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Introduction

These exemplar answers have been chosen from the summer 2017 examination series.

OCR is open to a wide variety of approaches and all answers are considered on their merits. These exemplars, therefore, should not be seen as the only way to answer questions but do illustrate how the mark scheme has been applied.

Please always refer to the specification (http://www.ocr.org.uk/Images/170839-specification-accredited-a-level-gce-economics-h460.pdf) for full details of the assessment for this qualification. These exemplar answers should also be read in conjunction with the sample assessment materials and the June 2017 Examiners’ Report to Centres available on the OCR website http://www.ocr.org.uk/qualifications/.

The question paper, mark scheme and any resource booklet(s) will be available on the OCR website from summer 2018. Until then, they are available on OCR Interchange (school exams officers will have a login for this).

It is important to note that approaches to question setting and marking will remain consistent. At the same time OCR reviews all its qualifications annually and may make small adjustments to improve the performance of its assessments. We will let you know of any substantive changes.
Section A

Question 1(a)

Distinguish between disinflation and deflation.

Exemplar 1 – 2 marks

Disinflation is when prices are rising, but the rate of inflation is lower than in the previous year. Deflation is a fall in the general price level, reducing the value of goods and services.

Examiner commentary

The candidate demonstrates a strong understanding of both terms: disinflation and deflation. They have correctly identified that disinflation is a fall in the rate at which the price level is increasing. They have given a succinct answer for a low tariff question.

Exemplar 2 – 0 marks

Disinflation is when the price level in an economy is actually decreasing between the period being measured. Whereas deflation is when inflation is still occurring, just at a slower rate than the last period.

Examiner commentary

The candidate has a confused understanding of the difference between disinflation and deflation.
Question 1(b)(i)

Using Table 1, calculate which country had the highest real interest rate in 2015. [1]

Exemplar 1 – 1 mark

Examiner commentary
The candidate identifies the correct country: South Africa. A numerical value wasn’t necessary.

Exemplar 2 – 2 marks

Examiner commentary
The candidate identifies an incorrect country. They have identified the country with the highest nominal interest rate rather than calculating the real rate of interest.
Using Table 1, explain which central bank would have been most likely to have engaged in quantitative easing.

Exemplar 1 – 3 marks

The UK central bank would have been most likely to engage in quantitative easing as their inflation rate was close to 0.7% so they were at the no risk of deflation. They also had a low interest rate which should have stimulated consumption and investment, which would be cheaper to follow as it had lower marginal propensity to consume and more investment. This made the UK a suitable candidate country as inflationary pressures. As inflation was below 2%, because inflation was low they would have had to use quantitative easing to increase the money supply to stimulate the economy in the way an interest rates wouldn’t have had an effect as they were in the liquidity trap.

Examiner commentary

The correct country is identified (UK) for one mark. Two reasons explained for further two marks; one linked to the inflation rate and the second to the interest rate as per the mark scheme.

The candidate achieved full marks half way through their answer, they didn’t need to continue. It is important that candidates write more succinctly in low tariff questions, using the answer space provided as a guide.
Exemplar 2 – 1 mark

Examiner commentary
The correct country is identified (Russia) for one mark. The candidate incorrectly links this to a high inflation rate, rather than the lowest rate caused by quantitative easing (QE). The candidate has misinterpreted the question, answering why QE might need to be used, rather than which country has used QE.
Question 1(c)(i)

Using Fig. 2, explain which country had the most even distribution of income. [2]

Exemplar 1 – 2 marks

Country: Sweden had the most even distribution. More because its curve was the closest to the Lorenz curve meaning income was more evenly distributed as it was closer to the line of perfect equality. [2]

Examiner commentary

The candidate correctly identifies Sweden as the country with the most even distribution of income (one mark) and uses evidence from Fig.2 to explain why (one mark).

Exemplar 2 – 1 mark

Country: Sweden was shown as it shows the most equal distribution of income as the majority are evenly spread. [2]

Examiner commentary

The candidate correctly identifies Sweden as the country with the most even distribution of income (one mark) but should have used Fig.2 to explain their answer. This was necessary for the second mark as per the mark scheme.
Question 1(c)(ii)

Using Fig. 2, calculate what percentage of income the second lowest 20% of income earners received in the UK. Show your workings.

Exemplar 1 – 2 marks

The second lowest 20% (10 more people between 40% and 50%).

\[
\frac{22 - 19}{22} = 13\%.
\]

Examiner commentary

The candidate correctly calculates the answer (13%) for one mark. They also demonstrate their workings for the second mark as per the mark scheme.

Exemplar 2 – 0 marks

\[
\frac{20}{20 + 36} = 36.36\%.
\]

Examiner commentary

The candidate recognised that they had to use the 20% of income earners but were unsure how to calculate the second lowest 20%. A better understanding of percentage calculations was needed for credit to be gained.
Evaluate to what extent a fall in the price of oil would cause inflation in oil exporting countries.

