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# AS ECONOMICS 7135/2

Paper 2 The National Economy in a Global Context

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**Mark scheme**

June 2023

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Version: 1.0 Final



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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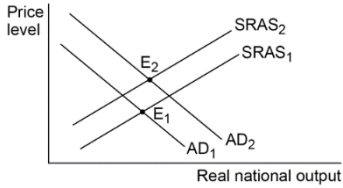
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**SECTION A**

The following list indicates the correct answers used in marking the students' responses.

**KEY LIST**

<b>1</b>	<b>B</b> (Exports)	<b>11</b>	<b>A</b> (cut government borrowing.)
<b>2</b>	<b>C</b> (Resources are fully employed)	<b>12</b>	<b>B</b> (Real national income increased)
<b>3</b>	<b>D</b> (The value of money rose between 2008 and 2011.)	<b>13</b>	<b>C</b> (government.)
<b>4</b>	<b>C</b> 	<b>14</b>	<b>B</b> (Government grants for firms with growth potential)
<b>5</b>	<b>A</b> (Corporation tax)	<b>15</b>	<b>C</b> (Rising, Absent, Increasing)
<b>6</b>	<b>C</b> (£42bn.)	<b>16</b>	<b>A</b> (A decrease in employment)
<b>7</b>	<b>A</b> (Firms' capacity utilisation)	<b>17</b>	<b>D</b> (positive supply-side shock.)
<b>8</b>	<b>D</b> (Increased expenditure on training and an investment subsidy)	<b>18</b>	<b>C</b> (An increase in the budget surplus and a switch from spending on pensions to spending on new airports)
<b>9</b>	<b>C</b> (the pattern of economic activity has changed.)	<b>19</b>	<b>C</b> (Productivity rising faster than money wages)
<b>10</b>	<b>A</b> (W)	<b>20</b>	<b>A</b> (inflation in other countries.)

**Totals**

A 6  
B 3  
C 8  
D 3

## 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.

The levels of response grid below should be used when marking the 25 mark questions.

Level of response	Response	Max 25 marks
5	<b>Sound, focused analysis and well-supported evaluation that:</b> <ul style="list-style-type: none"> <li>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors</li> <li>• includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response</li> <li>• includes well-focused analysis with clear, logical chains of reasoning</li> <li>• includes supported evaluation throughout the response and in a final conclusion.</li> </ul>	21–25 marks
4	<b>Sound, focused analysis and some supported evaluation that:</b> <ul style="list-style-type: none"> <li>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors</li> <li>• includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response</li> <li>• includes some well-focused analysis with clear, logical chains of reasoning</li> <li>• includes some reasonable, supported evaluation.</li> </ul>	16–20 marks
3	<b>Some reasonable analysis but generally unsupported evaluation that:</b> <ul style="list-style-type: none"> <li>• 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</li> <li>• includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response</li> <li>• includes some reasonable analysis but which might not be adequately developed or becomes confused in places</li> <li>• includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments and/or data.</li> </ul>	11–15 marks
2	<b>A fairly weak response with some understanding that:</b> <ul style="list-style-type: none"> <li>• includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely</li> <li>• includes some limited, application of relevant economic principles to the given context and/or data to the question</li> <li>• includes some limited analysis but it may lack focus and/or become confused</li> <li>• includes attempted evaluation which is weak and unsupported.</li> </ul>	6–10 marks
1	<b>A very weak response that:</b> <ul style="list-style-type: none"> <li>• includes little relevant knowledge and understanding of economic terminology, concepts and principles</li> <li>• includes application to the given context which, at best, is very weak</li> <li>• includes attempted analysis which is weak and unsupported.</li> </ul>	1–5 marks

**Section B****Context 1 Inflation****Total for this context: 50 marks**

<b>2</b>	<b>1</b>
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*Define 'deflation' **Extract C** (line 2).*
**[3 marks]**

