and coherent chains of reasoning'. This contrasts to the Level 2 criteria which describes a 'two-stage chain of reasoning only'.

Question 1 (a)

This question requires a short but precise definition of gross domestic product (GDP). It is important that candidates are clear in their answers.

(a) Define the term 'Gross Domestic Product'.

(1)

The total value of goods and services produced in an economy over time.

ResultsPlus
Examiner Comments

This candidate gives an accurate definition of Gross Domestic Product and as such achieves the 1 mark available.

(a) Define the term 'Gross Domestic Product'.

(1)

Gross Domestic Product is the measure of the economic activities carried out in a country

ResultsPlus
Examiner Comments

This candidate does not define Gross Domestic Product accurately and hence does not attain the 1 mark available.

Question 1 (b)

This is a GDP per capita calculation question that candidates were able to answer relatively easily. Candidates need to be careful to read the question and the data carefully, as some candidates lost marks because they selected the wrong two pieces of data.

(b) Calculate the UK's GDP per capita in 2015. You are advised to show your working.

(2)

GDP per capita means GDP per head of the population

$$\frac{1,872,714,000,000}{65,100,000} = £28,766.73$$

ResultsPlus
Examiner Comments

This candidate achieves 2/2 marks. They have correctly calculated an answer of £28,766.73.

(b) Calculate the UK's GDP per capita in 2015. You are advised to show your working.

(2)

$$\frac{65.1}{1872.714} = 3.47623823 \times 10^{-5}$$ $$\frac{6500100}{1872714} = 3.47$$

GDP per Capita = 3.47

ResultsPlus
Examiner Comments

This candidate achieves 0/2 marks. They have not correctly calculated the UK's GDP per capita.

Question 2 (a)

This question requires an accurate definition of a recession. Candidates were not asked to state the characteristics of a recession in this question.

2 (a) Define the term 'recession'.

(1)

Recession occurs when there is negative of GDP growth for two consecutive quarters.

ResultsPlus
Examiner Comments

This candidate has an accurate definition of recession and as such achieves the 1 mark available.

2 (a) Define the term 'recession'.

(1)

a period of economic decline. Due There is less spending and increased unemployment

ResultsPlus
Examiner Comments

This candidate does not define recession accurately and hence does not attain the 1 mark available.

Question 2 (b)

This question required candidates to explain only one characteristic of a recession. Many candidates listed several characteristics and did not often explain the characteristic they had identified.

(b) Explain **one** characteristic of a recession.

(2)

There is usually high level of unemployment during a recession. As AD of the economy is low, firms aren't earning that much profit so they might make workers redundant to reduce cost of production, so unemployment rises.

ResultsPlus
Examiner Comments

This candidate gets 2/2 marks. They have identified and explained a characteristic of a recession.

(b) Explain **one** characteristic of a recession.

(2)

In a recession the unemployment inflation decrease. The inflation is an increase in average price level

ResultsPlus
Examiner Comments

This candidate gets 1/2 marks. They have only identified a characteristic of a recession but have not given an explanation.

Question 3 (a)

In this question the marks are split as 1 for knowledge, 1 for application and 1 for analysis. The knowledge comes from identifying one factor that the MPC considers, the application for using the data, and analysis for some development building on the knowledge/factor identified.

3 UK base interest rate, January 2008 to January 2017
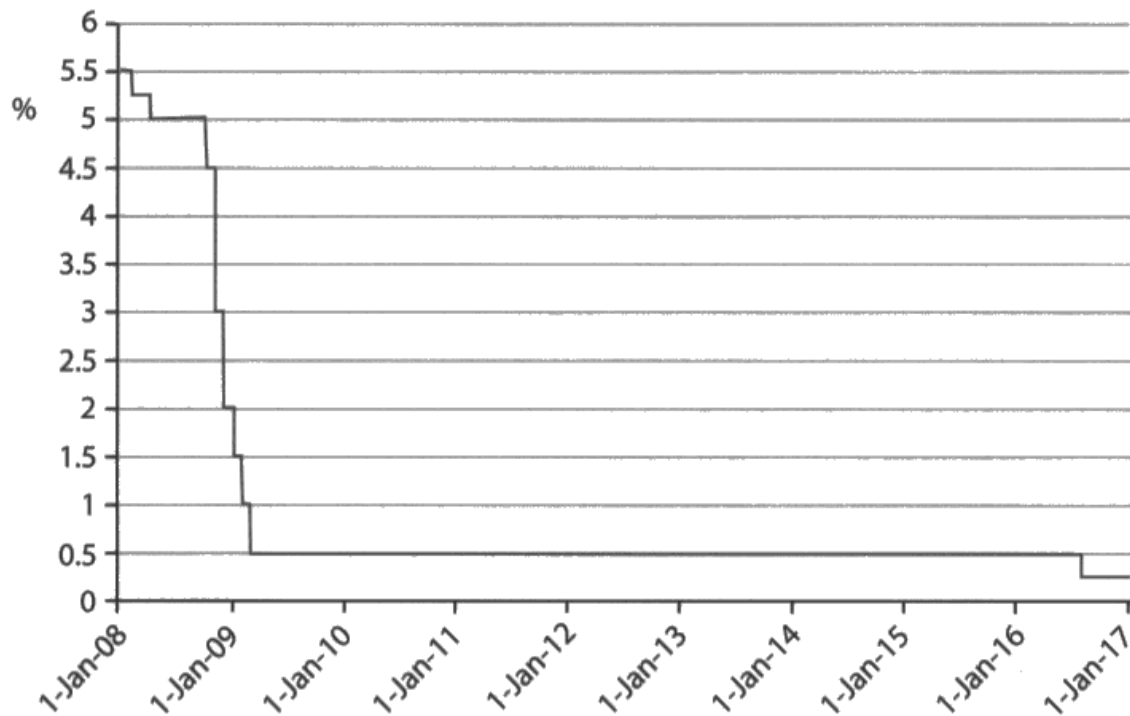
(Source: Bank of England, http://www.bankofengland.co.uk/boeapps/iadb/Repo.asp)

(a) With reference to the chart above, explain **one** factor that the Monetary Policy Committee (MPC) of the Bank of England may have considered when reducing the base interest rate.

(3)

Interest rates the cost of borrowed money, we can see that it has been decreased from 5·5% in 2008 to 0·25% in 2007, that is a 5·25% drop. The MPC will have to consider the level of spare capacity in the economy such as unemployment rate when setting interest rate, this is because it reflects the level of AD we are at, so when unemployment is high, interest rates will drop to boost out AD

This candidate gets 3/3 marks. They have received the application mark for using the data accurately, the knowledge mark for identifying spare capacity as a factor and an analysis mark for developing this point.