Exemplar 1 – Level 2 – 8 marks

(d) Evaluate to what extent a fall in the price of oil would cause inflation in oil exporting countries.

When the price of oil falls, it means that oil exporting countries become more internationally free competing. Exports become relatively cheaper so foreign consumers switch from their goods and instead buy local domestic exports. In export revenue terms, local domestic consumers switch away from foreign imports costs to cheaper oil. In doing so, the domestic country's import expenditure falls. As exports have risen and imports fallen, net exports (X - M) will rise, alongside consumption, causing AD to shift right. From AD to AD'. Hence, price levels rise, inflation occurs. Also, economic growth and output increases, the derived.
Examiner commentary

The candidate’s analysis works through the transmission mechanism (impact on net exports and the consequence on AD) for two chains of reasoning, which is supported by an explained diagram, and linked to inflation. There are two further chains of reasoning, all underpinned by analysis of the component(s) of AD and the consequence for AD. The answer is linked back to the question about inflation.

Evaluation follows from prior arguments and is underpinned by appropriate theoretical analysis.

The final part of the answer isn’t credited but it has no impact on the overall quality of the response.

Exemplar 2 – Level 1 – 4 marks

(d) Evaluate to what extent a fall in the price of oil would cause inflation in oil exporting countries.

If there was a fall in the price of oil, this would be likely to increase aggregate demand for oil, as it is an inelastic good that can be bought up in stock reserves for the future. Therefore, within oil-exporting countries the aggregate demand for their goods will then increase, shown here.

\[
\text{Price Level} (P) \quad \text{Real GDP} (Y)
\]

This AD increase is not balanced with a similar increase in AD so therefore increase the price level from \( P_1 \) to \( P_2 \), indicating inflation.

However, the extent to which this may actually happen depends on how inelastic oil really is, because demand may not increase which...
Examiner commentary

Some confusion in the first paragraph. The candidate has incorrectly stated that oil is an “inelastic good” – it is worth reminding students that they need to use “a good with price inelastic demand”.

There is some attempt to analyse the consequence of a fall in the price of oil for AD and a diagram is correctly used with some explanation but there are no subsequent chains of argument linking back to inflation.

The candidate recognises the extent of any change in AD depends on the price elasticity of demand for oil but there is some confused use of demand/aggregate demand and they don’t support their analysis with appropriate theoretical analysis.

The final paragraph is a summary of prior arguments and is not credited.

Students should be advised to write judgements in their conclusions rather than summaries that are not awarded any marks.
Question 1(e)

Using Fig. 1, evaluate whether increasing the funds banks have available to lend will reverse a deflationary spiral.

Exemplar 1 – Level 3 – 12 marks

Increasing the bank funds have available to lend by increasing money supply through purchasing bonds will reduce interest rates and means banks will have more funds available to loan. If they do, it means they can charge a lower, level, after interest rate, to encourage borrowing and will be more willing to lend. This would result in more consumer borrowing from the bank to purchase, e.g., example a mortgage or other type of loan. Increase in consumer confidence in the economy will shift AD from AO1 to AO2 as shown.

The effect of this is an increase in price level from P1 to P2. Even if it’s only small, it can move the goods away from a deflationary spiral by increasing demand.

If AD means that firms find it cheaper to produce, then more with bonds, increased willingness to lend causes CAPEX to rise in the economy, which will
Examiner commentary

Four chains of reasoning making effective use of aggregate demand and supply analysis by relating it to components of AD and an explained diagram resulting in strong analysis.

The candidate continues by evaluating the reasons why increasing access to funds might not result in reversing a deflationary spiral, their argument about liquidity and the lack of confidence contains sequential chains of reasoning, weighing why a deflationary spiral may and may not be reversed and including a valid supported judgement about the need for alternative policy measures, such as government expenditure.
Exemplar 2 – Level 2 – 5 marks

Increasing the funds banks have available to lend will reverse a deflationary spiral, due to the banks can now lend
out money that will provide consumers more mortgages
to them, which is a stable loan, and can be done without
much difficulty. This will then allow consumers to start
to buy houses that are being wanted to be bought by the
consumer. As more people are in the need for houses, a con-
sumers start to buy a house, then firms will need to increase
output, which will increase employment rates. As there
will be a need of workers in order to build the houses
that are going to be bought by consumers. That are
looking for houses need to see the house that is being built.
This increases aggregate demand due to consumer
spending increasing due to them wanting to buy houses, this
will then allow the banks to loan more mortgages
out, which increases the amount of money needed to be
paid back to them. The increase in funds will lead to
the banks being able to increase the amount of money
being put into the economy, so housing prices will start
to rise, which will reverse the deflationary spiral.

