GCE

Economics

H460/02: Macroeconomics

Advanced GCE

Mark Scheme for June 2019

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

Annotations

Annotation	Meaning
BP	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
✓	Tick
✗	Cross
CON	Confused
BOD	Benefit of doubt
KU	AO1 – Knowledge and understanding
APP	AO2 – Apply knowledge and understanding
AN	AO3 - Analyse
EVAL	AO4 - Evaluation
^	Omission
NAQ	Not answered question
SEEN	Noted but no credit given
TV	Too vague
OFR	Own figure rule
REP	Repetition

Subject–specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.
You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.
Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Rubric Infringement
Candidates may infringe the rubric in the following way:

- answering two questions from Sections B and/or C.

If a candidate has written two answers for Section B or C, mark both answers and award the highest mark achieved.

USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide ‘correct’ answers. The Mark Scheme can only provide ‘best guesses’ about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

Levels of response / Level descriptors	**Knowledge and understanding/ Application**	**Analysis**	**Evaluation**
Strong	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Question			Answer	Marks	Guidance
1	(a)		**Distinguish between absolute advantage and comparative advantage.** Absolute advantage is being able produce the product with less resources/lower unit costs/produce more with fewer inputs. (1) whereas comparative advantage is being able to produce a product at a lower opportunity cost (1).	**2** (AO1 x2)	
1	(b)		**Explain how Fig. 1 illustrates the Harrod-Domar model.** A model that says the rate of growth = the savings ratio/the capital output ratio (productivity of capital investment) (1) the growth of savings, leading to growth of Investment and/or growth of capital production to increase in world growth as shown by fig 1(1)	**2** (AO2 x2)	
1	(c)	(i)	**Using Table 1, explain which country's government made a negative contribution to the country's aggregate demand.** Germany (1) government tax revenue exceeded government expenditure (1).	**2** (AO1 x1 AO2 x1)	Germany (1) government tax revenue US$1598bn exceeds government expenditure of US$1573bn. (1) **Or** Government tax revenue was higher than Government expenditure by US$25bn (1)
1	(c)	(ii)	**Using Table 1, calculate Russia's GDP in 2017.** $1 468.21bn (2). Correct working i.e. $254bn/17.3 x 100 (1)	**2** (AO1 x1 AO2 x1)	Accept: $1468bn/$1468.2bn/$1468.208bn. If just $1468 **or** 1468bn (1)
1	(d)		**Using information from the stimulus material, calculate the UK's marginal propensity to import in 2017.** 0.3 (2). Correct working or formula: £330/£1,100 i.e. change in imports/change in disposable income (1).	**2** (AO2 x2)	

1	(e)		**Using Table 2, evaluate to what extent differences in corporate tax rates explain differences in foreign direct investment in countries.** **Level 2 (5–8 marks)** **Good knowledge and understanding** of corporate tax rates and foreign direct investment. **Good – strong analysis** of what the table shows and how a low corporate tax rate may attract FDI and vice versa. **Good** analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Strong** analysis will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Reasonable – strong evaluation** of whether a low corporate tax rate will attract FDI/a high corporate tax rate will discourage FDI, considering both why differences in corporate tax rates may explain differences in FDI and why they might not, underpinned by appropriate theoretical analysis. **Good** evaluation will weigh up the reasons why it might and the reasons why it might not but without reaching a supported judgement. **Strong** evaluation should include a supported judgement. **Level 1 (1–4 marks)** **Limited – reasonable knowledge and understanding** of corporate tax rates and foreign direct investment.	**8** (AO1 x 1 AO2 x 1 AO3 x 3 AO4 x 3)	*Indicative content* An inverse relationship is the expected one. Foreign firms are likely to be attracted by a low corporation tax rate as more of any profit earned can be kept by the firm. This could be paid to shareholders or used to reinvest. This is shown by: • The two countries with the lowest corporation tax rates, Ireland and the UK, attracted the most foreign direct investment per head. • India, which has the 6th highest corporation tax had the lowest FDI per head. • With an analysis of why. However, this is not shown by: • The USA, who has the highest corporation tax rate but the middle level of FDI. • The level of FDI is influenced by a number of factors and not just the rate of corporation tax. For instance, firms may be attracted by the presence of skilled labour and good infrastructure. To finance a good education system and provision of, for instance, good roads, a government may impose relatively high tax rates. • A growing economy may also attract FDI as foreign firms may expect a growing market for their products. • Foreign MNCs will be encouraged to set up in countries where they expect to receive high net profit. Possible judgement. • A low corporation tax may attract FDI but on its

