National
Qualifications
2023

# 2023 Economics

# Advanced Higher

# Finalised Marking Instructions

**General marking principles for Advanced Higher Economics**

*Always apply these general principles. Use them in conjunction with the detailed marking instructions, which identify the key features required in candidates' responses.*

**(a)** Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.

**(b)** If a candidate response does not seem to be covered by either the principles or detailed marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.

**(c)** For **describe** questions, candidates must make a number of relevant factual points, which may be characteristics and/or features, as appropriate to the question asked. These points may relate to a concept, process or situation. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant factual point
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

**(d)** For **explain** questions, candidates must make accurate relevant points that relate cause and effect and/or make relationships clear. These points may relate to a concept, process or situation. Candidates may provide straightforward points of explanation or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant point of explanation
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

**(e)** For **justify** questions, candidates must give good reasons for a cause of action or decision. Up to the total mark allocation for this question

- award **1 mark** for each relevant statement or opinion
- award marks for any further development of a relevant statement or opinion.

**(f)** For **analyse** questions, candidates must demonstrate their ability to identify, describe and explain relevant parts and the relationships between the parts and/or the whole. Candidates must be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question

- award **1 mark** for each relevant point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

**(g)** For **discuss** questions, candidates must make points that communicate issues, ideas or information about a given topic or context that make a case for and/or against. Candidates do not always need to give both sides of the debate in their response.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of knowledge that is clearly relevant
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

**(h)** For **compare** questions, candidates must demonstrate knowledge and understanding of the similarities and/or differences between, for example, things, methods or choices. Candidates may include relevant theoretical concepts in their points.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

**(i)** For **evaluate** questions, candidates must demonstrate the ability to make a reasoned judgement in terms of the effectiveness or usefulness of something based on criteria. Candidates should be able to determine the value of something within context.

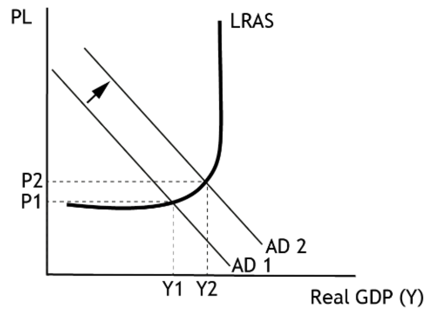
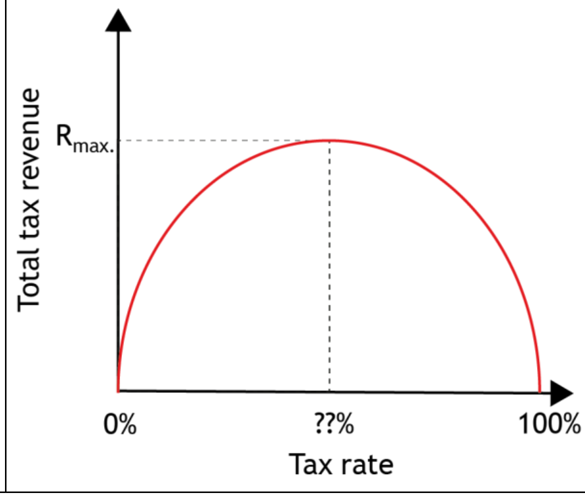
Up to the total mark allocation for this question

- **1 mark** for each accurate point of evaluation
- **1 mark** for any further development of a relevant point, including exemplification and/or a conclusion when appropriate.

**Marking instructions for each question**

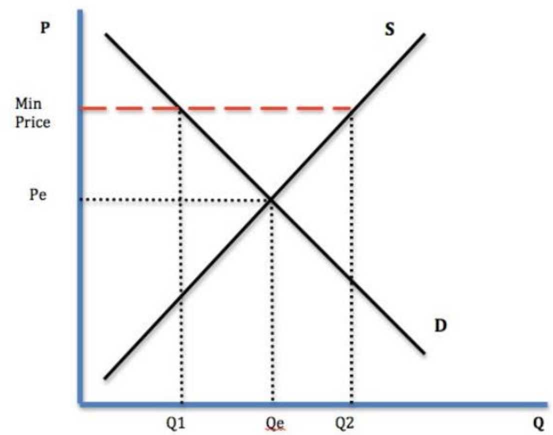
**Section 1**

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| **1.** | (a) | | • two consecutive quarters/6 months of negative economic growth **(1)** | **1** | Award **1 mark** for a valid description. |
| | (b) | | • total accumulated debt of the UK government\over time **(1)** | **1** | Award **1 mark** for a valid description. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| **2.** | | | • lower income tax rates increase consumer spending which is an important component of aggregate demand in the UK **(1)**. The benefits of higher spending will "trickle down", creating further economic growth **(1)**<br>• on the supply side, income tax cuts may also increase incentives to work – leading to higher productivity **(1)**<br>• Arthur Laffer argued that if you cut income tax rates, then the tax cut increases the incentive to work so much that the government can actually gain more tax revenue **(1)**<br>• cuts to corporation tax will allow firms to retain more of their profits, so they can make greater investments **(1)** which leads to improvements in productivity and therefore increased economic growth **(1)**. Cutting corporation tax may also attract foreign companies to the UK which could lead to inward investment and economic growth **(1)**<br><br>**Other points could include:**<br>• stamp duty<br>• national insurance<br>• multiplier effect (if linked to consumer spending) | **6** | Award **1 mark** for each valid explanation.<br><br>Award **1 mark** for each valid development.<br><br>Credit diagram showing impact of tax cuts on AD/AS when there is spare capacity in the economy – maximum **1 mark.**<br><br>Credit understanding of the Laffer Curve diagram - maximum **1 mark.**<br> |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| **3.** | | | • a downgrading of UK Government debt by Credit Rating Agencies (CRAs) **(1)** which will lead to current higher borrowing costs for the UK Government **(1)** increasing future interest burden for the UK Government **(1).** There is an opportunity cost involved as tax revenue spent on interest payments involves a sacrifice of spending elsewhere **(1).** According to the OBR in 2022-23, debt interest payments will be £83 billion/more than the defence budget **(1).** However, a downgrade does not always lead to higher interest payments as evidenced by the US **(1).** The potential for a debt crisis and default which would occur if the UK Government were unable to finance its borrowing at affordable rates of interest **(1).** The widely held view is that 6-7% is unaffordable **(1)** which is the rate at which Greece became unable to afford its level of debt **(1)**<br><br>**Other points could include:**<br>• the negative impact on business confidence<br>• introducing an austerity programme<br>• the risk of a sovereign debt crisis<br>• intergenerational unfairness<br>• Ricardian equivalence<br>• crowding out may occur<br>• may deter FDI | **4** | Candidates must analyse at least **2** implications to gain full marks.<br><br>Award **1 mark** for each valid analysis.<br><br>Award **1 mark** for each valid development. |