However, this will take a long time to do, there
is a time lag, so the firms creating houses will need to
train those who are in need of a job, due to
health and safety reasons, there too may not be a spare
capacity in terms of land, so houses just cannot be built
anywhere, which will take time to figure out, where to build
the other houses. Also, the banks may not use that
money, they have been given to lend out to, they could
use it to payoff their balance, score cards. When QE
Examiner commentary

The candidate has made an attempt at a sequential chain of reasoning but doesn’t effectively use aggregate demand and aggregate supply analysis. Their answer could have been improved by showing an understanding of the relevant macroeconomic concepts.

There is some awareness that increased funds may not be given out as loans but instead used to shore up banks balance sheets but this isn’t underpinned by considered economic reasoning or use of macroeconomic models. The conclusion summarises previous points, no supported judgement.
Section B

Question 2

At the start of 2016, Singapore had an unemployment rate of only 3.4%. This compared with an unemployment rate of 10.7% for the Eurozone.

Evaluate, with the use of an appropriate diagram(s), whether achieving full employment will always benefit an economy.

Exemplar 1 – Level 5 – 25 marks
the economy is working at its full potential. Capacity constraints mean that there is finite and economic efficiency. When everyone has a job, it means that economic growth is high, investment is high, GDP is high, and economic growth is high. When there is full employment, it means that the government needs to spend more to help. Further, improving tax revenue is at high and government spending on benefits is low.

Furthermore, understanding why full employment was always an economy depends on whether can be shown through understanding unemployment's level. Studies show unemployment is negatively correlated with crime rates, thus government spending on law enforcement is low. This improved budget further means the government...
Exemplar Candidate Work

A Level Economics

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EX: Invent in

K1, K2, K3... training which my
help gain economic in the
long term benefit as
economic growth. High
expected mean schooling. High
literacy and life expectancy and
G.N.I per capita. This develop
will also improve in the long
run.

Furthermore, where there is full
employment and crime rates it
means a reduction in demand
for drugs, as much harm reduce.
Exemplifies how drug use

\[ PMC = SWL \]

the wellbe led is a behind
addiction

\[ PMB \]

achieved

at Q1.
Examiner commentary

The candidate achieves full marks. There is a clear plan that enables the candidate to produce a logical, balanced discussion. Analysis effectively uses the aggregate demand and supply model, arguments build on one another to move analysis forward and a range of key performance indicators are incorporated to give breadth as well as depth to the answer. The candidate addresses both the benefits of full employment in the short and long term. Diagrams (both macro and micro) are correctly drawn and their explanation is integral to the candidate’s analysis.
Full employment is a situation in an economy where everyone who is willing and able to work is in employment.

Full employment can benefit an economy in many ways. When an economy is at full employment, the level of tax revenue gained from direct taxes such as income tax will increase. With this higher level of tax revenue, the government can spend more in the economy, such as on education and training, to increase workers' efficiency, resulting in more desired and growth. This can be shown on a diagram.

[Diagram showing demand and supply curves, with an explanation of how full employment affects tax revenue, government spending, and economic growth.]

Full employment can also increase AD.

[Diagram showing demand and supply curves, with an explanation of how full employment leads to more consumption, higher disposable income, and increased consumer spending, resulting in an increased AD.]
Exemplar Candidate Work

A Level Economics

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... and results in economic growth from A1 to A2.

There is also an increase in unemployment due to 'happiness' levels increasing as everyone wants a job but has one.

However, full employment may also lead to problems in the long run for an economy. According to Keynesians, at point C, full employment levels can only be reached if the shift in demand is completely independent of recession. Because of this, any increase of AD from AD1 to AD2 means that there will be no growth of GDP in a country whereas GDP remains at AD1. However, the shift in AD will result in high inflation from growth from P1 to P2. This may result in other drawbacks for the economy such as a loss of purchasing power parity.

Another drawback of full employment may be the result of the country becoming internationally uncompetitive. If a country cannot increase Real GDP and economic growth past A1 but other countries can, then this will mean that the country will be growing at much slower rates. Hunger and poverty increase as the country is no longer internationally competitive. However, in the long run, if less can be shifted to increasing population the land of scarce capacity available in
There may still be non-inflationary growth.

If the population increases, the LMR shifts right, for example. This means that the non-inflationary level of wages. Full employment can be reached. This means that there is spare capacity available and growth can occur. As a result, the price level remains at P1.

Full employment may result in higher inflation in an economy due to expectations of inflation by consumers / firms, and the Natural Rate of Unemployment.

Here, wage is a decrease in unemployment from Un to Un. This occurs because of the Phillips Curve. This means that there will be a trade-off which increases the inflation from 2% to 5% at every point A to point B. However, in the long run, an economy will always return to the natural rate of unemployment. This is because people revise their expectations. This results in a shift of the LMR and on extra paper.
Examiner commentary

The candidate begins by defining full employment. Essays are now marked holistically, there are no direct marks given for a definition but it is a way of demonstrating knowledge and understanding. Students should be encouraged to get on with answering the question.