3   UK base interest rate, January 2008 to January 2017
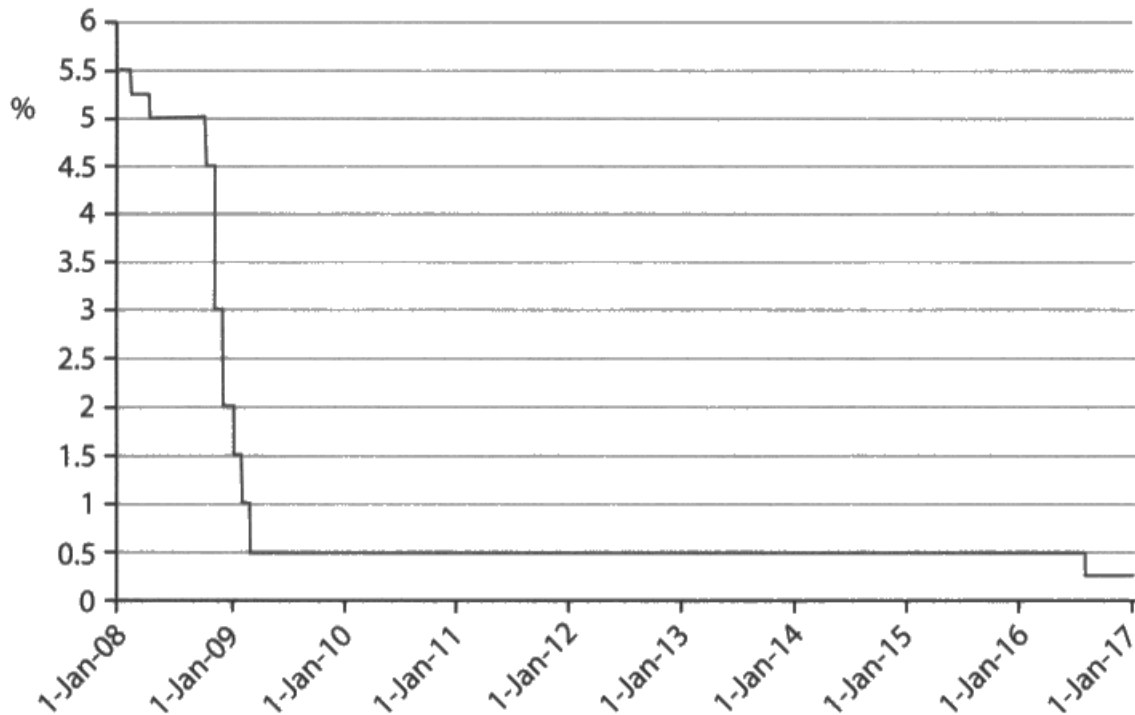
(Source: Bank of England, http://www.bankofengland.co.uk/boeapps/iadb/Repo.asp)

(a) With reference to the chart above, explain **one** factor that the Monetary Policy Committee (MPC) of the Bank of England may have considered when reducing the base interest rate.

(3)

One factor the Monetary policy committee of the Bank of england may consider when reducing the base intrest rate is the level of employment and unemployment

ResultsPlus
Examiner Comments

This candidate gets 1/3 marks. They have received the knowledge mark for identifying one factor but have not achieved marks for application and analysis.

Question 4 (a)

This question requires a clear definition of aggregate demand. Many were not able to provide an accurate definition and hence did not get the mark for this question.

(a) Define the term 'aggregate demand'.

(1)

Aggregate demand is the total demand in an economy. It is calculated this way Consumer spending + government spending + investment + (exports - imports).

ResultsPlus
Examiner Comments

This candidate achieves the 1 mark as they go beyond mentioning that aggregate demand is the total demand, and provided the AD equation.

(a) Define the term 'aggregate demand'.

(1)

Aggregate demand is the total demand in the economy.

ResultsPlus
Examiner Comments

This candidate does not define aggregate demand accurately and hence does not attain the 1 mark available.

Question 4 (b)

This question requires candidates to draw the effect of a rise in the cost of raw materialsin context of an AD/AS diagram. Marks were awarded as 1 mark for the leftward shift in SRAS and 1 mark for a new equilibrium showing higher price level and lower real output. Most candidates achieved the 2 marks on this question.
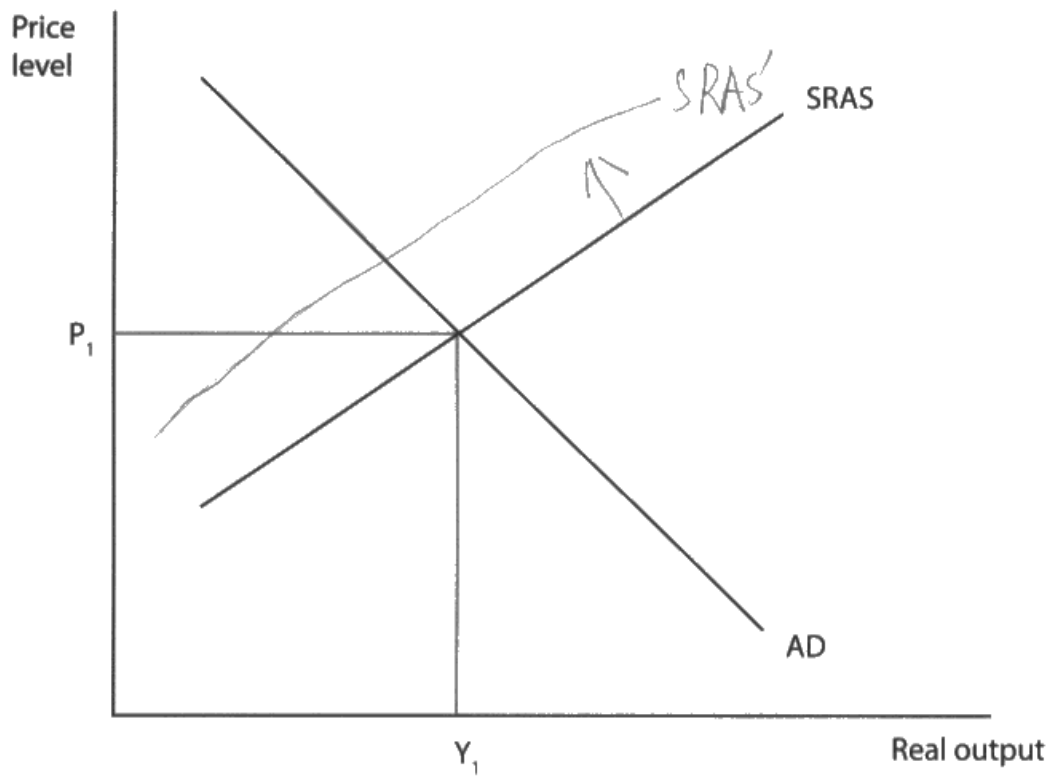
4 The diagram below shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for the UK.
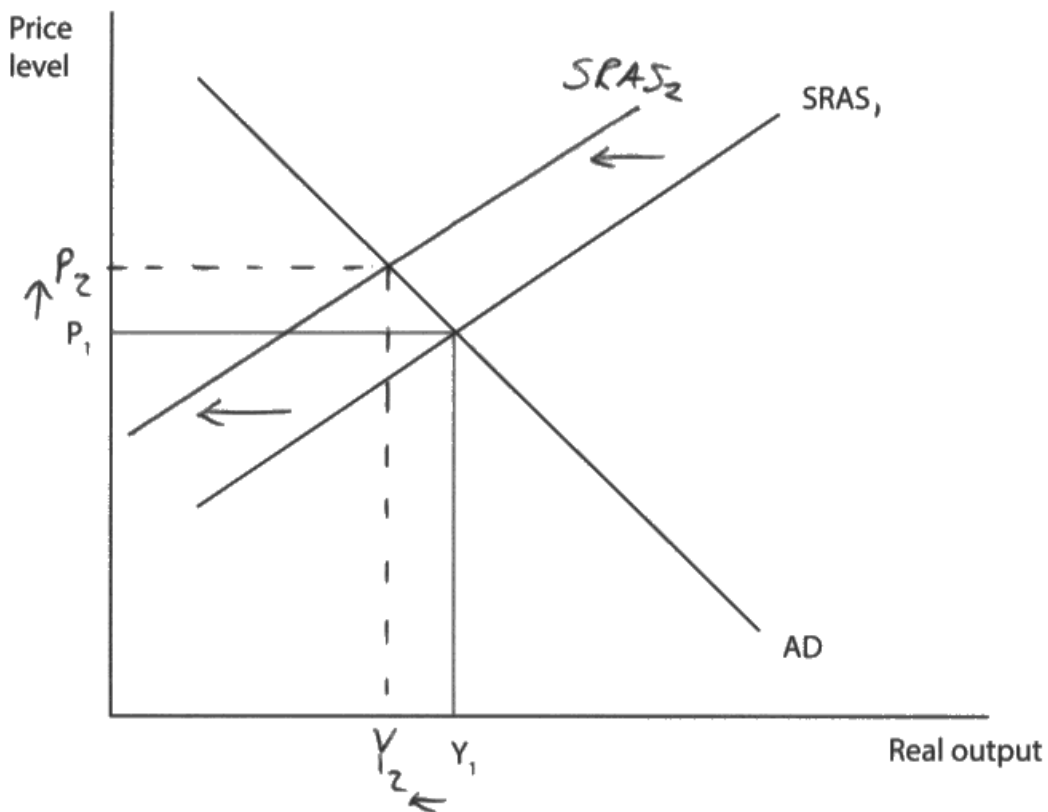
ResultsPlus
Examiner Comments