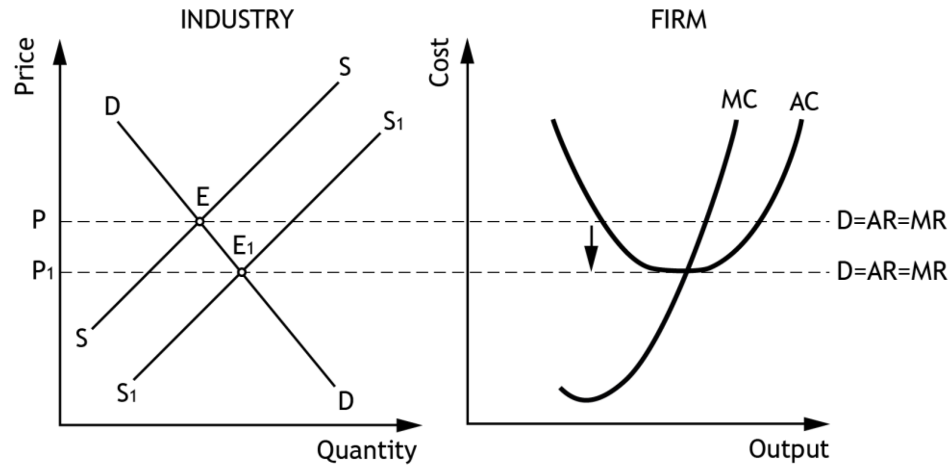
| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| 4. | | | • high earners in Scotland may decide to relocate to other parts of the UK (where they will pay less income tax) **(1)**. This could result in a 'brain-drain' of highly skilled workers leaving Scotland **(1)**<br>• there may be less supply of labour beyond a certain pay bracket, as individuals consider the opportunity cost of paying the higher marginal rate of income tax **(1)**<br>• there are also concerns that Scottish firms may find it difficult to attract senior staff **(1)** to overcome the higher tax firms have to pay higher wages which increases costs **(1)** and this could hinder the development of firms in key industries such as technology **(1)**<br>• a more progressive tax system may allow for a greater tax take which would allow the Scottish government to use these funds to improve public services **(1)**<br>• a more progressive tax system may be seen as fairer and may lead to a more equitable society **(1)**<br>• it has been argued by some economists that countries with more progressive tax systems can still experience economic growth and higher standards of living **(1)**, such as in Scandinavian countries **(1)** | 4 | Candidates must discuss at least **2** implications to gain full marks.<br><br>Award **1 mark** for each valid discussion point.<br><br>Award **1 mark** for each valid development.<br><br>Credit a labour supply curve – maximum **1 mark**.<br><br>Watch for political answers. |