The candidate analyses the benefits of higher tax revenue but it is a shame that they don’t use the LRAS diagram to explain the benefits of this further.

Their next argument doesn’t address the question, they need to remain focused on ‘full employment’ although they do return to the question later on but demonstrating the consequence of a rise in AD on GDP at the point of full employment.

There is some attempt at evaluation of the consequences for inflation rates if the LRAS curve shifts to the right. There is also some use of the Phillips curve.

There final conclusion is too vague and unsubstantiated for evaluation marks.

Exemplar 3 – Level 2 – 6 marks
Examiner commentary

The candidate uses the Phillips curve to evaluate the benefits of full employment but doesn’t offer a logical chain of reasoning; a stated point is made only. This is followed by two separate stated points about the benefits to the government and economic growth but the points aren’t connected or used to further the analysis beyond reasonable but rather narrow arguments. The candidate doesn’t fully engage with the question.
Question 3

It was estimated that Greece had an output gap equivalent to 10% of potential GDP in 2015. Evaluate, with the use of an appropriate diagram(s), whether fiscal policy will always reduce a negative output gap.

Exemplar 1 – Level 5 – 25 marks

A negative output gap is the difference between actual and potential growth when actual growth is below potential growth. Fiscal policy involves government changing government spending (G) or tax rates. To reduce the output gap it is likely the government will use expansionary fiscal policy to increase aggregate demand (AD). This can be done through increasing G...and selling as there is a component of AD. It will lead to a rise in AD and a reduction in the output gap. By raising equilibrium GDP from Y to Y1, moving closer to full employment or YF. However, if the G is an on-going policy AD may rise but in the long run CO will level out. It will improve the quality and quantity of labour. Thus, profits will move from LRAF to LEAF and will mean that the output gap will be relatively unchanged, depending on the size of the shift in AD and LEFS.

Another expansionary fiscal policy would be to reduce inequality, etc. This would increase people's disposable income and therefore willingness to encourage consumption and potentially investment, two components of AD. Therefore AD will shift from AD to AD. Therefore, real GDP will...
A Level Economics

Exemplar Candidate Work

Further, government may also reduce corporation tax in order to stimulate growth in AO or otherwise may encourage firms to provide larger retained profits. This would also lead to a rise in AO and could also help increase employment. Firms will therefore produce more output. This would also increase businesses’ incomes to spend. However, if there is lot of uncertainty in an economy, like in Greece, this may not encourage firms to expand output as they may not expect to demand for their product to rise in the future. Also, if interest rates are high, it is more expensive as well as risky for retained profit to invest the rise in retained profit. May not be enough to stimulate investment.

On the other hand, reducing tax or increasing government spending can worsen the government budget deficit. Furthermore, it will lead to contrasuitable fiscal policy. Government will have to spend money paying for debt. This can have an opportunity cost as the money could be spent elsewhere. Hence, government will have to pay off its debt. Probably any rise in AO would be unsustainable as in the future, the country will rise and hence spending. But if in contractionary expansionary fiscal policy increases peoples economic agents’ confidence and reduces uncertainty, a return to higher taxes in the future may be balanced out by an increase in confidence of economic agents.

Furthermore, expansionary fiscal policy often leads to investment in...
Improving the quality or quantity of factors of production will lead to an increase in LRAS, which would increase the negative output gap. Therefore, the effect of fiscal policy on the output gap depends on which sectors of the economy see an increase in spending. If there's increased government welfare, then AGD will shrink and lead likely to be unchanged.

In conclusion, fiscal policy can be very effective in increasing AGD and increases many components of AGD, therefore, a rise in AGD reduces the output gap. However, the reduction of the output gap will depend on the marginal propensity to withdraw, which affects household disposable income: rises due to a tax cut, then the impact of this on AD depends on the multiplier. In the UK, they've recently raised the tax-free allowance, and this had a big impact on AB and here it's part of the ability to help MPC a low income household is quite high, else due to low interest rates, households are unlikely to save the additional income, and the interest rate are currently very low, meaning the MPC is low, meaning it MPW nearly small to use size or the multiplier will be higher, so any AD tax cut is likely to be lower to reduce the output gap. But the extent of this also depends on whether the rise in LRAS is smaller or larger than the tax cut (MPC). If it's larger, it's likely to be smaller if income tax rises, reducing the disposable income households are unlikely to invest in factors of production but instead consume. Therefore, all in all, I think... but if the lowest rate of income tax would be highly effective in reducing the output gap especially if it's a cut alongside expenditure and monetary policy, it would reduce the marginal propensity to withdraw (MPC). However, this could cause budget problems in the short term, as the government is running a consistent budget surplus, but this is unlikely in the eurozone at the moment as they are recovering from recession.
Examiner commentary

The candidate demonstrates a good understanding of the output gap straight away and is able to effectively use aggregate demand and aggregate supply analysis to explain their argument, relating back to the question. There is also a correctly labelled and explained diagram which is integral to their analysis (and subsequent) evaluation.

