
A-level ECONOMICS 7136/2

PAPER 2 National and International Economy

Mark scheme

June 2021

Version: 1.0 Final



2 1 6 A 7 1 3 6 / 2 / M S

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Below is the levels of response marking grid to be used when marking any 25 mark question.

Level of response	Response	Max 25 marks
5	Sound, focused analysis and well-supported evaluation that: - is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors - includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response - includes well-focused analysis with clear, logical chains of reasoning - includes supported evaluation throughout the response and in a final conclusion.	21–25 marks
4	Sound, focused analysis and some supported evaluation that: - is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors - includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response - includes some well-focused analysis with clear, logical chains of reasoning - includes some reasonable, supported evaluation.	16–20 marks
3	Some reasonable analysis but generally unsupported evaluation that: - focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present - includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response - includes some reasonable analysis but which might not be adequately developed or becomes confused in places - includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	11–15 marks
2	A fairly weak response with some understanding that: - includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely - includes some limited application of relevant economic principles to the given context and/or data to the question - includes some limited analysis but it may lack focus and/or become confused - includes some evaluation which is weak and unsupported.	6–10 marks
1	A very weak response that: - includes little relevant knowledge and understanding of economic terminology, concepts and principles - includes application to the given context which is, at best, very weak - includes attempted analysis which is weak and unsupported.	1–5 marks

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A** (Figure 1), calculate the mean annual yield on long-term bonds in Greece over the years shown. Give your answer to **one** decimal place.

[2 marks]

Response	Max 2 marks
For the correct answer (9.4%) with the % sign.	2 marks
For a correct answer (9.4) but without the % sign and/or to more than one decimal place. OR For the correct method but the wrong answer, to one decimal place and with the % sign.	1 mark

Calculation: $4.5 + 22.5 + 1.3 = 28.3$ $28.3/3 = 9.4333$

= 9.4% to one decimal place

MAXIMUM FOR QUESTION 01: 2 MARKS

0 2

*Explain how the data in **Extract A** (Figures 1 and 2) show that in 2012 Greece was more likely to have a problem with its national debt than the UK.*

[4 marks]

Response:	Max 4 marks
- includes evidence that shows that in 2012, Greece was more likely to have a problem with its national debt than the UK - clearly explains how this data is evidence that in 2012, Greece was more likely to have a problem with its national debt than the UK.	4 marks
- includes evidence that shows that in 2012, Greece was more likely to have a problem with its national debt than the UK - explanation of how this data is evidence that in 2012, Greece was more likely to have a problem with its national debt than the UK.	3 marks
- includes some limited evidence that shows that in 2012, Greece was more likely to have a problem with its national debt than the UK - limited explanation of how this data is evidence that in 2012, Greece was more likely to have a problem with its national debt than the UK.	2 marks
- includes evidence that does not clearly show that in 2012, Greece was more likely to have a problem with its national debt than the UK - no explanation of how this data is evidence that in 2012, Greece was more likely to have a problem with its national debt than the UK.	1 mark

Relevant issues include:

- the meaning of the term 'national debt'
- Greek bond yields in 2012 were at 22.5% compared to the UK at 1.7% indicating much higher repayments of debt interest
- Greek bond yields in 2012 were more than 13 times that of the UK illustrating a lack of trust in Greek government finances
- Greece's national debt reached 159.1% of GDP compared to the UK's at 84.3% showing that Greece's debt was much higher than the UK's as a proportion of the economy
- Greece's national debt per capita reached \$35 225 compared to the UK's at \$35 212, this marginally shows more debt per person
- Greece's GDP per capita stood at \$22 242 compared to the UK at \$41 791 which indicates that Greek tax-payers would be faced with a proportionally higher tax burden to repay their national debt compared to the UK.

MAXIMUM FOR QUESTION 02: 4 MARKS

0 3

Extract B (line 9) states: ‘The government spending cuts also severely damaged private-sector jobs.’

