



GCE

Economics

H060/02: Macroeconomics

Advanced Subsidiary GCE

Mark Scheme for June 2019

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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.

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Annotations

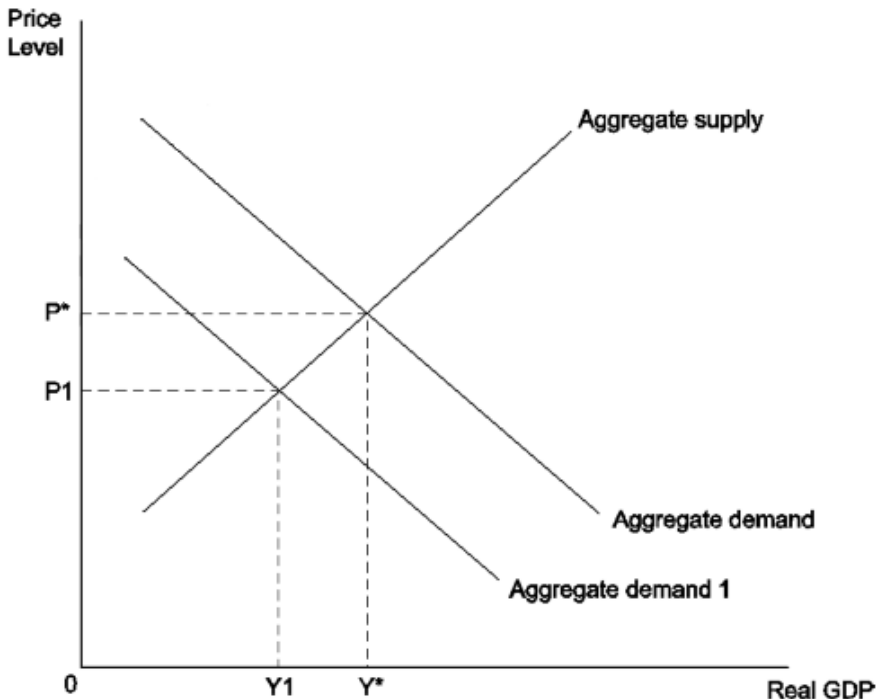
Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Confused (replaces the question mark)
	Benefit of doubt
	AO1 – Knowledge and understanding
	AO2 – Apply knowledge and understanding
	AO3 - Analyse
	AO4 - Evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule
	Repetition

Question		Answer	AO	Quantitative skills
1	A	Rationale: A Correct: direct taxes are fiscal policy B monetary policy C monetary policy D related to supply side policy	1	
2	D	Rationale: A GDP per capita B Percentage of labour force that is employed C Number of people in employment D Correct: Total output of an economy is one definition of GDP	1	
3	C	Rationale: A Economic growth increases B Unemployment likely to fall as economic growth occurs C Correct: Economic growth occurs and inflation likely to fall D Economic growth increases	1	
4	A	Rationale: A Correct: change in consumption/change in income 45/50 B consumption/income (805/825) – this is the apc C income/consumption (825/805) D change in income/change in consumption 50/45	2	Yes
5	C	Rationale: A indirect, levied on value of property B indirect, tax levied on spending C Correct: tax levied on individual D indirect, tax levied on spending	2	
6	A	Rationale: A Correct: Both will increase multiplier B Depends on the relative size of changes in marginal propensity to save and marginal propensity to import C Depends on the relative size of changes in marginal propensity to save and marginal propensity to import D Increase in both will reduce the multiplier	3	
7	B	Rationale: A More capital goods so future growth higher in country Y B Correct: More consumer goods than capital goods being produced in country X	2	Yes