Level of response	Response	Max 3 marks
<b>3</b>	<ul style="list-style-type: none"> <li>A full and precise definition is given.</li> </ul>	<b>3 marks</b>
<b>2</b>	<ul style="list-style-type: none"> <li>The substantive content of the definition is correct, but there may be some imprecision or inaccuracy.</li> </ul>	<b>2 marks</b>
<b>1</b>	<ul style="list-style-type: none"> <li>Some fragmented points are made.</li> </ul>	<b>1 mark</b>

**Examples of acceptable definitions worth 3 marks:**

- a decrease in the price level
- a fall in the level of average prices.

**Examples of a definition worth 2 marks:**

- when the rate of inflation/inflation becomes negative
- a rise in the purchasing power of money.
- 2 imprecise/inaccurate definitions do not equal a full and precise definition

**Examples of a definition worth 1 mark:**

- falling prices
- the opposite of inflation

**MAXIMUM FOR QUESTION 21: 3 MARKS**

**2 2**

The original price of an overnight stay in a hotel room is £180 including VAT. Calculate the new price of an overnight stay, following the reduction in VAT referred to in **Extract B** (line 15).

**[4 marks]**

Calculation:

£180 x 100 divided by 120 = £150

£150 x 105 divided by 100 = £157.50

**OR**

£180 x 105 divided by 120 = £157.50

Response	Max 4 marks
For the correct answer: £157.50. Accept £157.5	<b>4 marks</b>
For the correct answer without units: 157.50	<b>3 marks</b>
For an answer rounded to the nearest £: £158 or £157 <b>OR</b> For identifying the price of the hotel room without VAT (£150) <b>and</b> either the original VAT value (£30) <b>or</b> new VAT value (£7.50) but an incorrect answer (with units)	<b>2 marks</b>
For a correct method for the calculation but the wrong answer <b>OR</b> For identifying the price of the hotel room without VAT (£150) <b>or</b> the original VAT value (£30) <b>or</b> new VAT value (£7.50) but an incorrect answer (with units) <b>OR</b> £151.20/£151.2	<b>1 mark</b>

**MAXIMUM FOR QUESTION 22: 4 MARKS**

**2 3**

Use **Extract A** to identify **two** significant features of the inflation rate over the period shown.

**[4 marks]**

Award up to 2 marks for each significant feature identified.

Response	Max 4 marks
Identifies a significant feature Makes accurate use of the data to support the point identified Unit of measurement given accurately	<b>2 marks</b>
Identifies a significant feature of the data but only one piece of data is given when two are needed <b>and/or</b> no unit of measurement is given <b>and/or</b> the unit of measurement is inaccurate <b>and/or</b> the wrong date is given	<b>1 mark</b>

If a student identifies more than 2 significant features, reward the best two.

Significant points include:

- the inflation rate fell over the period from 3% CPI in January 2018 to 0.6% CPI in December 2020
- prices increased every year over the period shown, for example, by 0.3% in November 2020
- the highest rate of inflation over the period shown occurred in January 2018 at 3% CPI
- the lowest rate of inflation over the period shown occurred in August 2020 at 0.2% CPI
- the inflation rate was only equal to the target rate of 2% CPI in May and June of 2019
- the rate of inflation fluctuated over the period with a range of 2.8 percentage points.