This candidate achieves 2/2 marks. The shift in SRAS is correct and they have illustrated the new equilibrium and the change in price level and real output with the dotted lines.

4 The diagram below shows the aggregate demand (AD) and short-run aggregate supply (SRAS) for the UK.

Question 5 (b)

This question asked candidates to calculate the forecast UK government spending on social protection as a percentage of total forecast UK government spending in 2016/17. Many candidates were able to answer this question relatively easily. However, some candidates lost marks because they selected the wrong two pieces of data.

(b) In 2016/17 total forecast UK government spending amounted to £772 billion and total forecast tax receipts amounted to £716 billion.

Calculate forecast UK government spending on social protection as a percentage of total forecast UK government spending in 2016/17. You are advised to show your working.

(2)

240 billion out of 772 billion

$$\left(\frac{240}{772}\right) \times 100 = 31.088$$

31%

(b) In 2016/17 total forecast UK government spending amounted to £772 billion and total forecast tax receipts amounted to £716 billion.

Calculate forecast UK government spending on social protection as a percentage of total forecast UK government spending in 2016/17. You are advised to show your working.

(2)

240 - Social protection.

240
+ 145
+ 102
+ 46
+ 34
_____
5 6 7

567 = 100%

$\dfrac{240}{567} \times 100 = 42.32804233$

$\hookrightarrow 42.33\%$.

42.33%.

Question 5 (c)

This question requires a definition of budget deficit. A few candidates were not able to provide an accurate definition, as they confused budget deficit with current account deficit; hence did not get the mark for this question.

(c) Define the term 'budget deficit'.

(1)

When government spending is greater than government tax revenue

(c) Define the term 'budget deficit'.

(1)

The term budget deficit means an set allocated amount of money that is to be used for government spending (intervention).

Question 6 (a)

The marks for this question are split in half between knowledge and application. Candidates achieved 2 marks for an explanation of one reason and 2 marks for some relevant application from Figure 1. Candidates lost marks where they were only defining the two measures and not explaining why they differ.

6 (a) With reference to Figure 1, explain **one** reason why the claimant count and the ILO measure of unemployment differ.

(4)

Unemployment is when people who are willing, able and actively seeking for jobs but are unemployed. The claimant count measures the number of people claiming unemployment benefits. For example, in 2010, ILO measure of unemployment was 2.5 million, however, claimant count was only 1.5 million, a difference of 1 million could be seen. This is because the number of people receiving unemployed benefits is smaller than the number of unemployed people. This is because getting benefits require background check and proofs of seeking for employment, which makes it harder. Moreover, some people could be in short-term unemployment, they might not need to live on benefits.

R--- ResultsPlus
Examiner Comments

This candidate achieves 4/4 marks. They have both of the application marks – mentioning both ILO and Claimant Count figures. They also attained 2 knowledge marks for explaining why these measures differ.

6   (a) With reference to Figure 1, explain **one** reason why the claimant count and the
         ILO measure of unemployment differ.

(4)

The claimant count refers to those who are claiming money through job seekers allowance (JSA) where as the ILO – International Labour Organisation sends out questionaires to everyone and the survey is higher. The reason why the two differ is because not everyone claims JSA if they are unemployed. There are many who are unemployed but get no allowance, that's why the count is so low, whereas the ILO is a survey and more people just answered a few simple questions.

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Examiner Comments

This candidate achieves 2/4 marks. They have gained 2 knowledge marks for explaining why these measures differ but do not get any application marks.

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Examiner Tip

Always read the question carefully. Candidates must ensure they refer to the appropriate data provided to get 2 application marks.

Question 6 (b)

This question required candidates to assess the likely macroeconomic effects of increase in house prices using an AD/AS diagram. In these longer questions the focus for a candidate needs to be on the quality of their answer, bearing in mind the levels mark scheme. They should ensure they are clearly giving step-by-step explanations for their reasons. This would cover the exam skills of knowledge, application, and analysis (KAA). There are also 4 marks available here for evaluation. Popular comments revolved around the wealth effect for existing home owners and the effect on inflation, coupled with the impact on first time buyers as evaluation.

(b) With reference to Extract A, assess the likely macroeconomic effects of an increase in house prices. Use an aggregate demand and aggregate supply diagram in your answer.

KA AA A E
2 2 2 A

(10)
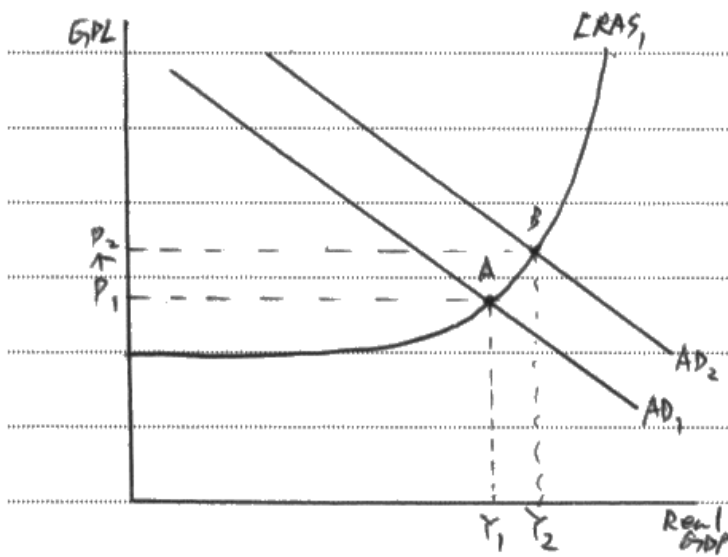
"The average UK house price was £214 000 in June 2016... £24 000 more than it was at its peak in September."