With the help of a diagram, explain how a reduction in government spending could increase unemployment in the private sector.

[9 marks]

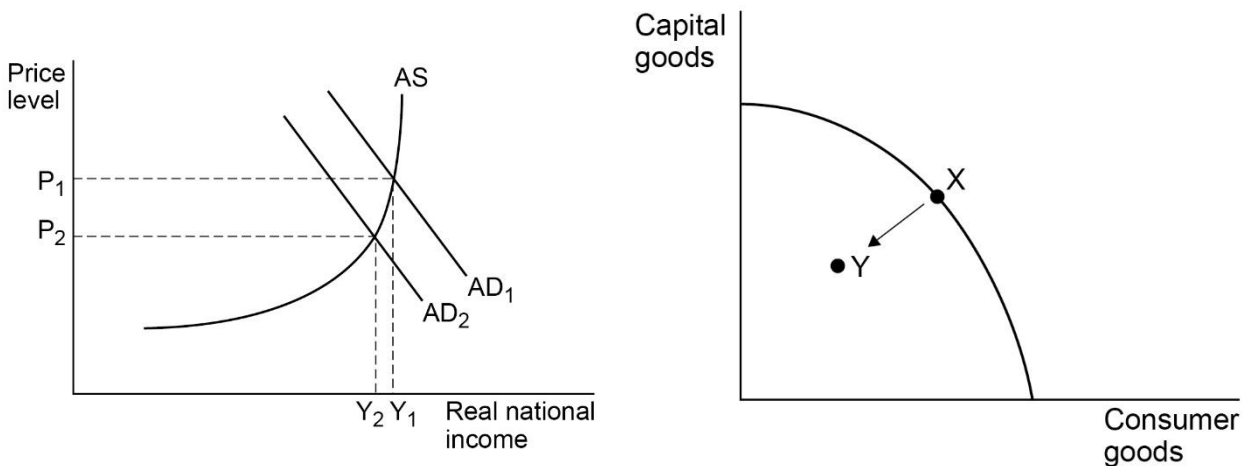
Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

An AD/AS diagram which shows AD shifting left is likely. This may have one shift or multiple shifts. A PPF may also be used to show an economy operating inside its boundary.

Relevant issues include:

- definitions/explanations: government spending, unemployment, private sector
- explaining areas of reduced government spending such as public goods, merit goods, welfare benefits
- linking the reasons for cutting government spending to the deficit/structural deficit
- explaining that government spending is a component of Aggregate Demand (AD)
- explaining that falling AD is likely to reduce firm's output
- linking falling government spending to a fall in private sector confidence
- linking falling government spending to a reduction in contracts with private sector firms
- linking the falling output to the falling derived demand for labour in the private sector
- explaining negative multiplier effects
- explaining the economy possibly falling into recession
- explaining the long-run effects of people leaving the labour force and the effects on LRAS
- explaining falling business investment due to falling aggregate demand and the existence of spare capacity
- explaining rising cyclical unemployment.

Expected diagrams are:



MAXIMUM FOR QUESTION 03: 9 MARKS

0 4

Extract C (lines 17–18) states: ‘Some argue that the UK should increase taxes rather than add to the national debt.’

Using the data in the extracts and your knowledge of economics, evaluate the view that an increase in a country’s national debt is damaging for its economy.