**Note:** these figures are taken from actual data, allow a tolerance of +/- 0.1% points

**MAXIMUM FOR QUESTION 23: 4 MARKS**



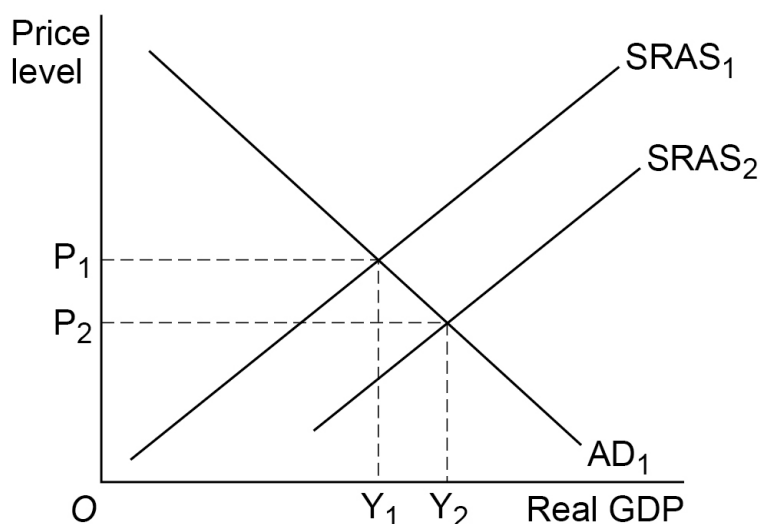
**2 4**

**Extract B** (lines 14–15) states: 'In the UK, government policy, such as the temporary reduction in VAT, an indirect tax, from 20% to 5%, also helped to reduce inflation.'

Draw an AD/AS diagram to show the impact of a reduction in indirect taxation on real national income and the price level in an economy.

**[4 marks]**

The correct diagram involves an AD/AS diagram illustrating a shift to the right in the SRAS curve, resulting in an increase in real national income and a fall in the price level.



Response	Max 4 marks
Accurately drawn AD/AS diagram showing a rightwards shift in SRAS, original equilibrium shown, $P_1Y_1$ and new equilibrium price level and output eg $P_2Y_2$ , with both axes and all curves and coordinates labelled	<b>4 marks</b>
Accurately drawn AD/AS diagram showing a rightwards shift in SRAS, with one label missing	<b>3 marks</b>
Accurately drawn AD/AS diagram showing a rightwards shift in SRAS, with two or more labels missing	<b>2 marks</b>
Accurately drawn AD/AS diagram showing an initial equilibrium point with both axes, both original curves and both original coordinates labelled, eg $P_1Y_1$	<b>1 mark</b>

**Notes:** Labels refer to axes and/or coordinate labels.

Label of vertical axis can be 'Price level', 'PL', 'Inflation' and '£'.

Do not reward Price or P.

Label of horizontal axis can be 'Real GDP', 'Real Output', 'Output', 'Y', 'RNO', 'NI' and 'National Output'.

Do not reward Quantity or Q.

If AD shift accompanies AS shift give 1 mark if equilibrium is incorrect and 3 marks if equilibrium is correct (if everything else is correct)

**MAXIMUM FOR QUESTION 24: 4 MARKS**

**2 5**

**Extract B** (lines 7–9) states: 'With this in mind, the government sets the target rate of inflation that the Bank of England's Monetary Policy Committee (MPC) has to achieve.'

Explain **two** factors considered by the Bank of England's MPC when setting Bank Rate.

**[10 marks]**

Level of response	An answer that:	Max 10 marks
<b>3</b>	<ul style="list-style-type: none"> <li>identifies two valid reasons</li> <li>shows sound knowledge and understanding of relevant economic terminology, concepts and principles</li> <li>includes good application of relevant economic principles and/or good use of data to support the response</li> <li>includes well-focused analysis with a clear, logical chain of reasoning</li> <li>may include a relevant diagram to support their explanation.</li> </ul>	<b>8–10 marks</b>
<b>2</b>	<ul style="list-style-type: none"> <li>identifies at least one valid reason</li> <li>shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present</li> <li>includes reasonable application of relevant economic principles and/or data to the question</li> <li>includes some reasonable analysis but it might not be adequately developed and may be confused in places</li> <li>may include a relevant diagram to support their explanation.</li> </ul>	<b>4–7 marks</b>
<b>1</b>	<ul style="list-style-type: none"> <li>identifies at least one valid reason</li> <li>shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely</li> <li>demonstrates very limited ability to apply relevant economic principles and/or data to the question</li> <li>may include some very limited analysis but the analysis lacks focus and/or becomes confused</li> <li>may include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.</li> </ul>	<b>1–3 marks</b>