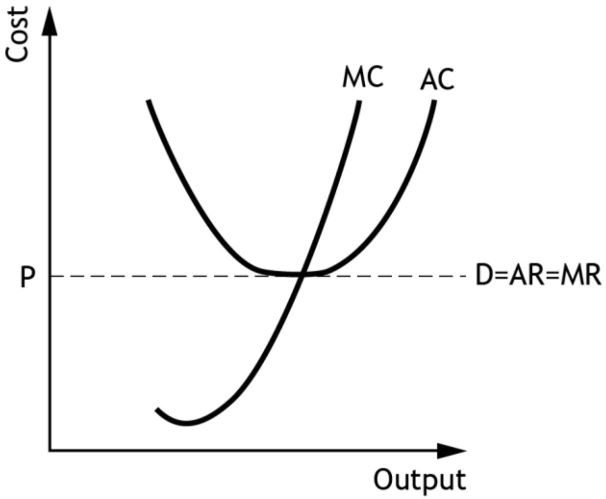
| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| 5. | | | • government could increase the national living wage, but it only affects a small proportion of the workforce as most workers earn above NLW **(1)**. It could also add to the costs of firms and may impact employment, as firms cut back on labour costs **(1)**. It could also impact UK firms' overall competitiveness **(1)** and could be inflationary if higher labour costs are passed on to consumers **(1)**<br>• government could increase state benefits. These could be means tested which would reduce poverty and associated socio-economic inequality **(1)**. They can also be targeted at the most vulnerable groups **(1)**. However, increasing state benefits may have to be paid for by increases in taxation or government borrowing **(1)** which would have a negative impact on public finances **(1)**<br>• investment in education and training, which could lead to improving access to higher education **(1)**, with potential future higher earnings **(1)**. However, there are concerns that many students are leaving university with very high levels of personal debt and this could further inequalities **(1)**<br>• investment in affordable housing in areas with high property prices, which could improve labour and social mobility **(1)**<br>• investment in infrastructure could improve transport links, which would allow workers to commute to locations with higher earnings jobs **(1)**<br>• providing funding for apprenticeships could allow workers to access high-skilled jobs **(1)**. However, there have been concerns raised that hourly pay for apprenticeships are well below the NLW **(1)** £4.81 as of April 2022 **(1)**<br>• improving healthcare provision could reduce health inequality leading to greater employability **(1)**<br>• government could introduce measures to force universities to accept a certain ratio of students from areas of deprivation **(1)**, but some individual students may still not be able to afford tuition fees/living costs **(1)**<br>• the government could introduce a wealth tax (as proposed by Thomas Piketty) to assist redistribution **(1)**, but this may lead to tax avoidance **(1)** | 6 | Candidates must evaluate **2** policies to gain full marks.<br><br>Award **1 mark** for each valid evaluation.<br><br>Award **1 mark** for each valid development.<br><br>Candidates can evaluate either income inequality, wealth inequality, or regional.<br><br>Where candidate has evaluated more than two policies credit best two.<br><br>Credit understanding of minimum wage diagram. (maximum **1 mark**)<br><br> |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| 6. | | | **Advantages**<br>• could help alleviate current labour shortages in key sectors, such as healthcare **(1)**<br>• some sectors of the UK economy have relied on migrant labour – hospitality industry, travel and tourism, construction industry, agriculture, etc **(1)**<br>• could lead to more output and economic growth **(1)**<br>• migrants are more likely to be of working age, which may decrease the dependency ratio **(1)**<br>• there is a positive net impact on the public tax take **(1)**<br>• more supply of labour may help prevent a wage-price spiral and thus contain inflation **(1)**<br>• creates new markets which would not exist without it – eg Polish retail shops **(1)**<br><br>**Disadvantages**<br>• could place downward pressure on wages **(1)**, which is against the government's objective of the UK becoming a high-wage economy **(1)**<br>• more pressure on housing leading to less affordability of buying/renting **(1)**<br>• more pressure on local councils' services/public services in some areas leading to increases in council tax/general taxation **(1)**<br>• less jobs available for UK citizens leading to higher unemployment in the UK **(1)**<br>• firms may be more prepared to substitute labour for capital which could hinder UK productivity **(1)**<br>• more bureaucracy for firms who may need to check visas/immigration status of foreign workers which adds to costs **(1)** | 6 | Candidates must describe at least **one** advantage and **one** disadvantage to gain full marks.<br><br>Award **1 mark** for each valid description.<br><br>Award **1 mark** for each valid development. |

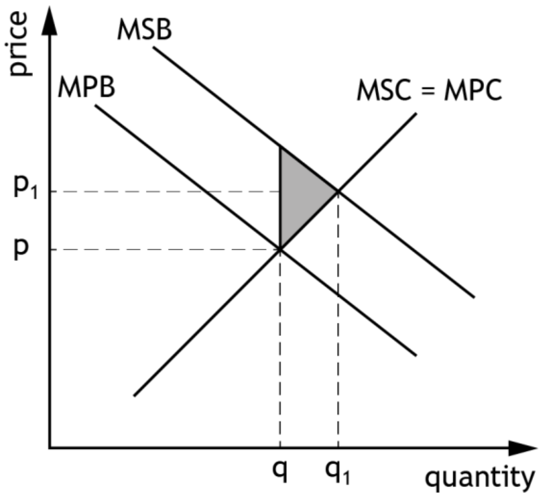
| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| **7.** | | | • large variation in house prices across the UK can lead to affordability issues discouraging low-income workers that live outside the area from applying for jobs **(1)**. Current increase in interest rates is making housing less affordable **(1)**<br>• where assistance is available to workers for housing it may be inadequate so people are unable to accept jobs/promotion **(1)**<br>• lack of construction (for rental or buying) creates lack of supply so people are unable to move to areas with job vacancies **(1)**<br>• short-term letting (eg Airbnb) creates more income for owners which discourages them from long-term renting **(1)** | **2** | Candidates must explain **2** reasons to gain full marks.<br><br>Award **1 mark** for each valid explanation.<br><br>Award **1 mark** for a valid development. |