[25 marks]

Areas for discussion include:

- definitions/explanations: national debt, fiscal policy, taxation
- explaining the effects on economies in terms of the macroeconomic goals
- explaining the effects on the economies in terms of different stakeholder groups such as firms/households/the government
- the benefits of increased national debt by increased government spending on:
 - merit goods such as education and training or healthcare
 - public goods such as roads or defence
 - welfare benefits/social provision
 - the redistribution of income/wealth
 - infrastructure
 - aggregate demand as part of demand management
 - supply-side policies
 - crowding in
- the costs of increased national debt:
 - crowding out
 - lower credit rating and the effect on debt repayments
 - possible inflationary pressure
 - the effects on future generations/possible future tax rises
- considering that a higher national debt may be caused by tax cuts rather than increased government spending and effects such as:
 - incentives to work
 - tax avoidance/evasion
- explaining how global shocks, such as a pandemic, may lead to unavoidable changes in fiscal policy
- considering alternatives to building up national debt to improve economies
- considering the effects of raising tax rates on tax revenue
- considering the current levels of debt and different countries’ experiences
- considering equity and efficiency arguments regarding public service provision
- considering possible trade-offs.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

Context 2**Total for this context: 40 marks****0 5**

Using the data in **Extract D** (Figure 4), calculate South Korea's rate of inflation for the year ended 31 December 2019. Give your answer to **two** decimal places.

[2 marks]

Response	Max 2 marks
For the correct answer (0.74%) with the % sign.	2 marks
For a correct answer (0.74) but without the % sign and/or to more than 2 decimal places. OR For the correct method but the wrong answer, to two decimal places with the % sign.	1 mark

Calculation: $105.12 - 104.35 = 0.77$

$$(0.77/104.35) \times 100 = 0.7379 \quad = 0.74\% \text{ to two decimal places}$$

MAXIMUM FOR QUESTION 05: 2 MARKS

0 6

Explain how the data in **Extract D** (Figures 3 and 4) show why the South Korean central bank may have been considering a further cut in its base rate of interest.

[4 marks]

Response:	Max 4 marks
- includes evidence that show why the South Korean central bank may have been considering a further cut in their base rate of interest - clearly explains how this data is evidence as to why the South Korean central bank may have been considering a further cut in their base rate of interest	4 marks
- includes evidence that show why the South Korean central bank may have been considering a further cut in their base rate of interest - explanation of how this data is evidence as to why the South Korean central bank may have been considering a further cut in their base rate of interest	3 marks
- includes some limited evidence that show why the South Korean central bank may have been considering a further cut in their base rate of interest - limited explanation of how this data is evidence as to why the South Korean central bank may have been considering a further cut in their base rate of interest	2 marks
- includes evidence that does not clearly show why the South Korean central bank may have been considering a further cut in their base rate of interest - no explanation of how this data is evidence as to show why the South Korean central bank may have been considering a further cut in their base rate of interest	1 mark

Relevant issues include:

- the meaning of 'interest rates' or 'base rate of interest'
- explaining that a cut in the central bank's base rate of interest is likely to lead to a fall in other interest rates
- economic growth has fallen from 3.3% in 2014 to 2.2% in 2019 which shows that a boost may be needed to consumer spending
- economic growth is at 2.2% in 2019, the lowest rate on the chart, which may show that firms may need looser monetary policy to increase investment
- the annual % change in the CPI is at its lowest from 2018 to 2019 at 0.74%, this indicates the economy is close to deflation and may need a boost to AD
- the annual % change in the CPI appears to be slowing down, 0.74% in 2018–19 compared to 1.32% in 2017–18 and 1.41% in 2016–17. This shows that the economy may be moving away from its productive potential (also backed by Extract F stating they are in a negative output gap).

MAXIMUM FOR QUESTION 06: 4 MARKS

0 7

Extract E (line 14) states: ‘Investment in R&D has been an important driver of economic growth and industrial progress.’

With the help of a diagram, explain how investment in research and development (R&D) can help to increase the long-run growth rate of an economy.