The second point of analysis also uses the macroeconomic toolbox and draws on the multiplier effect to relate their point back to AD. Again, this chain of reasoning is nicely evaluated, intelligently commenting on the MPC of those with lower incomes and the consequence for the change in AD and the output gap.

The third argument about confidence of economic agents takes the discussion to another level by adding more depth to the previous points by recognising the short and long term impact of expansionary fiscal policy. Throughout the answer the candidate consistently uses the aggregate demand and aggregate supply mechanism to underpin their points. It is important for candidates to take note of this; clear analysis and evaluation must make effective use of the economics toolbox in this way.

Finally, there is a supported judgement; the candidate recognises that the effectiveness of expansionary fiscal policy depends on the marginal propensity to withdraw. This judgement is supported by prior analysis.

Exemplar 2 – Level 3 – 14 marks

Question No. 3........

Fiscal policy is the use of public expenditure and taxes on to manage aggregate demand and the government's macroeconomy objectives.

Fiscal policy is the use of government spending in order to manage the aggregate demand and can reduce the negative output gap as the fiscal policy implements automatic stabilisers that tend to decrease the output gap, so that the country can be closer to the ideal growth curve on the trade cycle. The country will then need to implement expansionary fiscal policy in order to increase aggregate demand, which will close the gap. If the fiscal policy was to implement the budget, then the country will be able to close the negative output gap because they will be able to increase government spending and rather not taxes as government spending is faster than cutting taxes which take a longer period of time. Government spending on important things like education and training will allow aggregate supply to increase as well, due to there being an increase in the labor...
As fiscal policy is increasing AD, AD will go to A'de, as there will be an increase in consumption and investment. Demand-pull inflation will occur as well. As more jobs are being created, this increases Y1 to Y2, closer to YF, which is the ideal position. However, fiscal policy has a huge time lag which doesn't always work for in the long run. It takes time for the education and training to finish, which could be very long. So, decreasing a negative output gap will take a long time for the fiscal policy to be effective. It is also a 'one shot' policy so it has to work the first time the government tries to implement it. Monetary policy may be a better option than fiscal policy.

Fiscal policy could decrease taxes in order to increase aggregate demand, which will improve the negative output gap as it will increase direct taxes the increase the chances of employment as people will gain a chance to work and also the consumer can also spend more on products. It will mostly affect income tax and corporation tax, which will only benefit those who are on high wages as that is the highest amount of percentage income tax is being taxed on. However, setting taxes will never happen. The cutting...
If taxes would only affect the rich as they are all at full employment within these areas, which will decrease the amount of money going into...

Using automatic stabilisers can benefit the fiscal policy scheme as they decrease the negative output gap. If the economy has spare capacity and is not being used up, then they need to be used in order to decrease that output gap. Spare capacity, like employment, will help out the reduction in the output gap as it means that they are not at full employment yet, making them have a negative output gap.

As Greece is implementing a negative output gap, this means they do have spare capacity, leading to a gap in the employment levels. They want to be at Yf, however, they are at X, so the output gap is at Y - Yf.

In conclusion, fiscal policy is a good way in reducing the negative output gap as it targets aggregate demand and increases the chances of $C + I + G$ into increasing which will decrease the spare capacity within the economy, and can also help employment rise, heading towards full employment. However, fiscal policy takes a long time to do and is only a one-shot policy which means it has to work in order for it being effective. Also, in the real world, no country is at full employment so a list of people will have spare capacity. Maybe the country could try and use monetary policy instead.
Examiner commentary

The candidate takes time to introduce the idea of expansionary fiscal policy. Other than demonstrating knowledge and understanding there is no significant credit to be had for this; it’s better to get on to their analysis of the question.

There is good analysis (three chains of reasoning) relating to the rise in earnings and investment as a result of greater government spending which then promotes a rise in AD, closing the negative output gap.

There is some confusion around the role of automatic stabilisers and a diagram that illustrates a negative output gap but regrettably isn’t used to answer the question.

The final paragraph is repetition of previous arguments rather than a supported judgement and so doesn’t gain any credit for evaluation.
Section C

Question 4

Vietnam, a low-income country, is one of the fastest growing economies with a falling rate of poverty. Evaluate whether economic growth will reduce poverty.

Exemplar 1 – Level 5 – 25 marks

Economic growth is an increase in real GDP in the short run and an increase in the productive capacity of the economy in the long run. Absolute poverty is a situation where people cannot afford essential goods (usually earning less than $2 a day). Relative poverty is a situation where people are earning less than 50% of the median earnings of that country.

