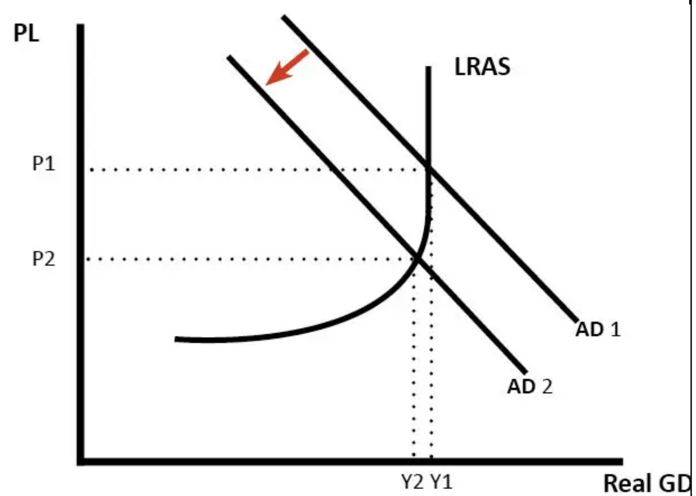
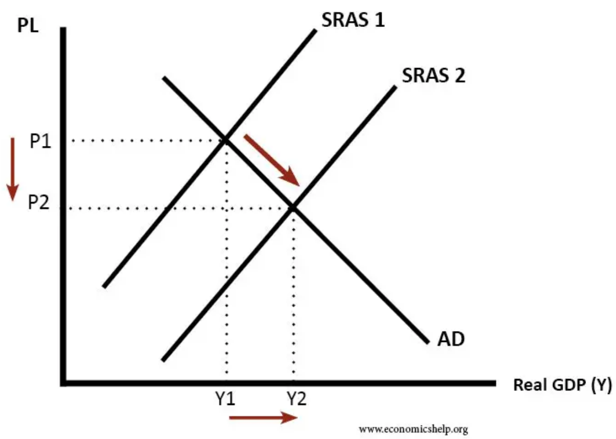
<u>2023 Edexcel A-Level Economics Paper 2 Official Unofficial Mark Scheme</u>

Question number	Question	Answer	Marks	Debate
1a	Illustrate on a diagram the effect of an increase in the base rate	 Or	4	inward AD shift and AS shift left due to increased costs of production why AS as well? I only shifted AD Just AD inwards right? Not LRAS actually, it's SRAS right? I think it can be both Would you have to show AD shifting left for full marks? -surelyI don't think so What else were you meant to do? I think the main thing is shifting in AD... less so AS Ad left init aka fall in AD Sras increase because: Interest up, hot money up, exchange rate up, imports cheaper, costs down, sras up Not required

				
1b	What is the most likely effect of an increase in the base rate?	Decrease in demand pull inflation	1	
2a	Multiple choice on employment	B 1% it says a decrease of 1.4% that means 1.4% of the value. Percentage POINT decrease of 1.4 is different to a percentage decrease of 1.4%.	1	It was B, unlucky

		So its B a percentage point decrease of 1 as 1.4% decrease of 5.2 it isn't 3.8		
2b	Explain the reasons for changes in unemployment with reference to the figure	The changes in unemployment are due to the trade cycle. During a recession, there is more unemployment. During times of growth there is less. The fall in unemployment shown in the figure can be attributed to the relaxation of covid policies, causing an increase in economic growth. Can you talk about lockdown causing high unemployment as firms laid off workers then after lockdown the unemployment decreased from after the recession? Can you not say incomes grow abroad ? Is increased immigration a point?	4	Definition State reason Application aka unemployment figure from above Sum up = 4 marks there's several reasons for unemployment
3a	Calculate the forecasted GDP	£2129419.55 million	2	£2121456.555 or smth Think it was for the forecast in GDP I remember a 419 in the number
3b	What is the likely effect of a fall in MPC on GDP?	Multiplier formula: 1/1-MPC Lower consumption means lower multiplier GDP falls GDP would increase but not by much because it is a multiplier effect?	4	I thought the value of the multiplier went up? Erm i put negative multiplier effect uh oh