Question		Answer	AO	Quantitative skills
		C Unlikely to currently be on PPF D Future growth expected to be lower in country X as fewer capital goods		
8	A	Rationale: A Correct: $114/120 \times 100 = 95$; 5.0% decrease B $14/20 \times 100 = 70$; 30% decrease C $120/114 \times 100 = 105.3$; 5.3% increase D $20/14 \times 100 = 142.9$; 42.9% increase	2	Yes
9	C	Rationale: A If the price level falls B If the price level rises C Correct: As investment falls, AD falls shifting left D Shift right needs investment to increase	1	
10	A	Rationale: A Correct: as the government spends more money without any increase in taxes B Does not directly impact exports and imports C Tax revenue would need to be higher or government spending lower D Does not directly impact exports and imports	2	
11	B	Rationale: A Incorrect calculation – divided nominal rate by real rate B Correct: Interest rate paid minus real rate of interest, gives inflation level C Incorrect calculation – added nominal and real rates D Incorrect calculation – multiplied nominal and real rates	2	Yes
12	D	Rationale: A Unemployment caused due to the economic cycle B Unemployment that is temporary as workers change jobs C Unemployment that is temporary at certain times of the year D Correct: Unemployment that is likely to be long term due to a change in demand	1	
13	A	Rationale: A Correct: More US\$ per pound as the pound appreciates which means relatively cheaper to holiday in the USA (as these are imports) B The USA exports from the UK will become more expensive C USA imports become cheaper so demand will increase D As Sterling appreciates firms will need to reduce the Sterling price to compensate	1	
14	D	Rationale: A Although the figure has fallen this does not mean the deficit has improved B Graph line would be close to zero for most of the period	3	Yes

Question		Answer	AO	Quantitative skills
		C Graph shows gap widening D Correct: Graph shows negative numbers for most of the period so imports must exceed exports		
15	D	Rationale: A Inflation and economic growth falls as QE decreases B Economic growth falls as QE decreases C Decrease in QE means less spending and investment as banks less incentivised to lend which reduces inflation D Correct: Investment falls which reduces economic growth and reduces inflation	1	

Question			Answer	Mark	Guidance
16	a	i	<p>Using Fig. 1, compare the RPI and CPI measures of inflation during 2017.</p> <p>1 mark for CPI is below RPI throughout 2017 (or RPI is above CPI).</p> <p>1 mark for the difference between RPI and CPI has remained largely constant at 1% (accept it has become slightly larger over 2017).</p>	<p>2</p> <p>(AO2x2)</p>	<p>Data/trends quoted must be from 2017. Maximum of one mark for quoting a figure referring to the trend or 'gap' between the two measures.</p> <p>Candidate must clearly state whether they are referring to CPI, RPI or the gap/difference.</p> <p>The question asks for a comparison rather than the trend, individually or collectively, in RPI/CPI.</p> <p>Example responses</p> <p>RPI is 1% higher than CPI throughout 2017 (2 marks)</p> <p>CPI is constantly lower than RPI (2 marks)</p> <p>Both showed a similar trend in 2017 (1 mark)</p>
16	a	ii	<p>State one reason why the RPI measure of inflation may differ from the CPI measure.</p> <p>1 mark for any correct reason for the difference in the measures:</p> <ul style="list-style-type: none"> • RPI includes (CPI excludes) housing costs such as mortgage interest payments, house purchase costs and council tax • RPI excludes (CPI includes) pensioner households • RPI excludes (CPI includes) highest income households • The two methods use a different statistical method • The two methods use different baskets of goods <p>ARA</p>	<p>1</p> <p>(AO1x1)</p>	<p>Allow any other acceptable differences between RPI and CPI</p> <p>An answer which simply states, without exemplification, that "they measure different things" is too vague</p>
16	b		Using Fig. 2, explain what happened to the UK	2	One mark for reference to the evidence that wages did not rise as fast

Question			Answer	Mark	Guidance
			standard of living between February 2017 and August 2017. The annual change in average earnings has remained almost constant (increased slightly) Inflation has increased by nearly 1%. Prices have therefore been rising at a faster rate than earnings so that individuals will be relatively worse off (real wages have fallen).	(AO1x1 AO2x1)	as inflation <u>or</u> real wages fell (e.g. spending more income on the same basket of goods) One mark for a simple statement that there was a fall in the standard of living To award both marks there needs to be a link between the fall in real wages (maybe implied) or value of money/spending power and a fall in the standard of living No reward for any reference to disposable income falling
16	c		A number of interest rate increases are expected over the next three years. Using a diagram, explain the impact this is likely to have on economic growth in the UK. Up to 2 marks for a diagram: <ul style="list-style-type: none"> • Accurate labelling of diagram (macro labels) (1) • A leftward shift in AD (1) Increased costs of borrowing (1) may mean less investment by firms or less loans taken by consumers and therefore less consumption (1) Increased return from savings (1) will encourage consumers to save rather than consume (1) A simple statement that AD will shift to the left if <u>already drawn</u> does not gain a mark. An explanation of why it has shifted to the left is required.	4 (AO1x2 AO2x2)	Accept real national output (or similar) on the X-axis instead of real GDP 
16	d		Using information from the case study, explain	4	Two marks for statements about the reasons for the difference between