			Limited – reasonable analysis of what the table shows and how a low corporate tax rate may attract FDI and vice versa. **Limited analysis** will have little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. **Reasonable analysis** will have correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Limited** evaluation of how differences in corporate tax rates may affect foreign direct investment in countries in the form of an unsupported statement or **no** evaluation. **0 marks** No response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		own it is unlikely to be sufficient. • A low corporation tax rate will not attract FDI if it is anticipated that it will not be possible to earn a high enough net profit because of low demand and/or high average cost of production. A 40% corporation tax on a £50 million profit is more attractive than a 10% corporation tax on a £5 million profit. • The FDI per head may be distorted by population figures. NB Do not award lower corporation tax lowers costs of production.

			Descriptor	**Award mark**
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

Question			Answer	Marks	Guidance
1	(f)	*	**Evaluate whether the growth of emerging economies will benefit the UK economy.** **Level 3 (9–12 marks)** **Good knowledge and understanding** of emerging economies and UK macroeconomic performance. **Good – strong analysis** of how the growth of emerging economies may affect the UK economy. **Good** analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Strong analysis** will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good - strong evaluation** of whether the growth of emerging economies will benefit the UK economy, weighing both why it might and why it might not. **Strong evaluation** should include a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 2 (5–8 marks)** **Good** knowledge and understanding of the growth of emerging economies may affect the UK economy. **Reasonable analysis** of how the growth of emerging economies may affect the UK economy. There is correct	**12** (AO1 x 1 AO2 x 1 AO3 x 5 AO4 x 5)	*Indicative content* The growth of emerging economies may benefit the UK economy in a number of ways. • Higher output in these economies will raise incomes. Some of the higher incomes may be spent on UK exports. • A rise in UK exports may reduce the deficit on the current account of the balance of payments. • Higher demand for UK products may also contribute to a rise in UK economic growth and a fall in UK unemployment. • More profitable firms in emerging economies may have funds available to set up branches or buy out firms in the UK. • Emerging economies MNCs may increase the output and employment of the UK. They may introduce new products and new production methods. • MNCs also usually contribute disproportionately to their host country's exports. The growth of emerging economies may not benefit the UK economy. • Growth may be export-led. The emerging economies' firms may capture some of the UK's export markets and may sell more to the UK economy. • A reduction in exports and an increase in imports would have an adverse effect on the UK balance of payments and aggregate demand. • Rising incomes and possibly improvements in skills and infrastructure in emerging economies may encourage some UK firms to relocate some of their production to branches in India and China. This could reduce output, employment

			analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis **Reasonable evaluation** of whether the growth of emerging economies will benefit the UK economy, considering both why it might and why it might not. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 1 (1–4 marks)** **Limited – reasonable knowledge and understanding** of how the growth of emerging economies may affect the UK economy. **Limited analysis** of how the growth of emerging economies may affect the UK economy. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. **Limited evaluation** of whether the growth of emerging economies will benefit the UK economy in the form of an unsupported statement or **no** evaluation. *The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.* **0 marks** No response worthy of credit.		and tax revenue in the UK. • Emerging economies' MNCs in the UK may replace some UK firms and so may not make a net contribution to UK output and employment. • Emerging economies' firms may send any profit they may make to their home countries. Possible judgement • The effect on UK government policy of greater competition from emerging economies is uncertain. The UK government may engage in tax competition to attract emerging economies' firms to set up in the country or it may spend more on measures to raise labour productivity and improve infrastructure. • To date, the growth of exports from the emerging economies to the UK has outgrown the growth of UK exports to them. For example, China has become a major competitor to UK firms at home and abroad while its rises in imports have benefited largely countries that produce commodities. • The growth of emerging economies, nevertheless, has the potential to benefit the UK economy. UK firms may be able to sell more products if they respond to their rising demand in a competitive way. • The benefits and costs arising from the growth of emerging economies are unlikely to be evenly spread. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.