3c	What is a likely cost of falling GDP?	Higher unemployment do to a fall in AD and lower demand for labour	2	
4a	Calculate USA debt: GDP ratio	123.5% or 123%	2	How were you meant to work this one out 😭 (debt/gdp) x 100
4b	What is the most likely potential economic growth?	Technological advances	1	Multiple choice with technical advances and consumption: what did people put in consumption? I think it was about an increase in economic growth??? consumption??? Was POTENTIAL so technology Oh well
4c	Most likely example of increase in consumption	Buying more clothes (D)	1	
5a	Explain the link between fiscal deficit	Budget deficit is where govt spending is greater than tax revenues, meaning borrowing is likely to have occurred in order to finance the excess spending over taxes.	2	

	and national debt			
5b	What is the most likely effect of increased government borrowing? swear the question was about government spending rather than borrowing?	Crowding out (A) Inequality	1	Was this question not about a reduction in government spending? If so I'm pretty sure the answer is inequality?! Yep I remember that too I think the question was on the most likely effect of increased national debt.
SECTION B				
5 marker What is meant by regional trade agreement?		Free trade amongst regional countries e.g. the African one. This increases regional trade - Define RTA i.e., reduce protectionist barriers such as tariffs - Allows countries to specialise in goods they have comparative advantage, increased exports and economic growth	5	

8marker Transport costs	Causes of high transport costs	Red tape and bureaucracy due to huge handling costs Poor roads, increases chance of lorries breaking down etc increasing costs High handling costs in ports Lack of roads, this means journeys are longer so higher fuel costs and more time spent on journeys Lack of information on available land. +1 Corruption?? Queuing means high wages for drivers as they spend more time? Quantity and quality of infrastructure	8	Large land mass??? Costs a lot to travel round a large geographical area?
12 marker Improving transport links on economic growth		FDI, Improve geographical mobility of labour - More FDI- leads to greater employment etc leading to economic growth EVAL OF FDI: MNCS may take advantage of lack of environmental and labour laws. Increased intra-regional trade. Comparative advantage-across the whole of Africa growth	12	

10 marker Debt relief?	assess two benefits of debt relief for the Angolan economy.	KAA1 – more finance available for investment. EV1 – some spending may take a long time to see effects, like education. KAA2 – appreciation of the Kwanza due to less outflows (I think) from servicing debt. Might boost oil revenue if neighbouring countries don't have the ability to divert. I think it causes appreciation? EV2 – but that also causes FDI to be more relatively expensive, reducing the amount that Chevron/Total are able to import and disincentivising new oil firms from cropping up. Point 1: Increase in economics growth Point 2: Increase in economic development as well Could also talk about reduced absolute poverty +1 Ev – moral hazard and dependance Eval corruption, gov spend on self interest instead Government borrowing reduced to 8.6% (something like that) of GDP – this could crowd in private investment through reducing the interest rate on loans due to there being less of a demand for money. Could encourage investment etc. However, animal spirits may be low in the economy due to instability of the government needing to be relieved of their debt to prevent severe financial issues – investment may	10	

		be hindered and firms will likely hold onto excess profits. Eval- MORAL HAZARD could create overdependence and encourage risk taking behaviours. More relief may make lending countries reluctant in the future as the debt is relieved rather than paid back. Uneven distribution of debt relief on government and higher-income classes rather than the lower-incomes as over 17 million still in absolute poverty. Improve SOLs		
15 marker Market based policies to improve development	Encourage FDI - reduce corporation tax. Pretty sure these can be two separate points if you justify it differently. Oh I think I said smth like decreasing	- Free floating exchange rate, attracting FDI due to less likelihood of poor management of exchange rates.- Increased employment-income- better living standards as depreciation improves export competitiveness APPLICATION: Angola's currency depreciated at first which may reduce FDI inflows as imports are more expensive but cheaper exports so export price competitiveness. - -Trade liberalisation- lower price for consumer, export-led growth - Privatisation-leads to shares being owned by public, allowing income to be generated for them etc- however primary product	15	

	corp tax will encourage fdi as investors will see higher rate of return from investment, which will grow firms in angola, creating jobs, leading to development. Definitely valid as one! But could surely be split.	dependency on oil exports could be bad, link to dutch disease as eval - Ii said deregulation leads to lower costs of production which may shift sras out and as a result economic growth occurs- you had to link it to development not economic growth - Microfinance schemes - Promotion of tourism industry to attract MNC Hotel chains + FDI Could you use lower income tax + abolish nmw? Fiscal policy-reduce corp tax (market based) Invest more on capital, increase in level of edu of workers and potentially have higher income higher GNI so the HDI increase, development improve EVAL: Laffer curve, decrease tax revenue, less gov spending on socially desirable things e.g. edu and healthcare, less hdi, less development Reduce income….. similar COR EVAL: I forgot, maybe Time lag/corruption/confidence level/crowding out/depends on the		
7 INCREASING COMPETITIVENESS OF	KAA1: devalue through manipulation,	You could have said expansionary monetary/fiscal policy right??? As expansionary monetary by reducing interest rates will devalues the exchange rate… → more competitive exports ? Yes	25	