**Relevant issues include:**

- meaning of monetary policy, Bank Rate, inflation, target rate of inflation, Bank of England's MPC
- demand-pull and cost-push influences
- state of the economy/phase of the economic cycle
- unemployment rate
- rate of change in money wages
- growth of money and credit
- house prices
- commodity prices
- government policy
- changes in other economies
- expectations
- Exchange rate
- Inflation rate.

**MAXIMUM FOR QUESTION 25: 10 MARKS**

**2 6**

**Extract C** (lines 18–19) states: 'It remains to be seen whether very low interest rates are good for the economy.'

Use the extracts and your knowledge of economics to assess the view that very low interest rates are good for the UK economy.

**[25 marks]**

**Areas for discussion include:**

- explanation of interest rates/Bank Rate/monetary policy
- UK economy/macroeconomic performance
- the impact of low(er) interest rates on consumption/savings/investment/AD
- the beneficial impact on economic growth/unemployment/achieving target rate of inflation
- the role as an economic stimulus during recession/recovery
- the beneficial impact on the costs of government borrowing
- possible multiplier/accelerator effects
- the adverse impact on inflation
- the impact on savers
- potential for future instability due to too-high levels of consumer debt
- the possibility of poor investment decisions
- discussion of the extent of spare capacity in the economy
- short-run versus long-run impact
- the seriousness of the economic crisis/confidence
- discussion of the overall economic policy approach, fiscal/monetary/supply-side
- an overall assessment of the view that very low interest rates are good for the economy.

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 5 to award students marks for this question.**

**MAXIMUM FOR QUESTION 26: 25 MARKS**

**Context 2 International trade****Total for this context: 50 marks****2 7** Define 'economic recovery' **Extract E** (line 17).**[3 marks]**

Level of response	Response	Max 3 marks
<b>3</b>	<ul style="list-style-type: none"> <li>A full and precise definition is given.</li> </ul>	<b>3 marks</b>
<b>2</b>	<ul style="list-style-type: none"> <li>The substantive content of the definition is correct, but there may be some imprecision or inaccuracy.</li> </ul>	<b>2 marks</b>
<b>1</b>	<ul style="list-style-type: none"> <li>Some fragmented points are made.</li> </ul>	<b>1 mark</b>

**Examples of acceptable definitions worth 3 marks:**

- when an economy moves out of a recession and real GDP begins to grow
- when an economy experiences growth in output and unemployment begins to fall.

**Examples of a definition worth 2 marks:**

- a reduction in spare capacity
- when an economy experiences growth

**Examples of a definition worth 1 mark:**

- a phase of the economic cycle.

**MAXIMUM FOR QUESTION 27: 3 MARKS**

**2 8**

*In the year to July 2020, the deficit in the balance of trade in goods was £105 billion.  
Calculate the value of imports of goods for the year to July 2020, using the information in  
Extract E (lines 12–15) to help you.*

**[4 marks]**

Calculation:

$$£321.6\text{bn} - M = -£105\text{bn}$$

$$M = 321.6\text{bn} + 105\text{bn} = £426.6\text{bn}$$

Response	Max 4 marks
For the correct answer: £426.6bn	<b>4 marks</b>
For the correct answer without £: 426.6bn <b>OR</b> For the correct answer without bn: £426.6 <b>OR</b> For an answer with units, £ and bn, rounded: £427bn or £426bn	<b>3 marks</b>
For an answer without units, £ and bn: 426.6 <b>OR</b> For an answer without units, £ <b>OR</b> bn, rounded: £426/7 or 426/7bn	<b>2 marks</b>
For identifying the correct method for the calculation but the wrong answer is given	<b>1 mark</b>

**MAXIMUM FOR QUESTION 28: 4 MARKS**

**2 | 9**

Use **Extract D** to identify **two** significant features of the balance of trade in goods and services over the period shown.