One of the macroeconomic effects is that consumption will increase and therefore AD will shift out. According to extract A, "annual growth increased from 5.2% in July 2016 to 5.6% in August 2011". The higher growth in house prices will will increase consumption as house owners experience an increase in wealth - the wealth effect. If they take an equity out of their house, they can get hold of more money/cash, which will then be used to buy goods/services. This increase in consumption will therefore shift out AD. However, there are regional variations so the effect on the economy may remain unchanged or insignificant. For example, "annual average growth in London rose by 9.6%", however, "Wales average house prices actually fell by 0.5%", changes in growth in different regions may therefore offset each other.
Another macroeconomic effect is inflation. For example, those who own a house will experience a larger wealth,

* the higher consumption translates to higher general price level. An outward shift of AD from AD_1 to AD_2 will result in a new macroeconomic equilibrium where output has increased $Y_1 \to Y_2$ and GPL has increased P_1 to P_2. Therefore, it puts an inflationary pressure on goods/services. However, it depends on the size of the output gap (negative) or where we are in the economy. If we are in a recession ie output gap is large, an outward shift of AD will only increase output, and will have no effect on the GPL. If, however, the output gap is small (boom time), then an increase in AD will lead to a high inflation rate.


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Examiner Comments

This is a more able response, scoring the full 10 marks. It clearly and logically explains different effects of an increase in house prices and also offers two relevant evaluations of these points. The candidate uses the data from the extract to support their arguments.

(b) With reference to Extract A, assess the likely macroeconomic effects of an increase in house prices. Use an aggregate demand and aggregate supply diagram in your answer.

(10)
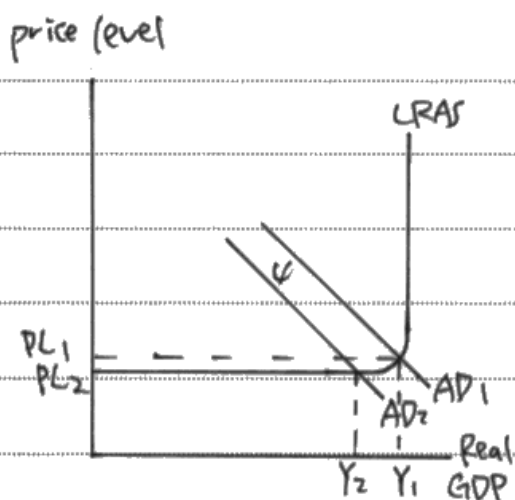
As the house prices increase, consumers will be less able to afford to buy a house, which consumption will decrease, which aggregate demand would decrease from AD to AD₂ and price level will decrease from PL₁ to PL₂. In 2016, the average UK house price was £214 000, £24000 more than it was at its peak in September 2007. However, Increase in house prices could cause, government spending on helping people to buy houses to increase, for example first time buyer scheme which as government spending increase aggregate demand will increase. Also, in the long term of aggregate demand decrease housing prices will fall to meet aggregate demand and will be affordable again.

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Examiner Comments

This answer scores 3 marks in total. There is no evaluation and so the highest mark possible is 6/10 marks. In terms of KAA, only one relevant point has been explained - government spending on helping people to buy homes. This however could have been further developed and hence only fits with the criteria for Level 2.

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Examiner Tip

Keep the levels in mind – in this case you are aiming for KAA Level 3 and Evaluation Level 2.

Question 6 (c)

This question asked candidates for one specific factor, so it is important for candidates to make the most of their time in the exam and not explain two factors. Several possibilities could be explained here, such as real income and unemployment. Popular application amongst candidates included the use of Figure 2. Candidates should remember that in these shorter questions examiners are looking for specific pieces of application.

(c) With reference to the information provided, explain **one** likely factor, other than changes in house prices, that could influence the level of savings of UK households.

(5)

One factor that could influence the level of saving in UK house is unemployment rates. When unemployment levels are high, houses tend to increase savings due to a lack of consumer confidence. They prefer to save rather than spend as they may face financial difficulty in the future, so it would be better to be prepared. Conversely, when unemployment levels are low, consumer confidence increases leading to a higher level of spending as people believe the economy is in a good position. ~~Evidence~~

Evidence of this can be seen in figure 1 & 2. When unemployment claimants in 2010 were at 1.5 million, household saving was at 11.5%. Then when unemployment claimants dropped to 0.8 million in 2015, household saving decreased to 5.9%.

This answer provides exactly what the examiner is looking for and gets 5/5 marks. A relevant point in the form of unemployment rates which is clearly analysed in the first paragraph along with application from the extract in the second paragraph.
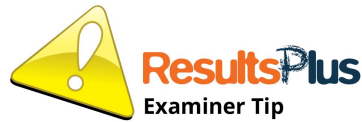
(c) With reference to the information provided, explain **one** likely factor, other than changes in house prices, that could influence the level of savings of UK households.

(5)

The level of consumer confidence. The loss of consumer confidence over Britain's vote to leave EU means that increased a uncertainty of the prospect of UK economy so households are likely to increase savings in case that the economy falls into recession the future years.

Question 6 (d)

This question asks candidates for two factors. It is important that candidates focus specifically on their factors and answer the question in terms of the multiplier. Too much time was wasted on explaining and drawing the circular flow of income diagram without any link to a rise in the value of the multiplier. Each reason needed to be identified and analysed. There are two marks for application, which most candidates attained through the use of an accurately written multiplier formula.

$\dfrac{1}{MPW}$

(d) Explain **two** factors that might cause a rise in the value of the multiplier.

(6)

One factor is a fall in the marginal propensity to save (e.g. from 0.11 in in 2010 to 0.055 in 2015). This reduces the total withdrawals from the circular flow of income, increasing the multiplier ($= \dfrac{1}{MPT + MPS + MPM}$) as ~~more money~~ is more money is circulated around.

Another factor is a fall in the marginal propensity to import. If there is a fall in real incomes then consumers may import less, reducing its withdrawal from the circular flow of income. This increases the value of the multiplier ~~as more money is~~

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Examiner Comments

This candidate gets 6/6 marks for this answer. They identify two factors - a fall in the marginal propensity to save and a fall in the marginal propensity to import. They get 2 application marks for the use of multiplier formula and their explanation is well made, which gives the other 2 marks for analysis.

(d) Explain **two** factors that might cause a <u>rise</u> in the <u>value of the multiplier.</u>

(6)

~~One factor that may cause a~~
The multiplier effect ~~considered~~ means that one person's spending is another person's income so an initial investment into the circular flow of income will cause a larger output of the economy.

One factor that may cause a rise in the value of the multiplier is a decrease in the marginal propensity to save. This means that less money will be withdrawn from the circular flow, and as people spend more the value of the multiplier will increase.

A second factor that may cause an increase in the value of the multiplier is an increase in ~~government investment.~~ exports. This means there is more money that will flow into the country and the circular flow, so will increase the multiplier as people will spend more if they have a larger income.