BRITISH EXPORTS	exports cheaper abroad. EV1: may rely on imports, which means this just causes inflation, offsetting the gains – we likely don't meet the M-L condition. Could talk about J curve effect as well. KAA2: training schemes to increase labour productivity. Other	Valid. Hot money flows go out A reduction in the interest rate (expansionary monetary policy) would mean that there is a flow out of hot money from domestic banks. Means that there is a higher supply of the currency on foreign exchange markets, diagram showing shift outwards of supply. Will cause a depreciation of the currency meaning exports become cheaper. This results in more exports due to their lower price and makes them more internationally competitive. Decreasing interest rate evaluation: depends on J-curve and if Marshall-Lerner condition is met. In short run it is inelastic: no increase in demand for cheaper exports meaning no change in international competitiveness. Long run: more elastic as people are more able to switch to the cheaper exports. Means that internationally competitive only in the long run. Subsidies make exports more competitive due to the decreased costs for firms, lower prices and results in higher exports making it more internationally competitive to other countries. Diagram: outwards shift of SRAS- lower price level.		

	supply side policies such as infrastructure. EV2: more government spending leading to lower bond prices, higher yields and interest rates – this may cause appreciation from hot money, exports. Less competitive. Use of protectionism- infant industry argument –	Subsidy evaluation: high opportunity cost involved means that other things like education are funded less meaning productivity decreases (lower human capital) and the subsidies will actually cause a decrease in international competitiveness. Diagram: shift inwards of LRAS- higher price level. Increase in spending on apprenticeships to improve output / quality/quantity of exported services/ goods which lowers the price of exports making it more competitive. (dk if this is right lol)...higher skilled workers so greater human capital so lower unit labour costs so lower prices passed on to consumers (so lower export prices) I did 1) currency devaluation through lower interest rates, with a j curve, evaluated with marshall lerner, time lags and how imports becoming more expensive could widen inequality in the uk (mentioned gini coefficient) 2) second point was very dubious talked about trade agreements and used nz/australia as		

	economies of scale			
8 – policies to reduce Inflation other than monetary policy	1. Increasing income tax Eval – transfer pricing, less government revenue 2. Removal of tariffs Contraction of domestic supply Expansion of domestic demand Increases number of imports	1. Contractionary fiscal policy to reduce AD and lower general price level. Ev – Could lead to cost push inflation if firms have higher costs and pass onto consumers 2. Subsidise industries in the economy to cause a fall in price (used example of farmers to reduce prices of food) Ev – High opportunity cost 2. Spending on education/tech – supply side policy. Ev: time lags. Is this ok ??????		

	Increases withdrawals Decreasing AD Eval: laffer curve Supply side policies- increase government spending on transport infrastructure e.g. HS2, to increase labour supply Increase government spending on education to make workers more productive and lower costs			

	Eval: crowding out, time lag AUSTERITY CUTS? Could you possibly say subsidising the cost of energy for firms / producers and also food since they are two key drivers in the current inflation rate – food inflation is at like 19% and energy crisis is obviously a supply side issue that fiscal policy			

	may not help. Counter it by saying that UK already has a high national debt of 100% of GDP and this year alone will spent £116bn on servicing this debt so the government may not want to further worsen the budget deficit so that they can prevent the accumulation of even large			

	national debts????			

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		Eval- MORAL HAZARD could create overdependence and encourage risk taking behaviours
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7 INCREASING COMPETITIVENESS OF BRITISH EXPORTS	KAA1: devalue through manipulation, exports cheaper abroad. EV1: may rely on imports, which means this just causes inflation, offsetting the gains – we likely don't meet the M-L condition.	You could have said expansionary monetary/fiscal policy right??? As expansionary monetary by reducing interest rates will devalue the exchange rate… → more competitive imports?? Yes Valid. Hot money flows go out

	Could talk about J curve effect as well. KAA2: training schemes to increase labour productivity. Other supply side policies such as infrastructure. EV2: more government spending leading to lower bond prices, higher yields and interest rates – this may cause appreciation from hot money, exports. Less competitive.	Yes ofc
8 DECREASING INFLATION (Non Monetary policy)	3. Increasing income tax Eval – transfer pricing, less government revenue 4. Removal of tariffs Contraction of domestic supply Expansion of domestic demand Increases number of imports Increases withdrawals Decreasing AD Eval: laffer curve Supply side policies– increase government spending on	3. Contractionary fiscal policy to reduce AD and lower general price level. Ev – Could lead to cost push inflation if firms have higher costs and pass onto consumers 2. Subsidise industries in the economy to cause a fall in price (used example of farmers to reduce prices of food) Ev – High opportunity cost

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