**[4 marks]**

Award up to 2 marks for each significant feature identified.

Response	Max 4 marks
Identifies a significant feature Makes accurate use of the data to support the feature identified Unit of measurement given accurately	<b>2 marks</b>
Identifies a significant feature but only one piece of data is given when two are needed <b>and/or</b> no unit of measurement is given <b>and/or</b> the unit of measurement is inaccurate <b>and/or</b> the wrong date is given	<b>1 mark</b>

If a student identifies more than 2 significant features, reward the best two.

Significant points include:

- over the period there was an improving trend in the trade balance. In November 2017 there was a deficit of £2900m and by October 2020 it had reduced to £1800m
- prior to June 2019 the trade balance was always in deficit, such as £7900m in February 2019, however, since then, the trade balance fluctuated between deficits and surpluses, for example, there was a surplus of £7100m in May 2020
- the largest trade deficit occurred in February 2019 with a value of £7900m
- the largest trade surplus occurred in May 2020 with a value of £7100m
- the trade balance fluctuated throughout the period, with a range of £15000m, from a deficit of £7900m to a surplus of £7100m
- the sharpest improvement in the trade balance occurred between March and April 2020, when it moved from a deficit of £3300m to a surplus of £5700m, a change of £9000m
- the sharpest deterioration in the trade balance occurred between January and February 2020, when it fell from a surplus of £4100m to a deficit of £300m, a change of £4400m
- the smallest trade deficit occurred in February 2018 with a value of £500m
- the smallest trade surplus occurred in July 2019 with a value of £1000m

**Note:** the figures in the graph are taken from actual data, allow a tolerance of +/- £300m

Allow a deficit to be expressed as a negative number (i.e. -£7900m)

Students need to refer to a deficit or surplus for the feature to be significant and gain 2 marks

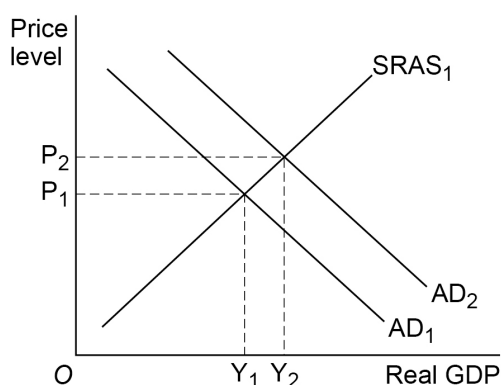
If students refer to lowest/highest balance in trade in goods and service or just lowest/highest amount with correct data (including date and units), and don't mention deficit or surplus award 1 mark

**MAXIMUM FOR QUESTION 29: 4 MARKS**

**3 0**

**Extract E** (lines 4–6) states: ‘Recent favourable trade balances, such as the £8.2 billion surplus achieved in the 12 months to October 2020, have largely been overlooked.’

Draw an AD/AS diagram to show the effect of an improvement in the balance of trade in goods and services on real national income and the price level in an economy.

**[4 marks]**

Response	Max 4 marks
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the AD curve, an increase in real national output, and a higher equilibrium price level with both axes and all curves and coordinates correctly labelled.	4 marks
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the AD curve, an increase in real national output, and a higher equilibrium price level, with one label missing or incorrect (axis or curve) <b>OR</b> Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the AD curve, an increase in real national output, and a higher equilibrium price level, with one coordinate missing or incorrect ( $Y_1$ or $Y_2$ / $P_1$ or $P_2$ )	3 marks
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, a rightwards shift in the AD curve, an increase in real national output, and a higher equilibrium price level, with two or more labels missing or incorrect	2 marks
Accurately drawn AD/AS diagram showing the initial equilibrium level of output and price level, with both axes, both original curves and coordinate correctly labelled	1 mark

**Notes:** Labels refer to axes and/or coordinate labels.

Label of vertical axis can be ‘Price Level’, ‘PL’, ‘Inflation’ and ‘£’.