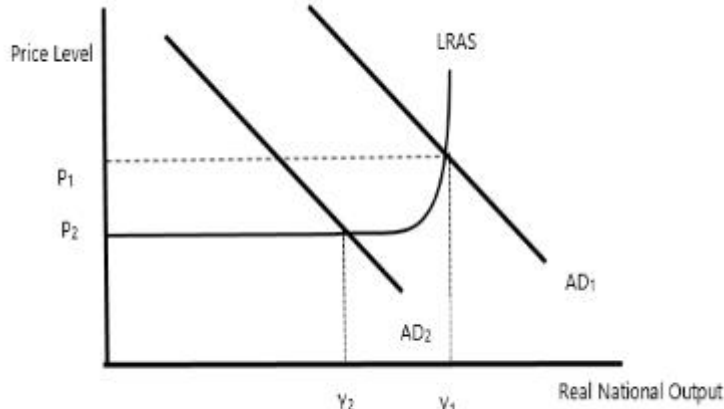
Question			Answer	Mark	Guidance
			<p>why there may be a difference in the number of unemployed when measured by the claimant count and the labour force survey (LFS)?</p> <p>Reasons for the difference may include:</p> <ul style="list-style-type: none"> • Claimant count only includes those entitled to welfare benefits (1) • Some people who are not entitled to welfare benefits may be looking for work and are included in the LFS (1) • Those on government training schemes OR mothers looking for work are not included in the claimant count (1) • LFS takes a small sample so there may be sampling error in the data (1) • Some unemployed may not be claiming benefits (1) • Some measured by the claimant count may be in low-paid jobs or are not seeking work (1) • LFS includes a wider range of ages (1). <p>Evidence in the case study:</p> <ul style="list-style-type: none"> • LFS measure of unemployment is 1.44m (1) • Claimant count is 823,900 (1) • LFS is higher than the claimant count by 616,100 (1). <p style="text-align: right;">ARA</p>	(AO1x2 AO2x2)	<p>the two measures. This may be:</p> <ul style="list-style-type: none"> • Two basic (and different) reasons • One fully explained reason (which covers both measures) <p>Two marks for reference to the evidence in the case study.</p>
16	e		Explain what is a 'withdrawal from the circular	2	Two marks for a definition of a withdrawal.

Question			Answer	Mark	Guidance
			<p>flow of income’.</p> <p>A withdrawal from the circular flow of income is spending which does not flow back from households to firms. (2)</p> <p>Savings, taxes or imports. (1)</p>	AO1x2	<p>One mark for an incomplete definition or example(s).</p> <p>Do NOT reward that it is a leakage (this is just another name for it) or for answers which repeat the phrase ‘circular flow’.</p> <p>Any reference to money/income flowing out of the economy or <u>economic</u> system is acceptable.</p>
16	f*		<p>Evaluate whether comparative advantage can be used to explain the changes in global trade patterns.</p> <p>Level 3 (7-10 marks)</p> <p>Good – strong analysis of the consequences of changes in comparative advantage. 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.</p> <p>Good - strong evaluation of whether comparative advantage is a cause of changing global trade patterns. Strong evaluation should include a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (4-6 marks)</p>	<p>10</p> <p>(AO2 x1 AO3 x 4 AO4 x 5)</p>	<p>As emerging economies have industrialised this has seen changes in comparative advantage away from the developed countries, in particular with the manufacturing sector. Emerging/developing countries have gained a comparative advantage in these products as, relative to developed countries, they are able to produce products cheaper due to factors such as lower labour costs and less regulations. Some of these countries also benefit from higher productivity. These factors, as well as lower taxes, have all encouraged foreign investment to benefit from the lower costs. This has changed global patterns of trade as higher volumes of exports are sold by emerging/developing countries to the developed world. This may explain why, as shown in the table, UK exports to the EU have fallen by 13% over 15 years, as the EU is now exporting these products from countries that are able to produce them cheaper/have a comparative advantage. As more companies are based in emerging economies this may also increase the amount of imports into these countries as materials may need to be imported for the production of goods.</p> <p>However, the theory of comparative advantage is based on unrealistic assumptions. For example, it assumes only two countries producing only two goods. In reality there are many countries producing many goods. It assumes no transport costs of moving goods between countries which may reduce the benefits of comparative advantage, however containerisation has helped to reduce transportation costs. It assumes perfect mobility of factors of production which is also unrealistic.</p> <p>Countries may have a comparative advantage in a primary product, in which case they may wish to diversify its economy, e.g. produce</p>