[9 marks]

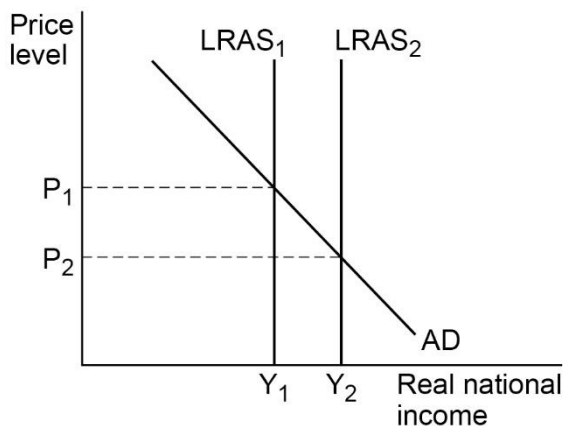
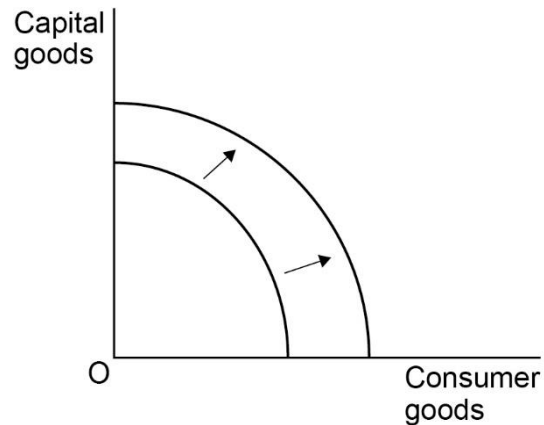
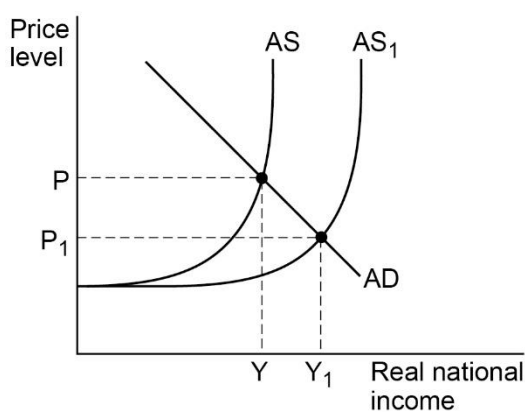
Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

An AD/AS diagram showing an increase in LRAS would be expected. A PPF showing the frontier shifting outwards would also be suitable.

Relevant issues include:

- definitions/explanations: investment, R&D, long-run growth
- explaining reasons for investment rising such as cuts in interest rates or business optimism
- linking R&D to productivity improvements (including labour productivity)
- linking R&D to innovation (in product or process)
- explaining how improved productivity leads to improved productive capacity
- explaining how more output can be gained from the same inputs
- explaining how spending on R&D can lead to the development of new products and the investment needed to produce these products
- explaining the effects on production costs
- explaining how a technological breakthrough may lead to further technological breakthroughs
- linking R&D to long-run growth.

Expected diagrams are:



MAXIMUM FOR QUESTION 07: 9 MARKS

0 8

Extract F (lines 7–8) states: ‘Economists said the data reinforced the view that the slump in South Korea’s trade-reliant economy would continue beyond this year’.

Using the data in the extracts and your knowledge of economics, evaluate policies which could be used to boost South Korea’s exports and increase its trade surplus.

[25 marks]

Areas for discussion include:

- definitions/explanations: policies, trade surplus, economic growth
- explaining the trade surplus in terms of the value of exports and imports
- explaining how a trade surplus could add to aggregate demand (AD)
- linking net trade to injections to the circular flow
- linking net trade to the multiplier effect
- explaining policies which may be used to boost a trade surplus such as:
 - supply-side policies (R+D, education, infrastructure)
 - exchange rate manipulation
 - protectionism
 - expenditure-reducing policies (although this isn’t really the emphasis of the context)
 - ending the trade war with Japan
- explaining the drawbacks of each method and limitations such as:
 - supply-side policies (time lags/expense)
 - exchange rate manipulation (misallocating resources)
 - protectionism (retaliation)
 - expenditure-reducing policies (damaging other macroeconomic objectives)
- explaining the effects of external shocks on trade
- explaining how global shocks, such as a pandemic, may lead to unavoidable disruption of trade
- considering the effects of a trade surplus on output, employment and investment
- considering the capital and financial accounts and their potential impacts on the economy
- considering how long-run economic growth can be created by a trade surplus
- considering possible trade-offs with other macroeconomic goals
- considering the possible effects on exchange rates in the long run
- considering the extent to which South Korea can manipulate its trade outcomes in a globalised world.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 08: 25 MARKS

Section B

Below is the levels of response marking grid which should be used to mark the 15 mark questions.