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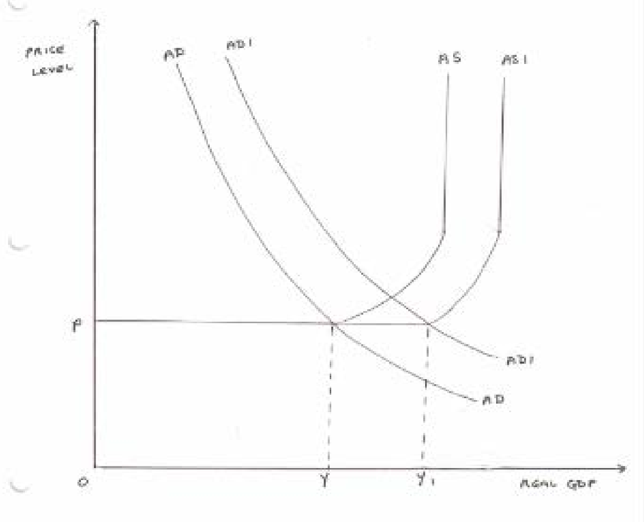
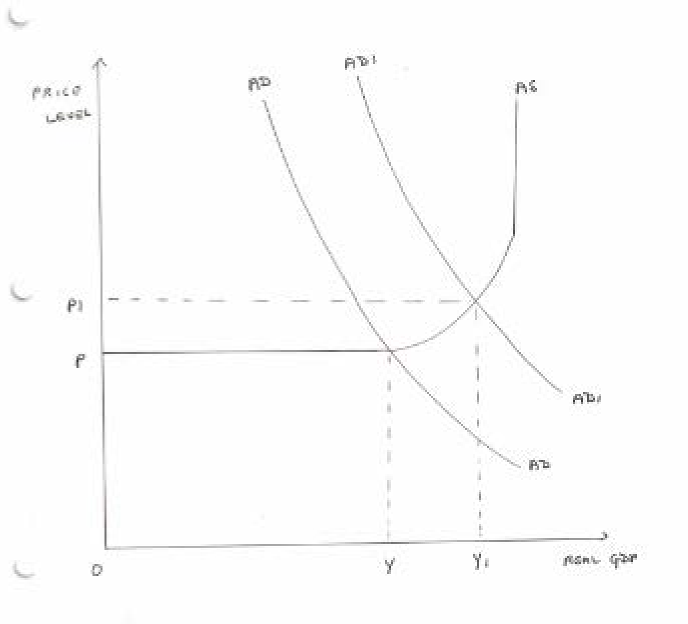
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