Question 6 (e)

This question required the candidates to discuss the likely impact of migration on employment **and** unemployment in the UK. Candidates needed to ensure they answered the question being asked, as there were a few candidates who explained the impact on employment as analysis and the impact on unemployment as evaluation. This was credited as analysis and consequently, they were not able to receive any evaluation marks. There was good use of data in this question.

(e) With reference to Extract B and Figure 1, discuss the likely impact of migration on employment **and** unemployment in the UK. eval: ~~as they~~ don't work

:

(15)

~~Employm~~ Unemployment is the number of ~~people~~ ~~with~~ economically active people who are willing and able to work but unable to find employment.

Inward migration of 650,000 people in 2016 is likely to cause an increase in employment, particularly as the reason for 312,000 migrants was employment. Many of the migrants will possess ~~skills~~ high quality skills that ~~can improve~~ may complement the skills of native workers, increasing ~~their~~ labour productivity. This may lead to ~~an increase~~ ~~in~~ a shift of $LRAS_1$ to $LRAS_2$ as the quantity and quality of labour improves. This increases long-term ~~gro~~ trend growth which as well as actual economic growth, leading to an increase in employment.
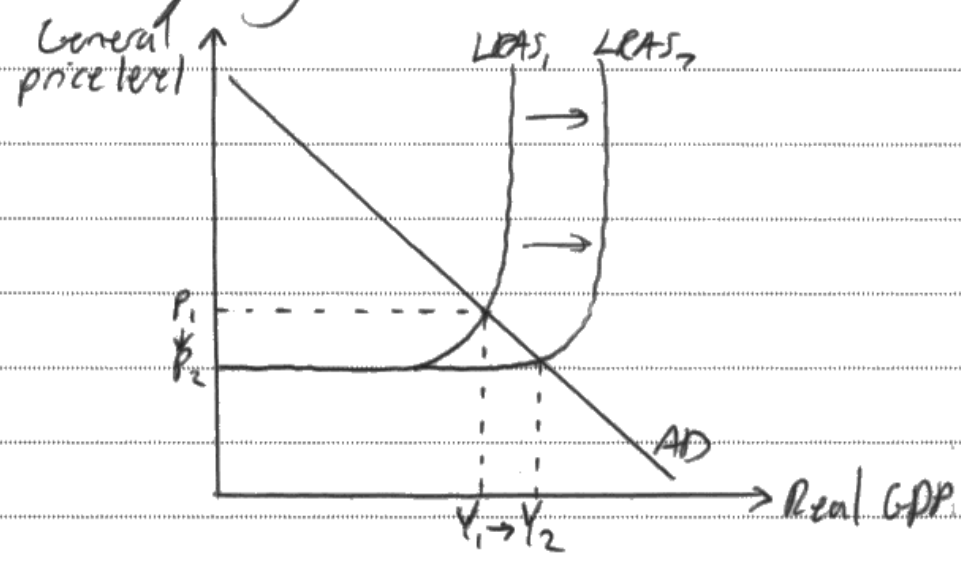
~~Workers may also~~

Migrants may also take jobs that natives are unwilling to do. For example, many Polish migrants work ~~as farm~~ on farms in the UK, ~~increasing~~ that UK workers many be unwilling to do. ~~This increase output.~~

Unemployment in the long-run may also fall in the UK following an increase in immigration. ~~Many immigrants many~~ Some immigrants may set up businesses of their own, possibly ~~using th~~ risking their own capital. This may provide jobs for ~~other~~ natives, reducing unemployment. For example, some Polish immigrants have ~~set~~ created Polish shops which may employ UK workers.

However, if the skills of the immigrants do not complement the skills of UK workers then competition in the labour force may increase. This may lead to an increase in unemployment, particularly as 130,000 of the 630,000 people moving to the UK did not have ~~the~~ a definite job. ~~This may lead to~~ Furthermore, asylum applicants cannot usually accept offers of employment while their case is being processed so they are almost forced to take unemployment

benefits.

In addition, the ~~statistic~~ percentage of those unemployed many fall due to the ~~statistic~~ population increasing due to immigration while th actual figure many not change. This statistical phenomenon may be used deceptively to eg argue that unemployment has fallen when it has not in reality.

(e) With reference to Extract B and Figure 1, discuss the likely impact of migration on employment **and** unemployment in the UK.

(15)

Migration is movement of people between countries for a long-term stay in another country.

According to extract B in the end of June 2016 the migration levels are 'the highest ever recorded' with 650 000 people moving to the UK. The main reason for the migration is employment. In total 312 000 came to the UK to work. This means that the quantity of factors of production, in this case labour, increases. This leads to an increase in the productive potential of an economy. When more people are employed the aggregate supply is likely to rise.
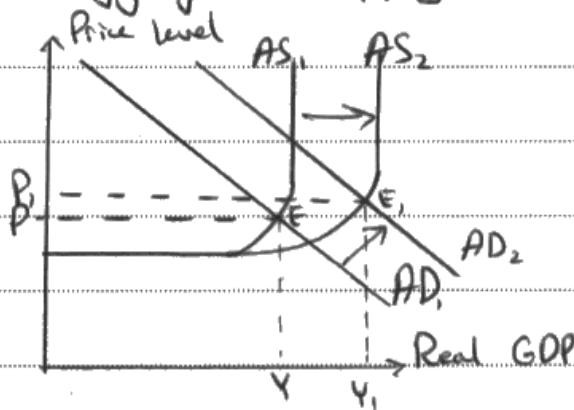
A rise in as is indicated by a shift from AS₁ to AS₂ on the diagram. The total employment in the UK is likely to rise due to increased migration.

However, as more workers come to UK from abroad, the competition for the working places might increase. This means that

migrants who do 国 not have a definite job 雪 (130000) and looking for it 雪 might struggle to find employment. As a result the total unemployment is likely to rise. Also, ~~those living in the~~ native 雪 UK ~~residents~~ citizens might face the 雪 increased competition for workplaces as well. This means that it will be harder to find a job as the migrants will compete for it. Therefore, the 雪 unemployment might increase because of ~~the~~ increased number of 雪 applicants for a workplace

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Examiner Comments

The analysis is not as well developed as the previous answer, and in parts, lacks fully coherent chains of reasoning. The point on employment on the first page is not as detailed as the point on unemployment on the second page. There is no evaluation. Overall this is a low Level 3 for KAA.

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Examiner Tip

There is no need for a conclusion in this question, remember to focus your time only on what is going to get you marks.

Question 6 (f)

This question required candidates to evaluate government policies to increase the employment rate in the UK. Many candidates were able to effectively answer this question and provided arguments on spending on education and training, healthcare and infrastructure. They linked this to increasing employment rate using an AD/AS diagram in context of their explanations. One of the key issues was that a few candidates discussed migration policies which the question asks them not to refer to. As such they did not obtain any marks for this policy.

EITHER

(f) Evaluate government policies, apart from migration policies, that could be used to increase the employment rate in the UK.

(20)

OR

(g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(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 way of increasing employment would be to increase AS (aggregate Supply). This can be achieved using Supply-side policies since a rise in output requires more factors of production. One example would be to launch/create more apprenticeships and Shi schemes focusing on skill development. By tailoring the skills of workers to employment gaps in the economy as well as future employment opportunities, it prevents underemployment and increases overall employment. This is due to the fact that many sectors are expanding and will create jobs in the future. hower It's therefore important to develop the right skills to prevent immobility of employment due to a lack of transferable skills.