One example of how economic growth can reduce poverty is through the increase in the level of employment in an economy:

- If economic growth is stimulated, perhaps by an increase in government spending, as government spending is a component of aggregate demand, AD will increase. Employment from AD to AD1. This will increase the price level from P to P1 and increase real GDP from Y to Y1. The level of employment...
will increase from L to L1. This shows that economic growth can reduce poverty because an increase in employment will mean that many individuals have more real disposable income. This means that they can spend on goods and services such as food and healthcare, perhaps reducing both absolute and relative poverty, for example, China pulled 450 million people out of poverty through their high levels of economic growth. However, the level of work that individuals enter into will determine their level of real disposable income. For example, low-skilled jobs in the primary sector may not pay high wages and so the level of real disposable income will be limited.

Also, through economic growth the government can obtain higher tax revenues. This can be through increased corporation tax and income tax as a result of new firms and increased employment. It could also be from increased sales taxes (such as VAT in the UK) from increased levels of consumption. This will either mean that governments can reduce their budget deficit, making the country more attractive to foreign investment, so perhaps alleviating poverty by providing increased employment. Alternatively, the government could invest in healthcare and education. This could help to alleviate poverty as young children would earn a higher income.
their level of knowledge and skills and become more productive workers. This would increase the productive potential of the economy and alleviate poverty as workers can obtain higher wages. For example, in Tanzania reducing the level of debt by £3bn helped to increase those attending school to 66% of children. However, it must be said that investment in education and seeing the there is a significant time lag with supply side policies.

However, economic growth may not reduce poverty if the effects of the growth are not widespread or if there is an uneven distribution of income. For example, in Mexico, much of the employment is near the border with the USA and their Gini coefficient is 0.48. This suggests that although there may be increases in the level of employment, if labour is not geographically or occupationally mobile, poverty will not be reduced for the entire population. If economic growth results from the expansion of a major sector or industry in the economy, people who work in the declining sectors of the economy may experience structural unemployment. However, the government could help to distribute income more evenly and alleviate poverty further by introducing a progressive tax system and welfare benefits.
Also, economic growth may not reduce poverty because it may only increase the incomes of the poorest by a slight amount, perhaps reducing poverty in the sense that they no longer earn less than £2 per day. For example, multinational corporations may outsource their production processes to less developed countries. This may increase economic growth slightly as a result of increased employment, but individual workers may still be in relative poverty, for example Audi employs children in India who work for £0.5 per day for six days of work. This suggests that although employment has increased, there is still large poverty with people being unable to purchase the goods needed for survival.

Overall, economic growth should reduce poverty to a large extent. In the short run, growth may be unevenly distributed with some entrepreneurs having high incomes. However, in the long run, the government can redistribute the benefits of growth through progressive taxation. The impact of economic growth on poverty depends on the level of economic growth the country experiences. It also depends on whether the government will spend or if it is corrupt. It must be assessed whether people’s incomes are raised...
Examiner commentary

The candidate begins by explaining the term absolute and relative poverty and then provides an analytical piece about the connection between economic growth and employment making effective use of an aggregate demand and supply diagram and furthering their argument by adding that tax revenues will rise and linking that to poverty reduction.

The candidate consistently embeds their points in economic terms and concepts and doesn’t lose focus of the question.

The response is balanced, relatively equal weight is given to the reasons why economic growth may not result in lower poverty, adding to the quality of their answer by distinguishing between absolute and relative poverty. It culminates in a judgment about how government intervention could help to distribute income more evenly. The answer has already reached top level 5; the remainder is valid but no additional annotation needed as the maximum has been awarded.

Exemplar 2 – Level 4 – 16 marks
It may reduce poverty, it does not mean it will fix poverty as there are still a lot of people who are in poverty, even in developed economies.

Cumulative percentage of income

Using the Lorenz curve, we can see that the amount of income compared to the percentage of population there is. Those in poverty will be at the lower end of the spectrum and are the population that gains the least amount of income and are those who are labelled as those in poverty. As it is heading towards the ideal income curve, meaning it is heading towards the 45° line which is the best position for the consumer income to be on. Economic growth will increase the population’s disposable income, so it will move the income increase so that we move it closer to the 45° curve.

Economic growth in other aspects like aggregate supply, will increase the economic growth and will reduce poverty as it will allow the country to if there was an increase in spending on education and training, this will increase the amount of jobs created, companies will implement more spending on job spaces causing the capacity of the labour force to increase which increases AS.

As AS increases, this allows the actual and potential output of an economy to grow, so it allows employment to
As the economy has started to increase the economic growth of the country, this increases the amount of goods being able to increase. In order to decrease the chances of poverty as the amount being able to be spent from A to B, B has increased the chances. This was where the country has come out of a recession going from A to B, which is where actual output is being created. Implemented at point B is where we ideally want to be, so this is where actual and potential output is. However, it doesn’t mean that the developing country was at point B yet. As the country Vietnam has been one of the fastest growing economies, this could still mean that poverty is still high there. It has only decreased a bit because the highest paid people in Vietnam could be the ones causing economic growth. There can still be a very high chance of people...
Examiner commentary

There is analysis of the reasons why economic growth will reduce poverty that makes effective use of aggregate demand and supply analysis. However the candidate loses sight of the question at times, devoting time to how growth will affect living standards, which limits how far they can progress. The arguments for are just good enough to justify level 4 analysis; particularly with the final point in the last paragraph relating to increased education and training.