## Section 2

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| 8. | (a) | (i) | Diagram 1 Diagram 2<br><br>**Diagram**<br>• correctly labelled diagram (Price, Quantity, P and $P_1$, S and $S_1$, D, Cost, Output, AC, MC, D=AR=MR) **(1)**<br>• supply curve shift to the right (S to $S_1$) **(1)**<br>• correct curves (MC and AC) **(1)**<br>• MC cuts AC at the lowest point and AC=MC=D=AR=MR=$P_1$ **(1)**<br><br>**OR** | 6 | Award **1 mark** for each valid explanation.<br><br>Maximum **4 marks** for diagram(s).<br><br>Maximum **4 marks** for explanation. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | | | <br>• correctly labelled diagram (Cost, Output, P, AC, MC, D=AR=MR) **(1)**<br>• correct curves (MC and AC) **(1)**<br>• MC cuts AC at the lowest point and AC=MC=D=AR=MR=P **(1)**<br><br>**Explanation**<br>• in the short run a firm in perfect competition can make abnormal profits. New firms will enter the market as there are no barriers to entry **(1)**. This will cause the supply curve to shift to the right **(1)** which will lower the equilibrium price and eradicate abnormal profits **(1)**. Equilibrium is where AR=AC=MR=MC because firm is profit maximising and demand curve is horizontal/perfectly elastic **(1)** | | |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | | (ii) | **Detriments to consumers:**<br>• high barriers to entry result in a lack of competitive pressures **(1)** monopolist can charge higher prices **(1)**<br>• lack of incentive to improve which may result in a lower quality output **(1)**<br>• lack of incentive to innovate which means there are less new products on the market/lower choice to consumers **(1)**<br>• monopolies can be allocatively inefficient as they choose what they wish to produce, resulting in a shortage in other markets **(1)**<br><br>**Other points could include:**<br>• productively inefficient<br>• unfair trading practices to maintain barriers to entry<br><br>**Benefits to consumers:**<br>• natural monopolies have such high economies of scale that they can produce more cheaply and at lower price **(1)** than if the market was broken up into smaller firms which would be less efficient **(1)**<br>• monopolists can price discriminate which means that they sell the same product to different groups of customers at different prices **(1)** which benefits the group of consumers who previously could not afford the good **(1)**<br><br>**Other points could include:**<br>• economies of scale – lower prices for consumers<br>• abnormal profit being invested in R&D – creating new products and processes<br>• Theory of Creative Destructionism as proposed by Joseph Schumpeter | **6** | Award **1 mark** for each valid discussion point.<br><br>Award **1 mark** for each valid development.<br><br>Award maximum **1 mark** for an example.<br><br>Watch for flips. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | (b) | (i) | <br>**Diagram**<br>• correctly labelled diagram (price, quantity, p and $p_1$, q and $q_1$, MPB, MSB, MSC=MPC) **(1)**<br>• MSB above MPB shown **(1)**<br>• both original and new equilibrium point shown **(1)**<br>• potential welfare gain shaded/indicated/labelled **(1)** | **7** | Award **1 mark** for each valid explanation.<br><br>Award **1 mark** for each valid development.<br><br>Maximum **4 marks** for the diagram.<br><br>Maximum **4 marks** for the explanation. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | | | **Explanation**<br>• in this case the Positive Externalities occur when the consumption of electric cars leads to positive impacts on 3rd parties **(1)**, which leads marginal social benefit to be greater than marginal private benefit **(1)**. At pq, the market price ignores externalities, and the good is undervalued and under consumed **(1)**. This underconsumption leads to a potential loss of a welfare gain (shaded/indicated/labelled area in diagram) **(1)**. The socially optimum allocation of resources occurs when MSB = MSC **(1)**. In the diagram the initial equilibrium is at pq but the social optimum occurs at $p_1q_1$ **(1)** because this takes the benefits to 3rd parties into account/reflects the full benefit and cost to society of consuming electric cars **(1)**<br>• the benefits of increasing consumption of electric cars would be reductions in greenhouse gas emissions **(1)**<br>• less noise pollution **(1)**<br>• electric car production is more sustainable as there are significantly less component parts required **(1)**<br>• reduced demand for petrol/diesel will result in less supply in the long run which would have an environmental benefit to society **(1)** | | |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | | (ii) | • laws can be passed that make the consumption of electric cars mandatory **(1)**. Currently the UK government has stipulated that sales of new petrol and diesel cars will cease by 2030 **(1)**<br>• Governments can provide subsidies to help with the production costs of electric cars **(1)** but this may not be enough to reduce the current high cost of electric cars **(1)**<br>• Government could continue with the current annual road tax of £0 in UK reducing running costs for EV's **(1)**<br>• could reinstate the Plug-in Car Grant (PICG)/home charging stations reducing costs to householders **(1)**<br>• government can improve the network of charging ports thereby making electric cars more viable **(1)** but this requires investment from taxpayers **(1)** and there would be significant time delays in building this infrastructure **(1)**<br>• Governments can initiate campaigns to raise the awareness of the external benefits of driving electric cars **(1)**<br>• Government can provide firms with grants to assist specifically with further investment in new battery technology **(1)** as currently many potential consumers worry about "range anxiety" **(1)**<br>• Government can fund the construction of gigafactories reducing the cost of battery production **(1)**<br>• Government can introduce low emission zones thereby making petrol diesel cars less attractive to consumers **(1)**<br>• Government can increase the fuel duty on petrol/diesel which would increase the cost of owning a petrol/diesel car **(1)** | **6** | Candidates must discuss at least **2** ways to gain full marks.<br><br>Award **1 mark** for each valid discussion point.<br><br>Award **1 mark** for each valid development.<br><br>Credit substitution effect (maximum **1 mark**) |