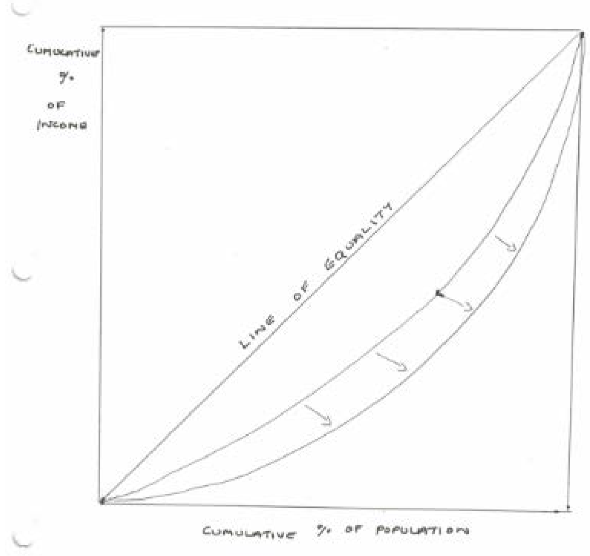
Question			Answer	Marks	Guidance
2	*		**Evaluate, with the use of an appropriate diagram(s), whether an increase in private sector investment will help a government achieve its macroeconomic objectives** **Level 5 (21–25 marks)** **Good -Strong knowledge and understanding** of investment and macroeconomic policy objectives. **Strong analysis** of **whether an increase in private sector investment will help a government achieve its macroeconomic objectives** **Strong** analysis will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Strong evaluation** of **whether an increase in private sector investment will help a government achieve its macroeconomic objectives** weighing up both why they might and why they might not and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.* **Level 4 (16–20 marks)** **Good** knowledge and understanding of investment and macroeconomic policy objectives. **Strong analysis** of **whether an increase in private**	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	*Indicative content* The reasons why it will help. An increase in private sector investment means that firms are purchasing more capital goods. This will increase aggregate demand. Investment is an injection into the circular flow of income, so there will be a multiplier effect. Aggregate demand will rise by a greater amount than the initial increase in investment. The higher demand will be likely to cause capital goods and consumer goods firms to increase their output. The country's economic growth rate may rise and unemployment may fall. In the longer run higher investment will increase aggregate supply as well as aggregate demand. This could allow an economy to grow without the economy experiencing inflation as shown in the diagram below. 

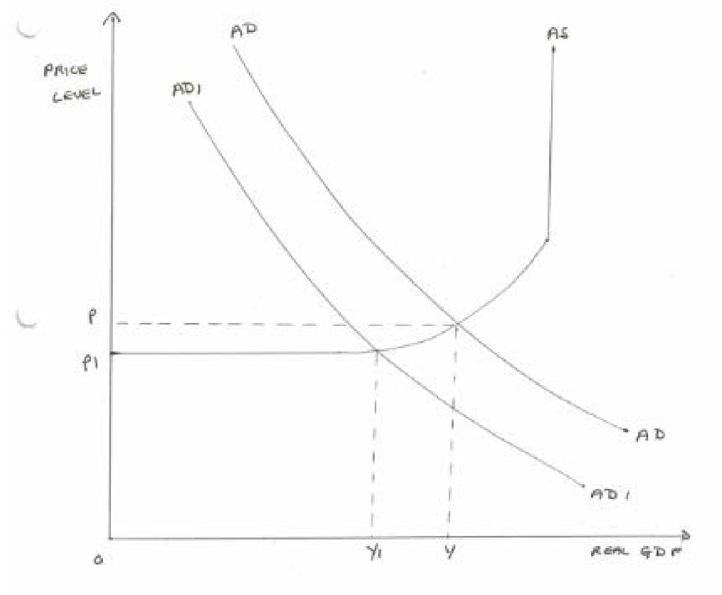
			sector investment will help a government achieve its macroeconomic objectives **Strong** analysis will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good evaluation** of **whether an increase in private sector investment will help a government achieve its macroeconomic objectives** and will weigh up both sides but without reaching a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.* **Level 3 (11–15 marks)** **Good knowledge and understanding** of investment and macroeconomic policy objectives. **Good analysis** of **whether an increase in private sector investment will help a government achieve its macroeconomic objectives** There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Reasonable evaluation** of **whether an increase in private sector investment will help a government achieve its macroeconomic objectives,** considering both why it might and why it might not.		As new AS capital goods are put into use, the price and quality competition of the country's products may rise. This could increase net exports and reduce a current account deficit. The reasons why it will not help If the capital goods are purchased from abroad, this may increase a current account deficit. The higher aggregate demand may also result in demand-pull inflation. If the economy is operating close to full capacity, extra demand for capital goods and consumer goods may pull up prices. The diagram below shows the rise in aggregate demand from AD to AD_1, causing the price level to rise from P to P_1. 