Level of response	Response	Max 15 marks
3	A good response provides an answer that: • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	11–15 marks
2	A reasonable response provides an answer that: • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	6–10 marks
1	A weak response provides an answer that: • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	1–5 marks

Section B**Essay 1****Total for this essay: 40 marks****0 9***Explain how a government or central bank can intervene to prevent the value of its currency rising.***[15 marks]****Relevant issues include:**

- definitions/explanations: central bank, currency, exchange rate, value of currency, appreciation
- explaining the difference between a managed float and free float
- explaining why countries may wish to intervene in the currency markets
- explaining the FOREX market and the supply and demand of currency
- explaining the role of reserves of foreign currency, or perhaps gold
- explaining the difference between 'direct' currency manipulation or 'indirect' through influencing the market
- linking currency manipulation to 'fixing', 'pegging' or currency 'ceiling'
- explaining the flow of 'hot money'
- explaining how governments or central banks can prevent the value of a currency rising:
 - by selling the domestic currency and buying foreign currencies, or gold, adding to foreign exchange reserves
 - by reducing interest rates to make the holding of domestic currency less attractive and reducing the flow of hot money
 - by increasing the money supply (as long as this is linked to increased supply of currency on FOREX such as increased import consumption)
 - easing exchange controls and/or encouraging overseas investment
 - the use of sovereign wealth funds to buy overseas assets, eg China investing in US government bonds.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

1 0

*Evaluate the possible impact on the cost of living **and** the standard of living in the UK of a sustained rise in the value of the pound sterling against other currencies, such as the euro and the US dollar.*

[25 marks]**Areas for discussion include:**

- definitions/explanations: cost of living, standard of living, rise in the value of the pound, exchange rate
- explaining the possible causes of a rise in the value of the pound
- explaining the cost of living in terms of the change in CPI/RPI
- explaining how a sustained rise in the value of the pound may affect the cost of living:
 - by reducing import costs (such as raw materials)
 - by leading to improved purchasing power (such as cheaper foreign holidays)
- explaining how a sustained rise in the value of the pound may affect the standard of living:
 - due to the impact on incomes and employment
 - due to the impact on consumption possibilities
 - due to the impact of the consumption of merit/demerit goods
 - due to the impact on education/health due to changing patterns of consumption
 - due to domestic job losses leading to lower disposable income
- considering the impact depends upon different stakeholder groups (for example those on fixed incomes may be more impacted)
- considering that the appreciation of the currency may be self-correcting eventually
- considering the possible subjective nature of living standards
- considering that due to the volatile nature of exchange rates, firms may not pass on benefits depending on the elasticities of demand
- considering the overall benefits of exchange rate changes may be offset by changes in other macroeconomic objectives.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

Essay 2**Total for this essay: 40 marks****1 1***Explain the main causes of rising consumption in an economy.***[15 marks]****Relevant issues include:**

- definitions/explanations: consumption, saving
- explaining the marginal propensity to consume/marginal propensity to save
- explaining some of the major causes of rising consumption such as:
 - rising disposable income (possibly due to income tax cuts)
 - real wage growth
 - increased consumer confidence/expectations
 - falling unemployment/rising employment rates
 - reduced interest rates
 - the wealth effect and rising asset prices
 - inflation
 - increased availability of credit
- explaining the effect this has on aggregate demand (AD) and subsequent accelerator effects which may lead to greater consumption if more investment takes place.
- explaining the multiplier effect creating additional rises in consumption.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