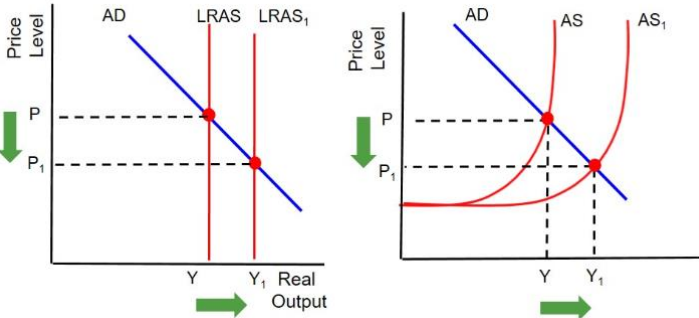
Question	Answer	Mark	Guidance
	<p>Reasonable analysis of the consequences of changes in comparative advantage. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of whether comparative advantage is a cause of changing global trade patterns, considering both sides/comparing alternatives.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p>Level 1 (1-3 marks) Limited analysis based on application of knowledge and understanding of the consequences of changes in comparative advantage. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Any relevant diagram(s) may not be present or are incorrectly labelled.</p> <p>Limited evaluation of the causes of changes in global trade patterns in the form of an unsupported statement or no evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p>		<p>products with higher income elasticity of demand which may alter its patterns of trade.</p> <p>The table shows more UK goods are being sold to the world (excluding the EU) - up from 40% to 53% of total trade. As incomes have risen in the developing world, this has changed global trade patterns as there is a higher demand for good quality exports from developed countries. Customers are interested in quality, variety and innovative products as well as price.</p> <p>As the amount of low value-added goods have decreased in the developed countries, these products now need to be imported. However, this means that developed countries are now able to concentrate on producing goods that they now have a comparative advantage in, such as high-tech goods and business/financial services for the UK. The text and table show how over the 15-year period, there has not been much change in the amount of services exported by the UK to the EU.</p> <p>Changes in exchange rates mean it is cheaper to buy from countries with a lower exchange rate, therefore this may have increased trade with countries with lower exchange rates, such as China. However, this is likely to be a short-term factor only; exchange rate differentials are likely to correct over time.</p> <p>Changes in relative inflation levels mean it is cheaper to buy from countries with lower inflation, increasing exports from countries with lower inflation rates. However, inflation levels fluctuate so this is unlikely to have a big impact in the short run. It is only likely to have an impact in the long run if the inflation differential is significant.</p> <p>The theory of comparative advantage assumes free trade. However, there have been increases in the number and size of trading blocs and other trading agreements which have encouraged member countries to trade with member countries. Therefore, countries within trade blocs are likely to see an increase in trade whilst those countries not in a trade bloc are likely to see a fall in trade. However, the World Trade</p>