Do not reward Price or P.

Label of horizontal axis can be ‘Real GDP’, ‘Real Output’, ‘Output’, ‘Y’, ‘RNO’, ‘NI’ and ‘National Output’.

Do not reward Quantity or Q.

If AS shift accompanies AD shift give 1 mark if equilibrium is incorrect and 3 marks if equilibrium is correct (if everything else is correct)

**MAXIMUM FOR QUESTION 30: 4 MARKS**

**3 1**

**Extract F** (lines 1–2) states: ‘Many economists believe that the trade balance reflects the strength or weakness of a country’s international competitiveness’.

Explain how a fall in a country’s international competitiveness may affect economic growth in the economy.

**[10 marks]**

Level of response	An answer that:	Max 10 marks
<b>3</b>	<ul style="list-style-type: none"> <li>is well organised and develops one or more of the key issues that are relevant to the question</li> <li>shows sound knowledge and understanding of relevant economic terminology, concepts and principles</li> <li>includes good application of relevant economic principles and/or good use of data to support the response</li> <li>includes well-focused analysis with a clear, logical chain of reasoning</li> <li>may include a relevant diagram to support their explanation.</li> </ul>	<b>8–10 marks</b>
<b>2</b>	<ul style="list-style-type: none"> <li>includes one or more issues that are relevant to the question</li> <li>shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present</li> <li>includes reasonable application of relevant economic principles and/or data to the question</li> <li>includes some reasonable analysis but it might not be adequately developed and may be confused in places</li> <li>may include a relevant diagram to support their explanation.</li> </ul>	<b>4–7 marks</b>
<b>1</b>	<ul style="list-style-type: none"> <li>is very brief and/or lacks coherence</li> <li>shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely</li> <li>demonstrates very limited ability to apply relevant economic principles and/or data to the question</li> <li>may include some very limited analysis but the analysis lacks focus and/or becomes confused</li> <li>may include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.</li> </ul>	<b>1–3 marks</b>

**Relevant issues include:**

- meaning of international competitiveness, economic growth/short-run growth/long-run growth
- rising imports/falling exports
- balance of payments on current account
- impact on aggregate demand
- unemployment
- multiplier and accelerator effects
- impact on investment
- impact on productivity
- impact on aggregate supply.

**MAXIMUM FOR QUESTION 31: 10 MARKS**



3	2
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**Extract F** (lines 6–7) states: ‘However, there is a great deal that can be done to improve the balance of trade in goods and services.’

Use the extracts and your knowledge of economics to evaluate policies that may be used to achieve a sustained improvement in the UK's balance of trade in goods and services.

**[25 marks]**

**Areas for discussion include:**

- the balance of trade in goods and services, balance of payments on current account
- UK economy/macroeconomic performance
- the impact of supply-side policy, such as industrial policy, reduction in corporation tax, spending on education and training
- the impact of policies to reduce aggregate demand (monetary and fiscal) on the balance of trade in goods and services
- impact of policies that reduce the exchange rate on the balance of trade in goods and services
- discussion of the most effective policy
- the drawbacks of supply-side policy, such as the budget position/time lags
- the drawbacks of policies to reduce aggregate demand, such as increasing unemployment
- the drawbacks of policies to reduce the exchange rate, such as increasing inflation
- discussion of factors that might affect which policy/combination of policies is most appropriate, such as the extent of spare capacity in the economy
- short-run versus long-run impact
- overall assessment of policies that may be used to achieve a sustained improvement in the UK's balance of trade in goods and services.

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 5 to award students marks for this question.**

**MAXIMUM FOR QUESTION 32: 25 MARKS**