There is some evaluation in the final paragraph, the candidate recognises that not everyone necessarily benefits from economic growth but there isn’t a chain of argument to take this point further.
Economic growth comes with many opportunities that would aid in reducing poverty, in order for sustainable and good economic growth to take place a country really has to be rid of poverty. As the economy expands more and more jobs become available which is a means of income.

Other parts involved in the growth of an economy is actual development of the area. Poverty usually stems from an undeveloped area with limited resources and opportunities and so with development of these areas, then housing and other ideas opportunities arrive.

We're told that Vietnam is a low income country yet its economy is growing and poverty is falling and from this it shows that poverty isn’t expensive for an economy to solve.

Supply side policies should be used as they help to increase economic growth and would help to decrease poverty. Education and training for example. The government initially invest into improved education and training of workers and citizens of that country and in turn they become more skilled and acquire the requirements needed for certain jobs and in return they pay tax back to the government who initially invested into the policy.
Examiner commentary

The answer is descriptive, making little use of aggregate demand and aggregate supply analysis or other economic content. The candidate doesn't focus on the question throughout, drifting to policies rather than how economic growth can reduce poverty.

As the economy grows and other policies are put in place, say a subsidy on tax so firms can use the money on employment, then poverty starts to decrease and doesn't continue as opportunities arise.
Recorded remittances to developing economies reached $440 billion in 2015. Evaluate whether the receipt of remittances benefits developing economies.

**Exemplar 1 – Level 5 – 25 marks**

**Question No. 5**

**Plan**

**YES** – Remittances improve...

→ Net current account
→ Shift on real exchange rate
→ More investment → More productivity
→ Macroeconomic indicators → Cause of real GDP growth

**NO** – Can cause negatively...

→ Over dependence
→ Can lead to money laundering
→ Dependent on terrorist networks
→ Money laundering
→ If money used to buy weapons

Remittances are flows of money that are sent back home by people abroad to the home country from usually migrants or family members who send money back to their families while working in a different economy. Economic growth and development involves sending up in the摩托 real GDP and increase the increasing the productive capacity of an economy. This increases people’s ability to make better decisions and economic choices. Remittances can act as a financial flow which helps the economy by...
Firstly, the nature of remittances is monetary one
under payments into the economy from abroad and
may close over the current account on the balance
of payments, as an important source of revenue. This mean
that if remittances increase then it will have a
tone on current account, which could rely a current
account deficit or create a current account surplus.

The effect of tax is that the government could use the
to invest or to build up her foreign exchange
depository, which is essential for developing countries.
This would enable them to benefit from an increased
ability to import capital when can be united to
shift over the LEAS curve from L1 to L2 as,

The effect of tax is that
employment will move up
from Y1 to Y2, they are
experienced economic growth.

And price level now reduced gradually. From
remitance countries are also keeping money to
combat as they don’t go money the government
mean they use better than ever before.

Now as they get more they need to be and help
families that need them. The family and receive
them. Can spend them on the me extra income an
healthcare and education which can increase the
level of human capital in the economy and shift of
the LEAS as the more productive possibilities shift the
up uses. However, the same effect as on the diagram before. But
increasing human capital output and go in improvement.
alongside good government purchasing capital (as mentioned before), as it allows capital to utilized to increase export growth and efficiency within our economy. As remittances are remittances, every cent intercepted by the government means the financial flow can't be influenced by political agenda, where the government will go for more current expenditure to benefit the short term rather than investing in capital expenditure to benefit the long term development of the economy by shifting LRA's.

Remittances also act as an injection into the circular flow diagram and as the remittance and believe the remittance can shift across an increased income and increase their marginal propensity to consume, meaning they will spend it will result in more consumption and as consumption is a component of GDP it will shift AD right from AD0 to AD1:

Due to remittances being a stable financial return and an increase in LRA and expected to increase the long run demand, the event will affect the price level, which is the position on the CEPS curve but in my opinion it does not affect children.
Stability of the financial remittance makes future investment more predictable and encouraging investment. This will shift AD of investment to the right but will also cause an increase in LRAS which leads to LRAS as more investment increases efficiency and productivity over time which improve product potential.

This causes more economic growth whilst keeping inflation low and healthy.

However, remittances can help growth but not development also cause income inequality as one family has better access to income. Migrant flows from remittances has enabled many to do what was just mentioned. Particularly in terms of increasing healthcare and education expenditure whilst others families are in absolute poverty so don’t have the access to have in the first place new dream or don’t have much skills from education and new cant migrate as want get a job. May thus it hasn’t helped a course partly in the country.