Question			Answer	Mark	Guidance
			0 marks no response worthy of credit		<p>Organisation has been working to try and encourage free trade.</p> <p>A number of countries, such as former communist countries, have opened up to trade increasing the amount of exports to and from those countries, e.g. China & Russia. However, some countries are putting in place tariffs and other protectionist measures which deters international trade.</p> <p>Although a number of factors can explain the changes, the most significant factor that has led to changes in global trade patterns is comparative advantage as demand has increased for cheaper goods being produced by emerging economies which has encouraged more foreign investment into these countries.</p>
			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	Mark	Guidance
17*	<p>The UK government has made some progress since 2010 in restoring public finances by implementing its fiscal rules. The budget deficit has been reduced from a post-war high of 9.9% of GDP in 2009-10 to 2.0% of GDP in 2017-18, its lowest level since before the financial crisis.</p> <p>Evaluate, using an appropriate diagram(s), how policies to correct a budget deficit may affect other UK macroeconomic objectives.</p> <p>Level 4 (16-20 marks) Good knowledge and understanding of how policies to correct a budget deficit may affect other UK macroeconomic objectives. Strong analysis of the impact of policies to correct the budget deficit on other UK macroeconomic objectives 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 extent to which policies to correct a budget deficit may affect other UK macroeconomic objectives, weighing up both sides/comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p>	<p>20</p> <p>(AO1*3 AO2*4 AO3*6 AO4*7)</p>	<p>Policies to correct a budget deficit will include reducing government spending and/or increasing taxation and/or reducing government borrowing. This will help the government to reduce the level of national debt and aim for a balanced budget.</p> <p>These policies are likely to reduce aggregate demand and economic growth as government spending is reduced.</p> <p>The level of impact will depend upon how much government spending/taxation is changed and for how long. If government spending is reduced the impact will also depend upon which areas government spending is reduced. If there is less investment by the government this is likely to impact longer term economic growth and the productive potential of the economy. It also depends on what extent the private sector can replace public sector spending and jobs.</p> <p>If taxes are increased, the impact will depend upon which taxes are increased (indirect tax/direct tax) and by how much and for how long. If direct taxes are increased only for top earners, this is likely to have less of an impact on the level of consumption in an economy than if taxes were also raised for low income earners. It may take consumers some time to change their spending behaviours. Also, it depends on the value of the mpc and if consumers are likely to save less and continue to spend. If income taxes are raised it may disincentivise people to work and others may work in the hidden economy - therefore government loses tax revenue.</p>

Question	Answer	Mark	Guidance
	<p>Level 3 (11-15 marks) Good knowledge and understanding of how policies to correct a budget deficit may affect other UK macroeconomic objectives. Good analysis of the impact of policies to correct the budget deficit on other UK 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. Good evaluation of the extent to which policies to correct a budget deficit may affect other UK macroeconomic objectives, will weigh up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p>Level 2 (6-10 marks) Reasonable knowledge and understanding of how policies to correct a budget deficit may affect other UK macroeconomic objectives. Reasonable analysis of the impact of policies to correct the budget deficit on other UK 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. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the extent to which policies to correct a budget deficit may affect other UK macroeconomic objectives, considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented</i></p>		 <p>This is likely to increase unemployment which is likely to reduce incomes and the standard of living. Depending on the multiplier this will then have further effects on consumption in the economy – revenue earned from indirect taxes may fall. Savings levels may also increase due to uncertainty as unemployment increases, all of which further impact AD and economic growth. The effect will depend on the size of the multiplier.</p> <p>The level of inflation is likely to fall as demand in the economy falls. Depending on the level of inflation in the economy this could be deflationary. A lower level of inflation may also reduce pressure for higher wages. This may then increase the competitiveness of UK goods relative to other countries and may help increase exports. This may then help improve the balance of payments. However, this is also likely to depend on other factors such as the exchange rate relative to major trading partners and non-price factors such as quality of product.</p> <p>The level of income inequality is likely to increase if government spending is reduced in areas such as welfare benefits, healthcare and education. However, this may incentivise people to get a job as welfare benefits are reduced. Also, if indirect taxes are raised they tend to be regressive. However,</p>