			There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence. **Level 2 (6–10 marks)** **Good knowledge and understanding** of investment and macroeconomic policy objectives. **Reasonable analysis** of **whether an increase in private sector investment will help a government achieve its macroeconomic objectives** There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of **whether an increase in private sector investment will help a government achieve its macroeconomic objectives** considering both why it might and why it might not. *The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.* **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of investment and macroeconomic policy objectives. **Limited or no analysis** of **whether an increase in private sector investment will help a government**		There is also the possibility that private sector investment may replace public sector demand. If private sector firms are borrowing more, this may raise the rate of interest. A higher rate of interest will increase the cost of servicing government debt. This may put pressure on the government to cut its spending. The impact on unemployment is uncertain. Firms in the private sector may be more willing than public sector firms to dismiss workers. New capital equipment may also be a substitute rather than a complement to labour. Some jobs may be lost as a result of advances in technology incorporated into new capital equipment. The effect is, however, uncertain. New technology can create new industries and new jobs. For instance, there is now a thriving games industry with games designers and testers. Possible judgment. It is generally considered that increases in private sector investment will help a government achieve its macroeconomic objectives. This is more likely if the increase is not offset by a decrease in public sector investment and if it generates extra jobs.

			achieve its macroeconomic objectives There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of **whether an increase in private sector investment will help a government achieve its macroeconomic objectives** in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.* **0 marks** No response worthy of credit.		

			Descriptor	**Award mark**
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

Question			Answer	Marks	Guidance
3	*		**Evaluate, with the use of an appropriate diagram(s), whether a cut in government spending on welfare benefits will increase income inequality**. **Level 5 (21–25 marks)** **Good-Strong knowledge and understanding** of welfare benefits and income inequality. **Strong analysis** of how a cut in government spending on welfare benefits may affect income inequality. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Strong evaluation** of whether a cut in government spending on welfare benefits may affect income inequality, weighing up both why it might and why it might not and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.* **Level 4 (16–20 marks)** **Good** knowledge and understanding of welfare benefits and income inequality. **Strong analysis** of how a cut in government spending on welfare benefits may affect income inequality. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	*Indicative content* Reasons why it will increase income inequality. A cut in government spending on welfare benefits may reduce the income of various categories of the poor. These include the unemployed, the sick and the old. If this occurs, both absolute and relative poverty will increase. Income will become more unevenly distributed. This increase in income inequality can be illustrated on a Lorenz curve diagram. The curve will move further away from the line of income equality.  Lower government spending may reduce aggregate demand by a multiple amount. If the income of the poor falls, consumer expenditure may also fall. Lower aggregate demand may reduce output and employment.

			significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good evaluation** of whether a cut in government spending on welfare benefits may affect income inequality, weighing up both why it might and why it might not without reaching a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.* **Level 3 (11–15 marks)** **Good knowledge and understanding** of welfare benefits and income inequality **Good analysis** of how a cut in government spending on welfare benefits may affect income inequality. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Reasonable evaluation** of whether a cut in government spending on welfare benefits may affect income inequality, considering both sides. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 2 (6–10 marks)** **Good knowledge and understanding** of welfare benefits and income inequality.		 A rise in unemployment may also increase income inequality. There may also be a longer term effect on income inequality. The poor may experience worse health which will reduce their earning potential. Their children may spend less time in education and may have lower aspirations. Reasons why it may not reduce income inequality. It is possible, however, that lower welfare benefits may have an incentive effect. They may encourage the unemployed to make more effort to find work. If this occurs, income inequality may be reduced.