However this can prove costly and problematic should the government have too many information gaps. It's possible schemes could be launched into sectors that prove useless long term e.g. coal mining which was a made up a significant proportion of employment in the north and no longer does leaving miners stranded with the need to be retrained or face long term unemployment.
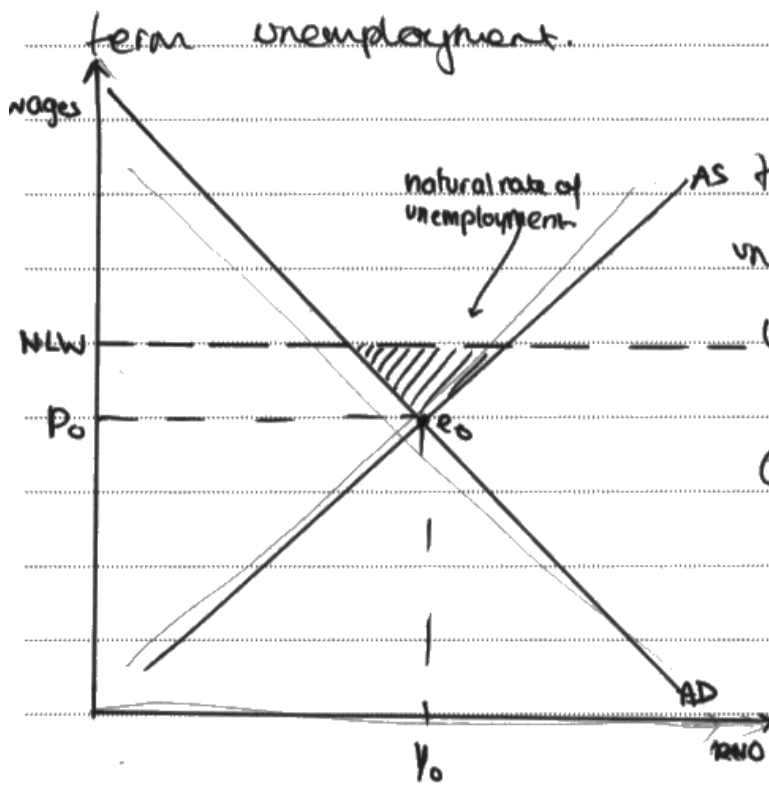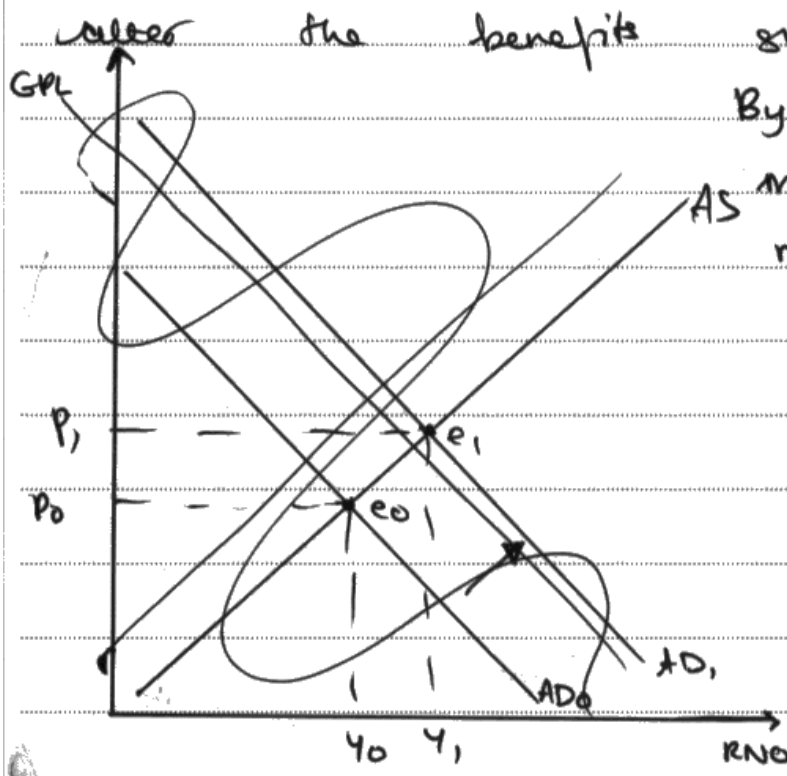
One other alternative that is likely to prove unpopular with workers, would be to reduce the national living wage. Currently in the UK, the rate of unemployment is roughly 4.6%. Since there exists a minimum wage legislation it's impossible to reach employment equilibrium due to this minimum price. By now lowering the minimum wage it would lead to greater demand for workers since the cost of production through wages, falls. This would lead to a decrease in the rate of unemployment since more people would be able to find work. However this brings about the issue

Diagram labels: Wages (y-axis), NLW, P₀, AS, AD, natural rate of unemployment, E₀, Y₀, QNLO

of morality since this would result in a lowering
in living standards as well as greater inequality,
conflicting with one of the UK's macroeconomic
objectives. Not only this but it may not
actually work should the benf benefits
unemployed workers received be greater
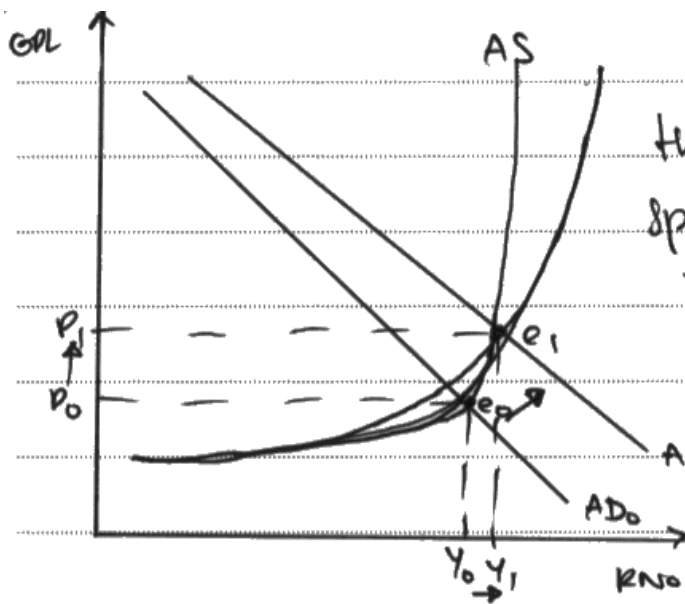or preferable to seeking low paid employment.