Question			Answer	Mark	Guidance
			<p><i>with limited structure. The information is supported by limited evidence.</i></p> <p>Level 1 (1-5 marks) Limited knowledge and understanding of how policies to correct a budget deficit may affect other UK macroeconomic objectives. Limited or no analysis of the impact of policies to correct the budget deficit on other UK 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 incorrectly labelled. Limited evaluation of the extent to which policies to correct a budget deficit may affect other UK macroeconomic objectives, in the form of an unsupported statement or no evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p>0 marks no response worthy of credit</p>		<p>this may help reduce income and wealth inequality if tax increases only impact high earners or taxes on wealth assets such as houses. There may be time lags in implementation of changes to taxation.</p> <p>The use of supply side policies such as deregulation and labour market flexibility may be more effective than using fiscal policy to correct a budget deficit and have less negative impact on other macroeconomic objectives in the longer run. This is likely to increase employment which will provide an increase in income tax revenue and also indirect taxes as they spend their wages. As AS also increases, it will increase economic growth which will lead to lower levels of inflation and higher level of exports which will generate higher levels of profit and therefore taxes for the government. An increase in tax revenue will help to reduce the budget deficit.</p>
			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)
			Meets most of the criteria with some inconsistencies		Middle of level
			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	Mark	Guidance
18*	<p>Unemployment in the euro area was 7% in May 2018, with wide variations in the number of unemployed in each member country. The unemployment rate in Germany stood at 3.4% whilst the unemployment rate in Spain was 15.8%.</p> <p>Evaluate, using an appropriate diagram(s), the effectiveness of supply side policy measures a government could use to reduce unemployment.</p> <p>Level 4 (16-20 marks) Good knowledge and understanding of how supply side policies may reduce unemployment.</p> <p>Strong analysis of the impact of policies to reduce unemployment 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.</p> <p>Strong evaluation of the extent to which supply side policies may reduce unemployment, weighing up both sides/comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 3 (11-15 marks) Good knowledge and understanding of how supply side policies may reduce unemployment.</p> <p>Good analysis of the impact of policies to reduce unemployment. There is correct analysis in the form of developed links. These links are developed through a</p>	<p>20</p> <p>(AO1*3 AO2*4 AO3*6 AO4*7)</p>	<p>Supply side policies may increase the quality or quantity of labour, an AS diagram (Classical or Keynesian) may be presented as part of the analysis.</p>  <p>Investing in education and training may help to reduce structural unemployment and increase productivity. However, money must be invested in the correct sectors to be effective. There may also be time lags.</p> <p>Reduce state welfare benefits (and/or marginal tax rates) to encourage claimants to find a job as the differential between welfare benefits and wages increase so voluntary unemployment falls. The impact will depend on by how much they are cut by. However, if there is a lack of jobs for example due to a recession, it will reduce living standards and increase income inequality. Reducing welfare benefits would also have a positive impact on government finances. Implement/increase national minimum wage to incentivise more people to work. However, this may increase unemployment as some firms struggle to pay workers the higher wage, therefore some of those in employment may also lose their job.</p> <p>Reduce the cost to firms of taking on workers for example by reducing trade union power or taxes paid on labour or less regulation. This will encourage firms to increase their workforce. An increase in employment will increase consumption and further increase employment depending on the size of the multiplier.</p>

Question	Answer	Mark	Guidance
	<p>chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p>Good evaluation of the extent to which supply side policies may reduce unemployment, will weigh up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p>Level 2 (6-10 marks) Reasonable knowledge and understanding of how supply side policies may reduce unemployment.</p> <p>Reasonable analysis of the impact of policies to reduce unemployment. 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. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p>Reasonable evaluation of the extent to which supply side policies may reduce unemployment, considering both sides/comparing alternatives.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p>Level 1 (1-5 marks) Limited knowledge and understanding of how supply side policies may reduce unemployment.</p> <p>Limited or no analysis of the impact of policies to</p>		<p>However, this may mean working conditions are less favourable for workers.</p> <p>Increase labour market flexibility which will help reduce frictional and structural unemployment e.g. better transport infrastructure and housing market incentives. Depending on the extent of these measures, they could cause inflation. There may be time lags associated with this.</p> <p>Subsidies and grants could be provided to firms which may be used for capital and labour increasing employment. However, there is an opportunity cost to government spending, this will increase the budget deficit and increase the national debt. The money could have been spent on other sectors such as health which may have more widespread benefits.</p> <p>Other policies such as a cut in interest rates by the central bank may be more effective and have a faster effect as it encourages firms to invest more. This will also help increase aggregate demand as it may encourage consumers to spend more and therefore as demand increases, firms may hire more workers. However, Spain is part of the euro area so cannot change its own interest rates. Given unemployment is lower in other euro area countries - German unemployment is only a quarter of that of Spain's and the average in the euro area is around half of that of Spain's, the central bank may not cut interest rates as this may not benefit the majority of Eurozone countries. Another option may be to reduce indirect taxes (e.g. VAT equivalent) and/or corporation tax to reduce costs for businesses. However, this may increase the budget deficit and national debt.</p> <p>Given the huge gap between levels of unemployment in Germany and Spain, any policies for Spain may need to be more extreme and long-term.</p>

Question			Answer	Mark	Guidance
			<p>reduce unemployment. 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 incorrectly labelled.</p> <p>Limited evaluation of the extent to which supply side policies may reduce unemployment, in the form of an unsupported statement or no evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p>0 marks no response worthy of credit</p>		
			Descriptor	Award mark	
			Consistently meets the criteria for this level		<i>At top of level</i>
			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)
			Meets most of the criteria with some inconsistencies		Middle of level
			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

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