			Reasonable analysis of how a cut in government spending on welfare benefits may affect income inequality. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of whether a cut in government spending on welfare benefits may affect income inequality, considering both sides. *The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.* **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of welfare benefits and income inequality. **Limited or no analysis** of how a cut in government spending on welfare benefits may affect income inequality. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of whether a cut in government spending on welfare benefits may affect income inequality, in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.*		If a reduction in pensions encourages people to work past retirement age, the size of the labour force will increase. A higher labour force will increase the country's productive potential. If this potential is used, tax revenue will rise and so of this may be spent on, for instance, education and job creation schemes, which may reduce poverty and income inequality. A cut in government spending on welfare benefits may also enable tax rates to be cut or government borrowing to be reduced. The effect of lower tax rates on income inequality will be influenced by which tax rates are cut. A rise in the threshold at which income tax is paid, for instance, may reduce income inequality. Lower government borrowing may result in crowding in. If private sector investment increases, more jobs may be created which, again, may reduce income inequality. Possible judgement. How welfare cuts will affect income inequality will depend on a number of factors. One how the replacement rate is affected. If the proportion of out of work benefits received compared to take home pay is still close, it may not have much effect. Another factor is the number of jobs available. The unemployed may be more incentivised to seek employment but if there are few job vacancies, they will not be successful. In addition, the outcome will be influenced by who receives the welfare benefits. Some go to people who live in rich households.

			0 marks No response worthy of credit.		
			Descriptor		**Award mark**
			Consistently meets the criteria for this level		At top of level
			Meets the criteria but with some slight inconsistency		Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level		Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below		At bottom of level
Question			**Answer**	**Marks**	**Guidance**
4	*****		**Evaluate whether economic growth increases happiness.** **Level 5 (21–25 marks)** **Good-Strong knowledge and understanding** of economic growth and happiness. **Strong analysis** of how economic growth may affect happiness. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Strong evaluation** of whether economic growth will increase happiness, weighing up both why it might and why it might not and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.* **Level 4 (16–20 marks)** **Good knowledge and understanding** of economic growth and happiness.	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	*Indicative content* Reasons why economic growth increases happiness. Economic growth has the potential to increase happiness. If output rises by more than inflation and population, real GDP per head will rise. With higher incomes, people are able to consume more goods and services. Higher incomes may enable people to purchase a range of products that will make life easier, such as dishwashers, and more products that will make life more enjoyable, such as foreign holidays. Producing more goods and services is likely to increase employment. This may reduce poverty. Some people who were unemployed may not only be able to afford basic necessities but also some luxuries. Economic growth may make workers happier. This is because they may feel more confident about retaining their jobs and more confident about gaining promotion. If firms are receiving more revenue they may also improve workers' working conditions. Economic growth is likely to increase tax revenue. Some of this may be spent on healthcare and education. A healthy population is likely to be a happy population. It is likely to experience less stress and less discomfort and a longer life expectancy than a less healthy one. A more

			Strong analysis of how economic growth may affect happiness. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Good evaluation** of whether economic growth will increase happiness, weighing up both why it might and why it might not, weighing up both sides but without reaching a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.* **Level 3 (11–15 marks)** **Good knowledge and understanding** of economic growth and happiness. **Good analysis** of how economic growth may affect happiness. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Reasonable evaluation** of whether economic growth will reduce happiness, considering both why it might and why it might not. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.*		educated population will have more experience and the likelihood of more stimulating employment. The higher tax revenue resulting from economic growth may also enable a government to improve the living standards of the poor without reducing the living standards of the rich. Reasons why economic growth may not increase happiness. The Easterlin Paradox suggests that while richer people in a country are happier than poorer people in the same country, people in richer countries are not always happier than people in poorer countries. There are a number of possible reasons why higher GDP per head may not always be associated with greater happiness. One is there may be what Richard Easterlin called treadmill effects. For example, the higher incomes people have, the more goods and services they need to gain the same level of satisfaction. It is also possible that people may be more concerned with their relative rather than their absolute income. For example, a person may be happier with an annual income of £40,000 if most other people earn £30,000 than an income of £50,000 if most other people earn £60,000. Economic growth may not benefit everyone equally. Average incomes may rise but the main benefit may go to a small proportion of already rich people. Most people may gain higher incomes but if they are aware that the gap between their lifestyle and that of the rich has widened, they may fell less satisfied. Economic growth may also be associated with higher levels of pollution and other environmental damage. This may arise for a number of reasons. Noise, air, water and visual pollution may be caused by increases in