## Section 3

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| **9.** | (a) | | • people have less discretionary income so therefore aggregate demand falls **(1)** which results in deflationary pressure in the economy **(1)**<br>• higher mortgage interest payments for those on a variable rate mortgage, resulting in reduced discretionary income **(1)**. Many fixed mortgage deals are also coming to an end, so many families will be faced with substantial increases in monthly mortgage repayments when they re-mortgage **(1)**. This could lead to downward pressure on the housing market **(1)**, leaving some households in negative equity **(1)**. This has the potential to lower consumer confidence through a negative wealth effect **(1)**. Increased mortgage rates could also lead to an increase in repossessions/homelessness **(1)**<br>• consumers may choose to increase their savings, which would be a leakage which may result in recession/lower economic growth **(1)**<br>• firms are less likely to borrow which will reduce the amount of capital investment that takes place in the economy **(1)** and pay more on existing borrowing/loans which means workers will not get big pay rises **(1)**. Reduced investment may hinder future productivity **(1)**<br>• the exchange rate may appreciate due to hot money inflows, which may make imports cheaper **(1)**, thereby helping reduce inflation **(1)**. This may positively impact on the current account in the balance of payments (depending on elasticity of demand on imports) **(1)**<br>• raising the base rate may not be effective in the short term, as it can take up to 18 months for interest rate changes to work their way through the economy **(1)** | **9** | Candidates must analyse at least **2** consequences to gain full marks.<br><br>Award **1 mark** for each valid analysis.<br><br>Award **1 mark** for each valid development.<br><br>Credit transmission mechanism of monetary policy.<br><br>Award **up to 2 marks** for use of accurate statistics for Question 9. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | | | • raising interest rates could conflict with the government's macro-economic objectives, as it may cause unemployment to rise and/or economic growth to fall **(1)**<br>• government debt interest payments could also increase **(1)**, which could lead to higher taxes in the future **(1)**<br>• could result in intergenerational unfairness as many pensioners have paid off their mortgage **(1)** and will gain increased returns from their pension pots **(1)** | | |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | (b) | | • it has a regressive effect on low-income/middle-income families **(1)**. This is due to the higher proportion of income that low-income households spend on food and fuel prices etc **(1)**. This is known as Engel's Law **(1)**<br>• could result in falling real incomes if the rate of inflation is higher than the average rate of wage increase **(1)**<br>• it could result in negative real interest rates if interest rates on savings accounts are lower than the rate of inflation, then people who rely on interest from their savings will be poorer **(1)**. This could have a significant impact on pensioners, as they are more likely to rely more on their savings in retirement **(1)**<br>• financial markets tend to protect themselves against rising prices by increasing the cost of borrowing on short and longer-term debt **(1)**. This could lead to higher borrowing costs for businesses and individuals **(1)**<br>• there would be pressure on the government to increase the value of the state pension and other welfare payments in line with inflation **(1)**. This could have an impact on government spending in other departments **(1)**<br>• if the UK has a much higher rate of inflation than other countries for a considerable period of time, this will make its exports less price competitive in world markets **(1)**. This could lead to a reduction in business competitiveness **(1)**<br>• it is not good for business confidence partly because they cannot be sure of what their costs and prices are likely to be **(1)**. This uncertainty might lead to a lower level of capital investment spending **(1)**<br>• some workers with strong trade union power may be able to bargain for higher wages **(1)**. Failed negotiations may result in industrial action which reduces productivity **(1)**<br>• can lead to an increase in pay claims as people look to protect their real incomes **(1)**. This could result in a wage-price spiral **(1)**<br>• borrowers may benefit if the real interest rate of loans is negative **(1)**<br>• wealthy individuals may benefit if there is a sustained period of asset price inflation **(1)** | **8** | Candidate must discuss at least **2** implications to gain full marks.<br><br>Award **1 mark** for each valid discussion point.<br><br>Award **1 mark** for each valid development. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | (c) | | • current inflation is being caused by global supply issues and high energy prices/cost-push inflation **(1)**. Raising interest rates will be largely ineffective as it only reduces demand-pull inflation **(1)**. Due to globalisation, countries are more economically integrated now, so interest rate changes will have no impact on alleviating global economic problems **(1)**<br>• if consumer confidence is high, tightening monetary policy may be ineffectual, as consumers will continue to borrow at higher interest rates **(1)**<br>• changing interest rates will not address current labour shortages in the UK economy **(1)**, which could result in sustained wage increases which would lead to a wage-price spiral **(1)**<br>• Bank of England calculates that there was £140 billion increase in household savings during the pandemic **(1)**, so many households may choose to use these savings to sustain high levels of consumption **(1)**, which may lead to demand-pull inflation **(1)**<br>• possible further consequence could be costs for firms with high levels of borrowing go up, which may result in increased prices for consumers which would also lead to further cost-push inflation **(1)** | **4** | Award **1 mark** for each valid discussion point.<br><br>Award **1 mark** for each valid development. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | (d) | | • MMT says that governments create new money by using fiscal policy and that the primary risk once the economy reaches full employment is inflation **(1)**, which can be addressed by gathering taxes to reduce the spending capacity of the private sector **(1)**<br>• MMT argues that unemployment is the result of governments spending too little while collecting taxes **(1)**. It says those looking for work and unable to find a job in the private sector should be given minimum-wage transition jobs funded by the government/public sector jobs **(1)**<br>• government is not dependent on revenue from taxes or borrowing to finance its spending **(1)** and the only constraint on government spending is inflation **(1)**<br>• government should not try to manage their budget like a household because they will miss out on the opportunity to harness the power of their sovereign currencies to improve people's standard of living **(1)**<br>• government should not see overspending as a deficit as the deficit creates a surplus for someone else **(1)**. The government can spend too much but only when the overspending leads to inflation **(1)**<br>• government deficits do not burden future generations as overspending now will lead to higher GDP **(1)** which will then lead to higher standards of living in the future **(1)**<br>• government deficits do not crowd out private investment as governments don't have to compete with other borrowers for access to limited supplies of savings **(1)**<br>• government deficits do not lead to foreign leverage over the debt as government is actually supplying foreign countries with the sovereign currency **(1)**<br>• social security benefits payments should never face cuts as the government will always be able to meet future obligations **(1)** | **4** | Candidates must describe at least **2** concepts to gain full marks.<br><br>Award **1 mark** for each valid description.<br><br>Award **1 mark** for each valid development. |