One other scheme would therefore be to
alter the benefits system in the UK.
By reducing benefits or
making accessibility
more difficult (e.g.
raising the number of
job interviews a person
must get) would
encourage employment
instead. By
tapering benefits
to those who find

themselves in employment it allows for a more
gentle transition for people incentivising them
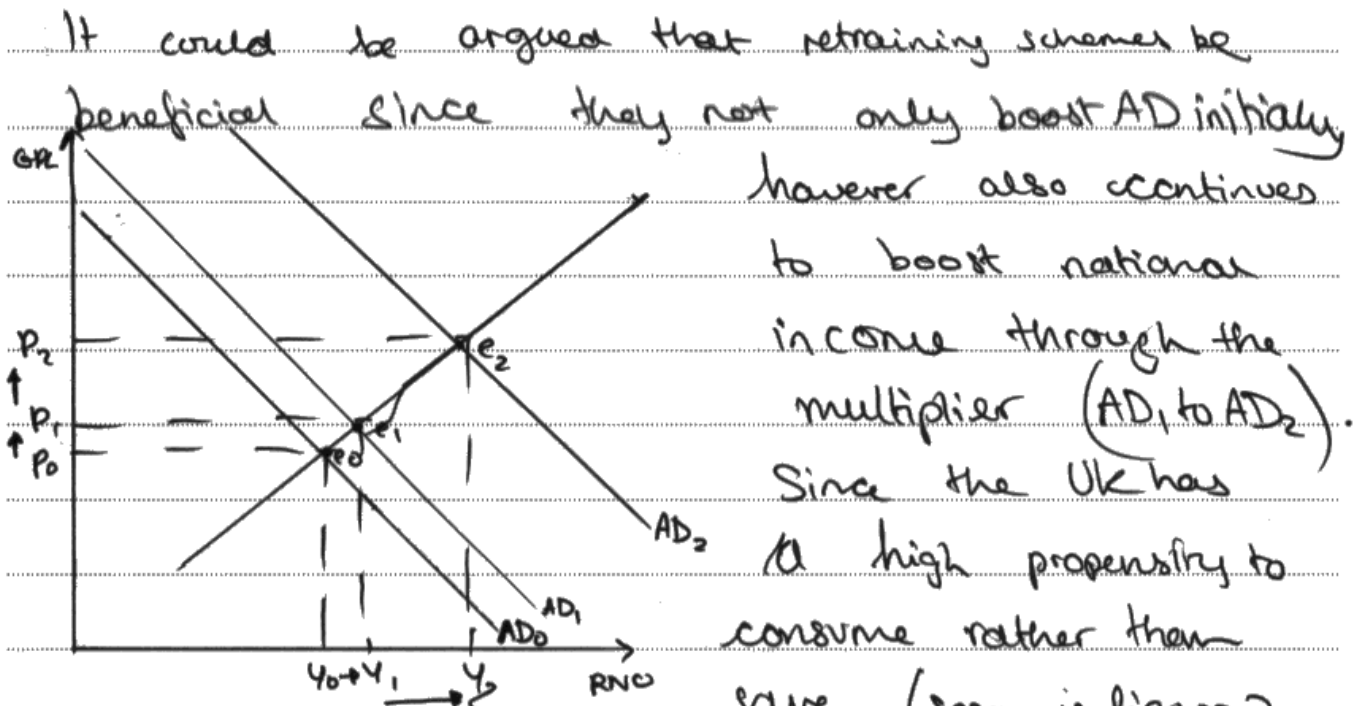to keep working rather than return on
benefits.

A benefit drawback of apprenticeship and retraining schemes would

GDP (vertical axis), AS, AD₁, AD₀ curves drawn. Points labeled e₁, e₀. Prices P₁, P₀ on vertical axis. Y₀, Y₁ and RNO on horizontal axis.

be the inflation caused
through a rise in government
spending. Since this would
increase AD there would
be a rise in the
general price level
however since there is already
very conflicting with yet
objective
another macroeconomic policy, low inflation.
For this reason a reduction to the benefits
scheme may prove more beneficial since this
would actually lower in inflation through
a reduction in government spending. However
as can be seen in figure 1, there
were around 1m people each year
who were classed as unemployed yet
did not claim benefits. For this
reason it can be argued that
a policy affecting benefit schemes
would not truly address the issue
of unemployment since it would not
affect that the roughly half of these
unemployed according to the figures for
2016. wherein those not claiming benefits
made up half of the total

It could be argued that retraining schemes be beneficial since they not only boost AD initially however also ccontinues to boost national income through the multiplier $(AD_1$ to $AD_2)$. Since the UK has a high propensity to consume rather than save (seen in figure 2

where percentage of savings ~~they~~ fell to soley 5.8% approx.), it's likely the multiplier would be high. Since this would ~~benefit~~ increase economic growth it could be argued to have addede benefits however it would add to the ~~it~~ inflation rate and cause widening inequality which could be viewed negatively.

Therefore I would suggest the most effective ~~best~~ method to increase the ~~ana~~ employment rate be to ~~alter/reduce benefit to~~ ~~incentivise~~ offer retraining schemes and apprenticeships sina it would not be restricted to only half of those unemployed on the ILO measure though this would depend on existing underemployment

Graph labels: GPL, P_2, P_1, P_0, e_2, e_1, e_0, AD_2, AD_1, AD_0, $Y_0 \to Y_1$, Y_2, RNO

This is a more able response which clearly fits the criteria for the top levels of both KAA and Evaluation. There is a thorough explanation of government policies that could be used to increase the employment rate. There is a clear explanation of improving access to apprenticeship schemes, reducing national minimum wage and reducing benefits. This is supported by well-developed evaluative arguments about information gaps and inequality.

EITHER

(f) Evaluate government policies, apart from migration policies, that could be used to increase the employment rate in the UK.

(20)

OR

(g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(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:

- education   ▶ time lag
- apprenticeships   ▶ conflicting goals.
- infrastructure   ▶ enviroment.
- health.   ▶ increase budget deficit.
- relaxing planning
  permission

One way in which the goverment could increase employment in the UK is by providing cheaper specialist education. By doing this, the government is able to incentivise more people to take up professions that are in short supply such as nursing or doctors, as people are more likely to consider these options and not be scared away by the enourmous costs of schooling.

Another way in which the government could increase employment is by commissioning works on improving the infrastructure of

the UK. By doing so, the government is able to employ people to build the infrastructure such as roads and rails which also has the positive effect of increasing the UKs productive capacity. Furthermore, better infrastructure also allows for people to commute further for possible jobs, increasing employment rates in depressed areas of the country.

The third way the government could boost the employment rate in the UK is by reducing corporate tax and removing the minimum wage. By doing so, the government is making it cheaper for businesses to higher more people and pay them less money. This also means that prices of goods and services would decrease and more business would start up, which increases employment.

Despite the benefits of of increased employment, each of these policies have their setbacks.

Improving specialist education by reducing the cost is likely to boost employment in the long run. But doing so has as significant time lag of a

few years, as it takes time for people to finish studying. So in the short run, employment would be unaffected and another government might become elected before any benefits are seen from this approach.

The second approach to boosting employment by commissioning infrastructure projects also has negative effects. Firstly the building of roads and railway lines is likely to cut through vast sections of wildlife and green areas, damaging the environment. Secondly, the cost of those projects is likely in the billions which will increase the government budget deficit and put the economy further into a hole.

The third approach of reducing corporation tax and minimum wage also has the effect of increasing the budget deficit as there is less tax revenue. Furthermore these policies are likely to be very negatively reviewed by the public and is essentially political suicide.

Overall, the best approach is to reduce corporation tax and the minimum wage. By doing so, employment rates over a long period of time will increase and businesses will start moving to the UK due to cheaper

operating costs. The extent of government intervention is a major reason for why unemployment occurs as they act on imperfect information and incentivise certain behaviors. Instead of subsidising cheaper further education, the government could stop guranteeing university loans which in the long run would drastically decrease the cost of further education.