			Level 2 (6–10 marks) **Good knowledge and understanding** of economic growth and happiness. **Reasonable analysis** of how economic growth may affect happiness. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of whether economic growth will increase happiness, considering both why it might and why it might not. *The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.* **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of economic growth and happiness. **Limited or no analysis** of how economic growth may affect happiness. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of whether economic growth will increase happiness in the form of an unsupported statement or **no** evaluation.		production. More housebuilding may result in a loss of open spaces and wildlife habitats. A rise in incomes is also usually accompanied with more car travel. This is because more people are likely to be in work and so will have to travel to and from their place of employment. People will engage in more leisure activities which may involve travel and more people will be able to afford a car. Greater car use can result in both pollution and congestion. More roads may be built which again can cause visual pollution and result in a loss in green spaces. China, for instance, has experienced very high levels of pollution and road congestion is increasing significantly. Economic growth also does not guarantee an increase in working conditions. Some workers may gain promotion and better paid jobs but this may come with greater stress. For some people, working hours may increase and this may reduce happiness. Economic growth can bring disruption to people's lives. In China, for instance, some people have moved from the countryside to jobs in cities, leaving their families behind. Possible judgement. Economic growth does have the potential to increase material living standards, on average. This does not mean that everyone will enjoy more goods and services. Even those who do have more goods and services may not feel happier. Happiness can be influenced by a range of factors which are not connected with economic growth. These include, for instance, weather conditions and personal relationships.

			Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence. **0 marks** No response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		Economic growth is more likely to increase happiness if the benefits are evenly spread and it is associated with improved working conditions and improvements in environmental conditions by, for instance, developing cleaner fuel. Economic growth itself may or may not increase happiness it is the access to the growth process that allows a window of opportunity for increased happiness

Descriptor	Award mark
Consistently meets the criteria for this level	At top of level
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
On the borderline of this level and the one below	At bottom of level

Question			Answer	Marks	Guidance
5	*		**Evaluate whether the UK financial sector makes a positive contribution to the UK economy.** **Level 5 (21–25 marks)** **Good-Strong knowledge and understanding** of the UK financial sector. **Strong analysis** of the contribution the UK financial sector makes to the UK economy. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. **Strong evaluation** of the contribution the UK financial sector makes to the UK economy, weighing up both the positive and negative impacts it has had on the UK economy and reaching a supported judgment. *There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.* **Level 4 (16–20 marks)** **Good knowledge and understanding** of the UK financial sector. **Strong analysis** of the contribution the UK financial sector makes to the UK economy. It will have **consistently** well-developed links through a **coherent** chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis.	**25** (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	*Indicative content* Reasons why the financial sector makes a positive contribution to the UK Economy The UK financial sector has and continues to provide a range of services that help the UK economy to operate. Banks enable the government, firms and households to make and receive payments, to save and to borrow. They act as an intermediary between those who have more funds than they currently want to spend and those who want more funds than they have available at the moment. Banks, insurance companies, hedge funds and pension companies enable firms and households to pool risks. The stock exchange deals in second hand shares and government securities. By providing a market for the purchase and sale of shares and government bonds. It makes it easier for firms and the government to sell shares and government securities. The existence of the stock exchange also enables firms to grow externally by merging or taking over other firms. The foreign exchange market provides importers and exporters and those investing overseas to buy and sell currencies. Most of the trade is, however, undertaken by those speculating on changes in the value of different currencies. Speculation can cause large fluctuations in exchange rates which can create uncertainty and discourage investment. It does, though, enable governments to influence the value of their currencies by buying and selling their currency. The UK has a relatively large financial sector. It contributes just over 10% of the country's output and