<table>
<tr><th colspan="3">Question</th><th>Expected response(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>10.</td><td>(a)</td><td></td><td>
<ul>
<li>lower output as a smaller working population (1)</li>
<li>higher dependency ratio (1) leads to a greater tax burden on working population (1)</li>
<li>state receives less in taxation which worsens the public finances (1) and has to pay out more in pensions/benefits (1)</li>
<li>higher savings rate as the ageing population might be concerned to save for their old age (1). This could lead to the paradox of thrift (1) which means that higher saving leads to lower consumption which leads to lower AD and negative impacts on the whole economy (1)</li>
<li>higher spending on healthcare (1)</li>
<li>creates the need for more jobs in health and social care sectors (1)</li>
<li>could lead to decline in the size of population reducing the size of the economy (1)</li>
<li>the silver pound/pensioner poverty affects the spending power of pensioners (1)</li>
<li>may drive innovation and adoption of artificial intelligence (AI) (1)<br>could result in future increase in productivity (1)</li>
<li>difficulty in filling skills gaps in the labour market (1)</li>
<li>some economists argue that a smaller workforce may lead to higher future wages as firms have to compete for available labour (1)</li>
</ul>
</td><td>9</td><td>Candidates must describe at least 2 consequences to gain full marks.<br><br>Award 1 mark for each valid description.<br><br>Award 1 mark for each valid development.<br><br>Credit explanation of the ‘triple-lock’ on pensions.<br><br>Award up to 2 marks for use of accurate statistics for Question 10.<br><br>Credit opportunity cost example (maximum 1 mark)</td></tr>
</table>

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | (b) | | • it would create inflationary pressures as imports would become more expensive **(1)**. This is a particular problem with imported oil as oil is purchased in US dollars **(1)** and the pound has recently devalued significantly against the US dollar dropping to as low as $1.04 to £1 **(1)**. Subsequent policies to combat this inflation, such as raising interest rates, would increase the cost of borrowing **(1)** and could put downward pressure on the housing market **(1)**<br>• it would have a negative impact on UK holidaymakers as they would receive less foreign currency in exchanges for pounds **(1)**<br>• UK imports are roughly a third of GDP **(1)** – as imports make up a large proportion of the economy inflation is more affected by exchange-rate movements **(1)**<br>• fluctuating currency leads to uncertainty, this may lead to lower levels of investment **(1)** which will reduce productivity **(1)**. Firms may struggle to absorb rising costs and may be forced to pass on higher costs to consumer/cost-push inflation **(1)**<br>• depreciation makes UK exports cheaper which increases the competitiveness of UK manufacturing companies **(1)**. However, some firms may import foreign raw materials which will increase their costs **(1)**. For example, this is a particular problem in the UK car manufacturing industry **(1)**<br>• there could be benefit to UK tourist industry as it would be cheaper for foreign tourists to visit the UK **(1)**. Tourism is an important part of Scottish economy - £6bn/5% of Scottish economy **(1)**<br>• if the pound were to stabilise at a lower level in the long-run, the exchange rate would be locked into artificially lower rate **(1)** so that imports will always be cheaper/exports will always be more expensive **(1)** | **8** | Candidates must explain at least **2** implications to gain full marks.<br><br>Award **1 mark** for each valid explanation.<br><br>Award **1 mark** for each valid development.<br><br>Credit 'pass-through' of weaker pound to the consumer price index.<br><br>Credit the Balance of Payments possible J-curve effect (maximum **1 mark** for a diagram) and Marshall Lerner condition. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | (c) | | • improve education and training - may lead to a more productive workforce because workers will be more highly skilled in the workplace **(1)**. Can lead to higher levels of expertise and motivation **(1)**. On the other hand, education and training are expensive **(1)** and the effect may take years to be seen/may not boost productivity in the short term **(1)**<br>• encourage FDI - FDI by foreign multinationals has brought new production techniques **(1)** and more efficient management styles **(1)**. Some foreign-owned businesses are the most productive in the UK eg Nissan in Sunderland **(1)**. Foreign firms may, however, be less attracted to the UK post-Brexit as their access to the EU market would be hindered **(1)**<br><br>**Other points could include:**<br>• infrastructure HS2/green technologies/digitisation and 5G<br>• tax credits to firms for capital investment<br>• industrial/regional policies – levelling up policy<br>• UK government has set up a National Productivity Investment Fund<br>• fund STEM research<br>• apprenticeships<br>• reducing corporation tax so that firms may retain higher profits to re-invest<br>• subsidise housing to improve labour mobility out of areas of low productivity to areas of higher productivity | **8** | Candidates must discuss at least **2** measures to gain full marks.<br><br>Award **1 mark** for each valid discussion point.<br><br>Award **1 mark** for each valid development.<br><br>Credit reference to the Heckman equation. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| **11.** | (a) | | **Arguments for:**<br>• Scotland could re-join the EU, which would give the country access to the single market **(1)**. This could give Scotland access to free movement of labour, goods, services, and capital **(1)**. Having control over its migration policy could allow Scotland to boost its working age population **(1)**<br>• Scotland could adopt Euro meaning there would be no transaction costs/price transparency **(1)**<br>• the Scottish government would have full control over its spending and taxation **(1)**. This could result in higher spending on public services etc **(1)**<br>• Scottish government could create a simpler tax system **(1)** and scrap the over 1,000 tax exemptions currently part of the UK tax system **(1)**<br>• independence may give freedom to set a low corporation tax rate and attract business from overseas **(1)**<br>• if Scotland had its own central bank, it could have full control over monetary policy **(1)**<br>• Scotland could use the profits from oil and gas to create a sovereign wealth fund **(1)**<br><br>**Arguments against:**<br>• Scotland re-joining the EU could present difficulties, as England is Scotland's largest trading partner **(1)**<br>• Scotland may have to adopt the Euro as its currency and would have no control over monetary policy set by the European Central Bank **(1)**. Long timeframe for adopting the Euro could create economic uncertainty **(1)**<br>• Scotland may be burdened with an initial high level of public debt **(1)** as Scotland's public deficit is currently greater than that of the rest of the UK **(1)**<br>• calculated under the Barnett formula, the Block Grant for Scotland results in proportionally greater funding per head of population than in England **(1)**. Independence may make it more difficult to maintain this spending **(1)** | 10 | Candidates must describe at least **one** argument for and **one** argument against to gain full marks.<br><br>Award **1 mark** for each valid description.<br><br>Award **1 mark** for each valid development.<br><br>Answers must be economic not political.<br><br>Watch for straight flips.<br><br>Award **up to 2 marks** for use of accurate statistics for Question 11. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | | | • in the short term, Scotland would lose its access to transnational organisations such as the G7 and G20 **(1)**, which is currently granted through its union with the rest of the UK **(1)**<br>• a small independent country may be faced with additional pressures during times of financial uncertainty **(1)**. For example, after the credit crisis, the UK government had to bail out the Royal Bank of Scotland and HBOS with close to £70bn; Scotland could have struggled to raise this finance **(1)** | | |
| | (b) | | • increased cost of producing raw materials may have to be absorbed by the firm reducing profits/passed onto the consumer increasing price **(1)**<br>• increased transportation costs have led to higher inflation **(1)**. This will impact more significantly on shipping/haulage industry **(1)**<br>• inflationary pressures may lead the central bank to raise interest rates **(1)**. In addition, inflation combined with lack of economic activity can lead to 'stagflation' in the economy **(1)**<br>• Government expenditure has increased on providing support with energy bills and this will worsen/increase the budget deficit **(1)**<br>• energy price rises are likely to hit lower income households disproportionately **(1)**, as they spend a higher proportion of their income on utility bills and are more likely to be in fuel poverty **(1)**. This had led some to argue that families are facing a 'heat or eat' dilemma **(1)**<br>• business costs may increase which will lead to less profitability/business failure **(1)**. This could lead to lower levels of investment **(1)**<br>• energy companies can make abnormal profits **(1)** and this can lead to either greater investments in renewable energy **(1)**, or calls for the government to enact windfall taxes on these producers **(1)**<br>• some energy retailers may not be able to absorb the increased cost and may go out of business **(1)**, which would lead to higher concentration in the energy retail market **(1)**<br>• in the long term, higher fossil fuel energy prices may encourage consumers to find alternatives **(1)** and this may accelerate the move towards a greener economy **(1)** | **8** | Award **1 mark** for each valid discussion point.<br><br>Award **1 mark** for each valid development.<br><br>Credit description of Engels Law. |