Remittances also cause one overdependence on that monie they flow and income increase for the migrant worker abroad it will increase
Remittance flow as they send more home but this creates an over reliance on remittances. One of the main financial flows by which a country raises it's income and also learn how to develop their economy by increasing the reliance.

Although remittances can have a positive effect on the balance of payments, they can also have a negative effect on remittances via exchange rates if they rely too much.

If there are too many remittances, payment means they are supplying more of the currency and we cannot as they will send money back which have currency. This will

causing shifts in the demand curve

and increasing it to 0 0 increasing the value of that currency in return to other currency from 0 to 1, the effect of the currency is more expensive for us and causes higher expenses and decrease in selling currency and hence trade deficit on the current account as

exports will be smaller than imports and as there are no more components of our will shift AD left which can lead to

unemployment from Y1 to Y2 and reduced economic growth but less inflationary pressure.
The effect of remittances on developing countries depends on whether they follow the Harrod Domar model and whether planned flows of remittances in capital units also combine depending on if the recipient of remittance are saved or spent, which would allow more investment and new growth. It also depends on the current position of the economy, a current level of capital combined with how much of an increase made of consumption by the remitter who receive remittances or how they influence pressure they cause. It also depends if they are spent on healthcare and education to improve the effects on new growth. If used attracting investment or flown are used to purchase non-tangible assets. Increasing remittances are a good way countries can support long and new growth. If they are utilised in the right way and rational investment occurs.

Examiner commentary

The candidate has planned their answer which has promoted a balanced approach. Models, such as Harrod Domar, have been used, adding good economic content and more sophistication to their work. The response is very well thought out, lucid and perceptive. The whole answer is saturated in economic content; the answer is focused on the question and consistently connected to aggregate demand and aggregate supply analysis. There is a sequential chain of reasoning about the benefits of remittances to reach strong analysis. Subsequent arguments are all credit worthy but the candidate has already reached the top level for analysis and so these points are annotated with [seen]. The arguments for are then countered with considered and in depth arguments against to add balance to the response. Finally, the candidate offers a judgment that is supported by prior analysis by recognising that the effect of remittances depends on the flow of currency and the size of the trade deficit.
Exemplar 2 – Level 3 – 12 marks

Question No 5

Remittances are transfers of money from migrant workers in developed economies back to their home economy which may be any emerging or developing.

The receipt of remittances within developing economies can massively benefit them because for some countries, families of migrant workers may be on the brink of or within absolute poverty, unable to afford basic needs, commodities to survive and therefore remittance payments can help families to establish themselves and afford enough food and water to be of physical fitness to work or even pay for education to become higher-skilled. This will increase the supply of labour within an economy and can therefore help to increase productivity and allow for international trade to support the development of the economy.

Moreover, if there are remittance payments being sent to developing countries, a combination of this and the factor of production, entrepreneurship can lead to the exploitation of micro-finance services which can help populations in developing countries to improve their own development by taking out small scale loans on top of their remittance payments to create their own businesses which can also help them to escape the poverty trap and the infant industry chain within developing countries such as Kenya. This too will benefit developing economies by improving productivity.
Exemplar Candidate Work

A Level Economics

The need to increase borrowing from the World Bank or developed countries that they may struggle to pay back, ensuring a healthy budget is retained.

However, although receipts of remittance are good for developing economies to get these payments it involves the leaving of developing economies most needed workers who could be more beneficial staying within the country to teach others for establishing business and higher productivity.

Furthermore, if remittances are also only being sent back to the families of migrant workers in developing countries then the economy itself has no way of determining the payments' uses and it may lead to people believing they have a higher disposable income and wasting the payments without any concern for helping the most of their economy develop, for example.

In conclusion, whether the receipt of remittances benefits develop economies depends upon the cumulative remittance funds within the economy because they need to be substantial in order to encourage any beneficial changes. Also, it depends on the availability of services like micro-finance which can be dependent on international organisations such as the International Monetary Fund and the World Trade Organisation, because if the economy hasn't cooperated with these external organisations it may be hard to maximise the benefits available from remittance, no matter now much they earn from it.

In my opinion, I think that remittance...
Examiner commentary

The candidate begins by establishing the understanding of remittances. This is credited as knowledge and understanding but isn’t entirely necessary as knowledge and understanding can be demonstrated by the use of economic content within their analysis and evaluation.

They start a chain of reasoning by explaining how remittances can result in greater labour supply due to greater physical fitness but it isn’t extended to aggregate demand/supply analysis, limiting the development of their argument. The second point takes their analysis further by linking it to productivity and government debt.

The candidate has attempted to make a judgment using ‘depends on’ but it is too vague to be credited and the remainder of the conclusion is repetition of previous points.

Overall, it was rather descriptive and could have been improved by economic content to establish the points made.
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