			Any diagrams must be integral to the analysis. **Good evaluation** of the contribution the UK financial sector makes to the UK economy, weighing up both the positive and negative impacts it has had on the UK economy but without reaching a supported judgment. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.* **Level 3 (11–15 marks)** **Good** knowledge and understanding of the UK financial sector. **Good analysis** of the contribution the UK financial sector makes to the UK economy. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. **Reasonable evaluation** of the contribution the UK financial sector makes to the UK economy, considering both the positive and negative impacts it has had on the UK economy. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 2 (6–10 marks)** **Good knowledge and understanding** of the UK financial sector.		makes a very significant contribution, nearly 50%, to the output of London. Over the years, the financial sector has generated a considerable amount of tax revenue. It has also provided a relatively high number of jobs. In 2017, more than a million workers were employed in the financial sector. A relatively, and increasingly, high proportion of these jobs are well-paid. The UK appears to have a comparative advantage in financial services, providing a wide range of high-quality services at a competitive price. Exports of financial services are the largest, single component of UK exports of goods and services. The UK has had a substantial surplus on its trade in financial services in the last twenty years. A country's financial sector has the potential to be the driver for innovation and economic growth by promoting investment. Reasons why the financial sector has made a negative contribution to the UK Economy. The UK's financial sector, however, has been criticised for concentrating on loans to households and interbank loans. A relatively small proportion of UK loans are loans to firms to spend on capital goods. This may be one reason why the UK has a relatively low rate of investment compared to other OECD countries. Loans to households, including mortgages, have helped to fuel consumer booms and inflation in the past. The financial sector, specifically the banks, played a key role in the global financial crisis and recession of 2007 and 2008. US banks had lent to low income households to buy homes. The mortgages they gave were often more than the face value of the homes and were sometimes

			Reasonable analysis of the contribution the UK financial sector makes to the UK economy. There is correct analysis largely in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. **Reasonable evaluation** of the contribution the UK financial sector makes to the UK economy, considering both the positive and negative impacts it has had on the UK economy. *The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.* **Level 1 (1–5 marks)** **Reasonable knowledge and understanding** of the UK financial sector. **Limited or no analysis** of the contribution the UK financial sector makes to the UK economy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. **Limited evaluation** of the contribution the UK financial sector makes to the UK economy in the form of an unsupported statement or **no** evaluation. *Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.*		more than six times the borrowers' incomes. Some of these so-called sub-prime were sold in bundles of debt to other financial institutions, including UK banks. When unemployment started to rise in the USA, there were mortgage defaults. US banks got into difficulty with the biggest bankruptcy in the world occurring in 2008 when Lehman Brothers' Bank went out of business. A number of UK banks had to be helped by the government. A credit crunch developed with banks becoming reluctant to lend. This, in turn, resulted in households spending less and firms reducing their output. Other valid evaluation. • Market failure in the financial sector. • Market bubbles. • externalities Possible judgement. UK financial institutions have played and continue to play a key role in the UK economy over the years. They have and do carry out a range of functions which facilitate trade, utilise savings to finance investment, cover cash shortfalls, finance home purchase and the purchase of consumer durables and allow risks to be shared. The UK financial sector makes a major contribution to the macroeconomy although the benefits, in terms of output and employment, are largely concentrated in the capital. UK banks, anxious to make high profits, did not make sure that they had sufficient funds to cope with defaults. UK banks may also not have facilitated investment as much as possible over the last twenty years by being rather reluctant to give long term loans to

			0 marks no response or no response worthy of credit. **Note:** although a diagram is **not** required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		firms to spend on capital goods. Depends upon regulation from the Bank of England and the FCA.

			Descriptor	**Award mark**
			Consistently meets the criteria for this level	At top of level
			Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
			On the borderline of this level and the one below	At bottom of level

Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)	2				**2**	
1(b)	1 (1)	1 (1)			**2**	**(2)**
1(c)(i)	1 (1)	1 (1)			**3**	**(2)**
1(c)(ii)		2 (2)			**2**	**(2)**
1(d)		2 (2)			**2**	**(2)**
1(e)	1	1	3	3	**8**	
1(f)	1	1	5	5	**12**	
2/3	6 (2)	6 (2)	6 (2)	7 (2)	**25**	**(8)**
4/5	6	6	6	7	**25**	
TOTAL	**18 (6)**	**20 (6)**	**20 (2)**	**22 (2)**	**80**	**(16)**

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