<table>
<tr><th colspan="3">Question</th><th>Expected response(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td></td><td>(c)</td><td></td><td>

- Ofgem can introduce an energy price cap which would set the maximum price that a household would pay for their energy use **(1)**. For example, UK government introduced the Energy Price Guarantee, where average cost for a typical household could be £2,500 (£3,000 from April 2023) per year for their energy use **(1)**
- the government could increase the payment given for the Alternative Fuel Payment to encourage households to use alternative fuels **(1)**. This scheme currently delivers a one-off payment of £100 to UK households who are not on the mains gas grid and therefore use alternative fuels to heat their homes **(1)**
- the government could fund the transition to carbon neutrality to reduce dependence of fossil fuels **(1)**
- the government could open up a new licensing round to allow oil and gas companies to explore for fossil fuels in the North Sea **(1)**. This would give the UK more energy security and possibly lead to less volatility in energy prices in the long term **(1)**. However, there are environmental concerns regarding this policy **(1)**
- the government could allow hydraulic fracturing (fracking) which would recover gas and oil from shale rock **(1)**. However, there have been concerns that fracking causes earth tremors, which could lead to house prices falling in value in areas where fracking takes place **(1)**. There are fears that fracking releases poisons into the water supply **(1)**
- the government could relax planning laws to allow development of onshore windfarms **(1)**
- the government could provide grants for households to insulate their homes which would lead to lower energy consumption **(1)**
- the government could provide subsidies for households to install heat pumps to reduce the number of gas boilers **(1)**

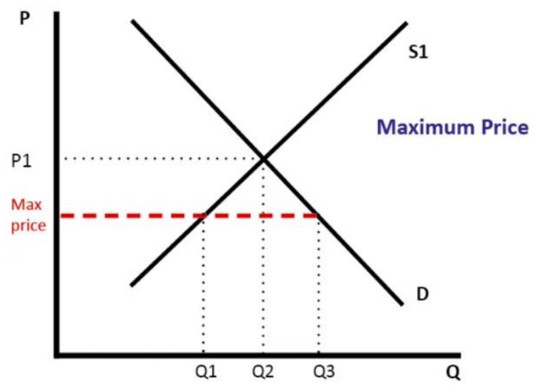
</td><td>7</td><td>

Candidates must analyse at least **2** measures to gain full marks.

Award **1 mark** for each valid analysis.

Award **1 mark** for each valid development.

Credit understanding of price ceiling diagram. (maximum **1 mark**)

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| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | | | • in extreme situations, the government may enact energy blackouts which could reduce demand during periods of high demand, such as during winter **(1)**<br>• the government could means-test households and provide greater financial assistance to poorer households to target assistance to those who need it the most **(1)**. However, this could be bureaucratic and costly for government **(1)** and there may be disagreements on the point of support **(1)**<br>• the government could encourage alternatives to fossil fuel transport, such as improved cycling networks/EV charging points to reduce the consumption of petrol and diesel cars **(1)**<br>• investment in nuclear power stations/SNR/Sizewell C to increase supply of non-fossil fuel energy **(1)**<br><br>**Credit reference to:**<br>• Energy Bill Relief Scheme, which enables the government to provide financial assistance on energy bills for all eligible non-domestic customers, including businesses, charities and public sector organisations<br>• The Energy Bills Support Scheme, which provides a £400 non-repayable discount to households to help with their energy bills over winter 2022 to 2023 | | |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| **12.** | (a) | | **Landlocked:**<br>• some developing countries (such as Chad) face significant challenges in trade as they are landlocked, so they lack territorial access to the sea **(1)**. As a result, they face high transport and transit costs compared to countries who have open access to the sea **(1)**. The majority of goods produced globally are transported via sea routes, so this gives countries with a coastline a cost advantage, which a landlocked country cannot address **(1)**. There are also high administrative costs due to transit, associated with border crossings, additional paperwork and bureaucratic procedures **(1)**. Many developing countries' economies have a focus on primary industry or agriculture, but it takes longer for landlocked countries to supply the perishable goods to the global market **(1)**. This may result in poorer quality goods being provided to the market **(1)**. This may reduce the attractiveness of potential exports **(1)**. Fewer exports would result in a lack of foreign currency reserves **(1)**.<br>Some landlocked countries may also face challenges due to their dependence on passage through another country to access global markets **(1)**. This could be very difficult if a neighbouring country is experiencing significant economic disruptions caused by political upheaval or civil war **(1)**. For example, Mongolia is landlocked between Russia and China, and this could present challenges for Mongolia given the current disruptions in the region **(1)** | **9** | Award **1 mark** for each valid explanation.<br><br>Award **1 mark** for each valid development.<br><br>Maximum **1 mark** for an example per factor.<br><br>Award **up to 2 marks** for use of accurate statistics for Question 12. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | | | **Other points could include:**<br>• poor human capital<br>• dependency on primary production<br>• corruption<br>• low productivity<br>• lack of capital/technology<br>• poverty cycle<br>• lack of natural resources<br>• poor infrastructure<br>• lack of developed banking system<br>• lack of property rights<br>• war/conflict<br>• burden of debt<br>• trade barriers<br>• higher impact of Covid on export dependant countries | | |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | (b) | | • this policy involves drastic restrictions on mobility, including total closures, that have been imposed in several cities in China, which prevents workers from accessing factories **(1)**. Many manufacturing factories have been forced to close and this has resulted in long delays/shortages of exported goods **(1)**. China's ports cannot operate efficiently, which further reduces exports of goods **(1)**.<br>Disruption to China's manufacturing industry will be a major shock to the global economy, as China accounts for almost a third of global manufacturing output **(1)**. This may force MNCs to consider moving their manufacturing away from China to other countries **(1)**. For example, Apple is constructing new manufacturing factories in Vietnam **(1)**. MNCs may also 'reshore' their manufacturing to their firm's country of origin **(1)** which could lead to the re-emergence of manufacturing jobs in the developed world **(1)**. This could reverse the 'hollowing out' effect of some developed economies **(1)**<br>• the 'zero-Covid' policy will also have negative consequences for China's own economic growth, and this could see other countries exports to China reduce **(1)**<br>• there could be short-term global price increases caused by shortages **(1)**<br>• moving manufacturing away from China could have long-term benefits to the environment as China's long supply-chain has resulted in increased use of cargo ships **(1)**. It may force firms to look at other more sustainable alternatives in home countries and accelerate their adoption of new manufacturing processes (such as additive manufacturing (3D printing)) **(1)** | 6 | Candidates must explain at least **2** implications to gain full marks.<br><br>Award **1 mark** for each valid explanation.<br><br>Award **1 mark** for each valid development. |

| Question | | | Expected response(s) | Max mark | Additional guidance |
|---|---|---|---|---|---|
| | (c) | | • the ‘Belt’ refers to the overland routes for road and rail transportation, called the Silk Road Economic Belt **(1)**, it aims to expand trade links between Asia, Africa and Europe **(1)**<br>• the ‘Road’ refers to the sea routes, or the 21st Century Maritime Silk Road **(1)**, it aims to give China access to factor markets and product markets **(1)**<br>• the initiative is infrastructure investment, education, port, railway and highway construction **(1)**, and there are plans to build fifty ‘special economic zones’ across six international economic corridors **(1)**<br>• the Belt and Road Initiative addresses an ‘infrastructure gap’ **(1)** and thus has potential to accelerate economic growth across the Asia Pacific area and Central and Eastern Europe **(1)** | **6** | Candidates must describe at least **2** features to gain full marks.<br><br>Award **1 mark** for each valid description.<br><br>Award **1 mark** for each valid development. |
| | (d) | | • provides grants and low-interest rate loans to countries **(1)**. However the world bank will occasionally write off debts that are owed to it to help boost economic growth in a developing country **(1)**<br>• offers policy advice and technical assistance to developing countries **(1)**, and offers training to government and other officials in the world through local research and teaching institutions **(1)** (World Bank Institute)<br>• coordinates projects with governments **(1)**<br>• lends to low- and middle-income countries **(1)** (International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD))<br>• lends to the private sector **(1)** (International Finance Corporation (IFC))<br>• encourages private companies to invest in foreign countries **(1)** (Multilateral Investment Guarantee Agency (MIGA))<br>• helps private investors and foreign countries work out differences when they don't agree **(1)** (International Centre for Settlement of Investment Disputes (ICSID)) | **4** | Award **1 mark** for each valid description.<br><br>Award **1 mark** for each valid development. |

**[END OF MARKING INSTRUCTIONS]**