Question 6 (g)

This question required candidates to evaluate the likely impact of high inflation on UK government's macroeconomic objectives. Although candidates were able to understand the impact of high inflation, they were not able to link it back to the macroeconomic objectives. Some candidates were not able to recall what these government objectives were and hence did not access higher levels. Those who were able to effectively answer this question explained the impact on current account deficit and economic growth in depth, and in context of recent UK inflation trends.

EITHER

(f) Evaluate government policies, apart from migration policies, that could be used to increase the employment rate in the UK.

(20)

OR

(g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(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 over a period of time.

Macroeconomic objectives are the targets related to the key indicators of the macroeconomic performance.

Inflation too above the target of 2% (±1%) can have a negative impact on economic growth, inequality standards of living and the current account.
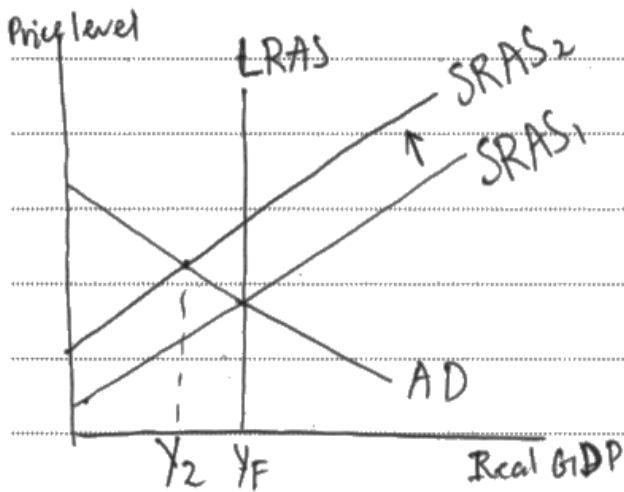
Economic growth may be negatively affected.
As inflation is high, workers may demand higher wages to prevent their real incomes from falling. It increases the costs of production of firms, leading to SRAS decreasing from SRAS₁ to SRAS₂. As a,

As a result, ~~then~~ the real output decreases from Y_F
to Y_2 and ~~unemployment~~ employment decreases from Y_F to Y_2.

~~The impact on economic growth may be different from between different regions.~~

However,
The impact depends on the magnitude of inflation.
If there is a slight difference of 1% ~~ka compar~~
with the target, then ~~the~~ workers may not demand
higher wages, which means no change to the costs
of production. As a result, economic growth may not decrease.

Inflation has a negative impact on ~~the~~ the standard
of living. People on fixed incomes such as pensioners ~~m~~
will ~~have~~ experience a fall in their standard of living
because their wages don't rise at all and are only
eroded by inflation. Lower real income means that
people can buy less goods and services and can't
afford their usual lifestyle, therefore the ~~that~~ standard
of living falls.

However, the impact may differ between the short
run and the long run. In the short run, pensioners
may ~~be~~ see their standard of living falling ~~drastica~~
significanltly, but in the long run their standard of
living may rise, ~~as~~ because government may decide to increase
state pensions.

High inflation can negatively affect the current account. High inflation means that the prices of exports rise fast, meaning that exports are more expensive for foreign parties and less competitive internationally. Consequently, the total value of exports may fall if demand for exports inelastic, leading to the trade in goods and services decreasing. ~~As a result, the current account deficit increases~~ Moreover, ~~expo~~ imports becomes cheaper for domestic consumers, which leads to the total value of imports increasing if demand for them is elastic. It leads to the fall in trade in goods and services. As a result, the current account deficit increases.

However, Firstly the impact depends on the relative inflation rates. If ~~foreign~~ foreign goods prices rise at a faster rate than the price of exports then ~~them~~ exports may not be less competitive and significanly more expensive, meaning the total value of exports may not fall. As a result, the current account deficit may not increase.

Secondly, the impact depends on the price elasticity of demand for exports. If demand is price inelastic then ~~the total val~~ the higher price doesn't lead to a fall in the total value of exports. Consequently, the total value of exports may increase, leading to the current account deficit decreasing.

In conclusion, inflation has a potential to negatively affect the economic groath, the standard of living and the current account. However, the impact depends on time, the state of economy and relative inflation rates.

EITHER

(f) Evaluate government policies, apart from migration policies, that could be used to increase the employment rate in the UK.

(20)

OR

(g) Evaluate the likely impact of high inflation on the UK government's macroeconomic objectives.

(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 a sustained rise in the general price level over a period of time.

High inflation would mean that the prices in the economy are rising too much. That could result in prices being too high and therefore reduce the consumer spending. The consumer would find it more beneficial to save instead of spending leading to fall in economy's AD. As a result, the output of the UK economy is going to fall because of the lack in demand leading to smaller Real Output.
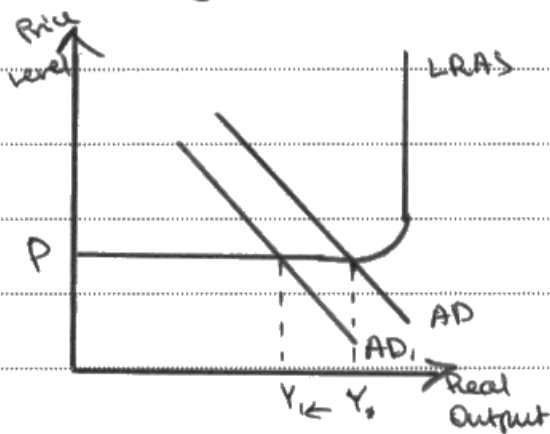
Moreover, high inflation would lead to exports being less competitive. Thus, higher prices of domestic goods means that when exported they are going to cost more. Therefore the demand for exports would fall, leading to a deterioration of balance of trade and possibly current account. deterioration as well. As a result, the UK will lose its export competitive advantage to a cheaper export producers.

However, the significance of the impact depends on the time frame that the inflation follows. I.e. If high inflation was or planning to be a short term event, then it's unlikely to cause any significant impact on the overall performance of the UK economy for e.g. only a small change in GDP.

In addition, the impact of exports and net trade balance, for e.g., would majorly depend on the performance of other economies. Thus, the inflation might be even higher in the countries that are UK's trading partners, which would make the UK exports more competitive or cause a smaller change in demand internatio- nally. As a result, the impact on balance of trade and current account can be limited.

Overall, I believe, that although high inflation might prevent the UK from achieving its macro-economic objectives like Economic Growth i.e. growth of output or Current Account surplus, reduction in deficit, it's

impact highly depends on level of spare capacity of the economy, level of confidence of consumers and performance of major trading partners. Therefore the impacts would depend on external factors and so the outcome ~~woult~~ might be limited in terms of damaging UK economy.

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.

- A multiple-choice question is worth 1 mark whereas Q6(f) and Q6(g) are worth 20 marks, bear this in mind in terms of how long you are spending on individual questions – especially those in Section A.

- Ensure you are aware of key definitions. Be aware of all formulae and quantitative skills as explained in the Specification. Practise calculation questions.

- 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.

- Don't spend too much time on long introductions when a question has only asked to, for example, 'Explain two factors...'. Here, marks will only be awarded for your explanation of your reasons so you should start immediately with your first reason.

- Finally, 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'.

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