1 2

*To what extent do you agree that a fall in savings is beneficial for the UK economy?
Justify your answer.*

[25 marks]**Areas for discussion include:**

- definitions/explanations: savings, macroeconomic performance
- explaining causes of a fall in the savings
- explaining the significance of the savings ratio
- explaining how a fall in savings is likely to affect economic growth such as:
 - in the short run in terms of consumption being a component of aggregate demand (AD)
 - in the long run creating more investment if AD is rising
 - possibly limiting bank lending if there are insufficient funds
- explaining how a fall in savings is likely to affect unemployment such as:
 - cyclical unemployment is likely to fall if consumption rises
- explaining how a fall in savings is likely to affect inflation such as:
 - increasing demand-pull inflation if consumption rises close to productive capacity
 - a rise in labour costs and cost-push inflation if the economy is close to productive capacity
- explaining how a fall in savings is likely to affect net trade such as:
 - a rise in imports
 - potential domestic inflationary pressure making the UK less competitive and reducing exports
- considering the possibility that higher savings would have led to increased long-term investment
- considering the position of the economy in the economic cycle and how this impacts on the wider economy
- considering the volatility of savings and whether the changes are temporary or long lasting
- considering the possible stabilising (or destabilising) effects that savings can have
- considering the paradox of thrift.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

Essay 3

Total for this essay: 40 marks

1 3 Explain the role of commercial banks in the economy.

[15 marks]

Relevant issues include:

- definitions/explanations: commercial banks, financial markets
- distinguishing between a commercial bank and an investment bank
- giving examples of major commercial or high street banks
- explaining the role of commercial banks:
 - accepting deposits (current accounts and savings accounts)
 - lending and credit (loans and mortgages)
 - access to cash
 - currency trading
 - business advice
 - insurance
 - cheque and credit card processing
 - share trading
 - safety/security
 - providing an efficient means of payment
 - promoting saving
- explaining the assumption that commercial banks are profit seeking
- explaining that the basic model of commercial banks is that they lend with higher interest than the interest paid on saving
- explaining how consumption and therefore aggregate demand (AD) can be affected by commercial banks
- explaining how investment and therefore AD and aggregate supply (AS) can be affected by commercial banks
- explaining the role of commercial banks in credit creation.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

1 4*Assess policies which can be used to reduce cyclical instability in the UK.***[25 marks]****Areas for discussion include:**

- definitions/explanations: cyclical instability, economic cycle, policies
- explaining reasons why cyclical instability is damaging
- explaining the benefits of cyclical stability
- explaining how monetary policy can be used to reduce cyclical instability such as:
 - independent Bank of England
 - pre-emptive use of Bank Rate
 - forecasting and forward guidance
 - using quantitative easing when needed
- explaining how fiscal policy can be used to reduce cyclical instability such as:
 - automatic stabilisers
 - demand management policies
 - Keynesian multipliers
- explaining how supply-side policy can be used to reduce cyclical instability such as:
 - creating a flexible workforce that can adapt to changing demand conditions
 - creating the conditions suitable for investment to increase productive capacity
- explaining how financial regulation can be used to reduce cyclical instability such as:
 - use of regulators (FPC, PRA, FCA)
 - reduction of systemic risk by splitting investment and commercial banking activities
 - stress-testing of banks
 - use of reserve asset ratio's
- explaining how global shocks, such as a pandemic, may lead to unavoidable cyclical instability
- explaining how the appropriate response may depend upon the cause of the instability
- considering the effectiveness of each method with possible reference to historical aspects
- considering the issue that shocks are often unanticipated and whether the economy can cope with external changes
- considering the relative time-lags involved in carrying out different policies
- considering the view that 'stability is destabilising' and that some degree of instability can help economic agents avoid complacency.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS