GCE

Economics

H460/02: Macroeconomics

A Level

Mark Scheme for June 2025

Oxford Cambridge and RSA Examinations

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

MARKING INSTRUCTIONS

PREPARATION FOR MARKING
RM ASSESSOR

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor Online Training: OCR Essential Guide to Marking*.

2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are available in RM Assessor

3. Log-in to RM Assessor and mark the **required number** of practice responses ("scripts") and the **required number** of standardisation responses.

MARKING

1. Mark strictly to the mark scheme.

2. Marks awarded must relate directly to the marking criteria.

3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.

4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone, email or via the RM Assessor messaging system.

5. **Crossed-Out Responses**
   Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

   Rubric Error Responses – Optional Questions
   Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. Enter a mark for each question answered into RM Assessor, which will select the highest mark from those awarded. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

Multiple-Choice Question Responses
When a multiple-choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).
When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.

Contradictory Responses
When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only one mark per response)
Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a ‘second response’ on a line is a development of the ‘first response’, rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth two or more marks)
If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space).

Longer Answer Questions (requiring a developed response)
Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a ‘new start’ or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there, then add the annotation ‘SEEN’ to confirm that the work has been seen and mark any responses using the annotations in section 11.

7. There is a NR (**No Response**) option. Award NR (No Response):

   - if there is nothing written at all in the answer space
   - OR if there is a comment which does not in any way relate to the question (e.g., ‘can’t do’, ‘don’t know’)

- OR if there is a mark (e.g., a dash, a question mark) which is not an attempt at the question.

Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).

8. The RM Assessor **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**

9. *Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.*

10. For answers marked by levels of response: Not applicable in F501
To determine the level – start at the highest level and work down until you reach the level that matches the answer
To determine the mark within the level, consider the following

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

11. **Annotations**

Annotation	Meaning	Standard Annotations for all papers	
✓	Correct – mark awarded	BP	Must be used on all blank pages of QP and additional objects
✗	Incorrect	SEEN	Noted but no credit given
BOD	Benefit of doubt	Off Page comments	Should only be used by Team Leaders for training purposes
KU	AO1 – Knowledge and understanding	Highlight	To highlight text within candidate responses
APP	AO2 – Applying knowledge and understanding		
AN	AO3 – Analyse		
EVAL	AO4 – Evaluation		
NAQ	Not answering question		
TV	Too vague		
OFR	Own figure rule		
CON	Confused		
?	Unclear		

12. **Subject Specific Marking Instructions**

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please carefully read **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section B or C.

If a candidate has written two answers for Section B or C, mark both answers and award the highest mark achieved.

USING THE MARK SCHEME

Study this Mark Scheme carefully.

The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades.

Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers.

The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way.

The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed.

Co–ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co–ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark several scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

You will encounter answers which fall outside the 'target range' of Levels for the paper which you are marking.

Mark these answers according to the marking criteria.

Carefully read all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range.

Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:

A: INDIVIDUAL ANSWERS

1 The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.

2 Using 'best fit', decide first which set of LEVEL DESCRIPTORS best describes the overall quality of the answer. Once the Level is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
- Highest mark: If clear evidence of all the qualities in the Level descriptors is shown, the HIGHEST Mark should be awarded.
- Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the levels below and show limited evidence of meeting the criteria of the level in question) the LOWEST mark should be awarded.
- Middle mark: This mark should be used for candidates who are secure in the Level. They are not 'borderline', but they have only achieved some of the qualities in the level descriptors.

3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Level marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the level descriptors, reward appropriately.

B: TOTAL MARKS

1 The maximum mark for the paper is 80

2 The quality of the extended response is assessed on this part of the question paper which is identified with the use of an asterisk (*). The assessment of this skill is embedded within each of the levels of response, and it must be considered when determining the mark to be awarded within the appropriate level.

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Strong	Precise knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using relevant and focused examples fully integrated and good use of data where appropriate.	Correct analysis with consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are accurate with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis.	Counter argument(s) are fully developed. A conclusion is drawn weighing up both sides, considering extent and alternatives and reaches a supported judgement.
Good	Mainly accurate knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using some relevant and focused examples to the given context and scope of the question. Some good use of data where appropriate	An explanation of causes and consequences, developing most of the links in the chain of argument. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagram(s) must be integral to the analysis.	Counter argument(s) are fully developed. A conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Reasonable	Awareness of the meaning of economic ideas, principles, and models	Ability to apply economic ideas to some elements of the given context, although possibly inconsistent examples not always relevant to the given context and scope of the question. Some use of data where appropriate	There is correct analysis in the form of single links. These address the question **but** are not developed into a clear chain of reasoning. Any relevant diagram(s) may have errors that affect the validity of the analysis or are not integrated into the response.	Counter arguments are considered but not fully developed. Some attempt to conclude, which shows some recognition of the influencing factors, but without considering extent and alternatives.
Limited	Limited awareness of the meaning of economic ideas, principles, and models	Very little ability to apply economic ideas to some elements of the given context. Examples may be generic or irrelevant to the given context	There is little evidence of reasoning that addresses the question asked. Simple statement(s) of cause and consequence are used. There is a lack of a clear structure. Absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.	Counter arguments are simply stated. Unsupported statements or assertions, or no evaluation

Question		Answer	Mark	Guidance
1	(a)	**Using information from the stimulus material, identify two reasons for imposing export tariffs.** **Two from:** • To increase the domestic supply of key goods • To reduce domestic prices • To raise government revenue • To limit access to raw materials for foreign competitors • To protect natural resources/protect raw materials for domestic use or industries • To improve Terms of Trade • To protect against unfair competition from foreign producers • Control inflation and economic stability	2	Annotate with ✓ BOD – ‘**affects**’ the supply of the country's raw materials available to rivals = limits access to raw materials for foreign competitors [1]

Question		Answer	Mark	Guidance
1	(b)	**Using Fig.1, explain how Bolivia’s level of development compared to Argentina’s level of development in 2021.** • Bolivia had a lower level of development / Argentina had a higher level of development (1) • Bolivia had a higher proportion of workers in the primary sector (27% vs 5%) [1] • Bolivia had a lower proportion of workers in the secondary sector (24% vs 28%) / a lower proportion employed in the tertiary sector (49% vs 63%) (1) • A larger share of workers in the service (tertiary) sector is a characteristic of more developed economies [1]	2	Annotate with ✓ Up to [1] for the use of data [1] for explaining whether Bolivia's development is low when compared to Argentina, or [1] Argentina's level of development is higher than Bolivia's. Where the response is just listing out the features of each sector, only [1] can be awarded

Question		Answer	Mark	Guidance
1	(c)	**Calculate Bolivia's index of average import prices in 2021.** Index of export prices / index of import prices (1) OR $\text{Terms of Trade (ToT)} = \left(\frac{\text{Index of Export Prices}}{\text{Index of Import Prices}}\right) \times 100$ 85.56/index of import prices X 100 = 62 (1) 1.38 [2] or 1.38 X 100 = 138 [2] Award [2] for 138 as the Index of imports	2	Annotate with ✓ Award [2] for 138 as the Index of imports Or 1.38 [2] [1] For using only the formula, do not award an extra mark for the calculation. Accept the answer given at 138.06 or answer given to two decimal points.

Question		Answer	Mark	Guidance
1	(d)	**Using Fig.2 and the stimulus material, explain the relationship between the inflation rate and current account balance of the selected countries in 2021.** **Identifying the Expected Relationship** Up to [1 mark] for correctly stating the expected relationship: Higher inflation → lower current account balance Lower inflation → higher current account balance (This is an inverse or negative relationship.) **Using Evidence from Data (Fig. 2)** Up to [1 mark] for using any examples that support the expected relationship: Bolivia: Inflation 0.7%, CA Balance +2.3% China: Inflation 1.0%, CA Balance +1.8% Chile: Inflation 6.7%, CA Balance –6.0% Bangladesh: Inflation 5.5%, CA Balance –3.8%	4	Annotate with ✓ Responses do not have to follow the suggested format. Still, they should address the expected/normal relationship, offer supporting evidence of that, highlight any exceptions to that, and analyse the overall data. [1] For the expected relationship [1] For the evidence from Figure 2 [1] For an explanation of the negative relationship [theory] [1] for the exception

Question		Answer	Mark	Guidance
		Explaining the Relationship Up to [**1 mark**] for explaining why inflation affects the current account balance: High inflation → exports become more expensive → exports fall [1] imports rise → worsens the current account [1] Low inflation → exports remain competitive → exports rise, imports fall → improves current account. **Recognising Exceptions** Up to [**1 mark**] for identifying an exception to the expected trend: Paraguay: Inflation 5%, CA Balance -0.2% **Explaining Exceptions** Award [1 mark] for explaining why exceptions might exist: Other factors may influence the current account, e.g.: • Natural resource exports • Exchange rate effects • Government policies or investment income		The candidate may not use data [inflation rate and current account balance], but identification of the correct country in support of the evidence can earn the mark Accept a response that compares Paraguay to Peru, although it is not compulsory to get the [1]

1(e)* Using information from the stimulus material, evaluate whether Bolivia should keep a fixed exchange rate.

Level / mark	Descriptor
Level 2 **(5-8 marks)**	**Good knowledge and understanding** of relevant economic idea(s), principle(s) or model(s) **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Strong analysis** of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. **Strong evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 1 **(1-4 marks)**	**Reasonable knowledge and understanding** of relevant economic idea(s), principle(s) or model(s) **Reasonable application** of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. **Reasonable analysis** of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. **Limited evaluation** of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

Indicative content

Knowledge and Understanding

- A fixed (pegged) exchange-rate system is one in which the central bank keeps the domestic currency at a set parity against another currency (Bolivia pegs to the US dollar).

Application

This typically involves:

- Active buying/selling of foreign exchange reserves to defend the peg.
- Giving priority to exchange-rate stability over independent monetary policy.
- The peg acts as a nominal anchor that can curb inflation expectations
- Significant depletion of foreign exchange

Analysis Might Include

A fixed exchange rate can:

- Encourage price stability - Very low inflation: Bolivia had the *lowest inflation rate in South America* in 2021, and the peg is "credited with helping to keep inflation low." *Stimulus material*.
- Bolivia uses a fixed exchange rate against the US dollar, which helps provide economic certainty and is credited with helping keep inflation low. Useful when Bolivia is trying to attract investment into new lithium and metal mines. *Stimulus material*
- Help build investor confidence by reducing exchange rate volatility.
- In 2023, speculation put downward pressure on the boliviano. The central bank intervened to defend the peg, significantly reducing foreign exchange reserves.
- Protects exporters' prices: A current-account surplus normally makes a currency rise; the peg stops that, so mining and farming exports stay competitive. *Stimulus material*
- Helps anchor expectations in a country with historically weak institutions or volatility. It sends a strong signal that the govt is committed to maintaining stability. It provides a predictable environment for trade, investment and pricing decisions.]
- Stable exchange rates could attract foreign investment/trade is encouraged

Evaluation Might Include
Drawbacks of maintaining the peg:

- Depletes foreign exchange reserves (as seen in 2023). Defending the currency in 2023 "significantly reduced" Bolivia's reserves. Stimulus material.
- Future attacks are likely: If reserves keep falling, speculators may test the peg again, making an even bigger loss of reserves. Stimulus material'
- Less policy freedom: With a peg, interest rates must follow the dollar, even though Bolivia has run budget deficits for many years and might need looser policy. Stimulus material
- Limits flexibility in responding to external shocks or economic downturns.
- Limit the ability of the central bank to use monetary policy freely (e.g. adjusting interest rates) – loss of monetary policy autonomy, Bolivia must prioritise exchange rate stability over domestic economic conditions.
- Could force a sudden devaluation later if reserves run out, leading to instability, because Bolivia must hold a significant foreign currency reserve to maintain the peg.
- Commodity shocks: If lithium prices drop, the fixed rate could leave Bolivia stuck with an over-valued currency and rising unemployment. (logical extension from stimulus data)
- Maintaining a fixed rate may be challenging when external pressures rise and reserves are low.
- Bolivia is at the risk of imported economic problems because if the anchor currency (like the U.S. dollar) experiences inflation or recession, the pegged country imports those conditions via the exchange rate.

Supported Judgement/Conclusion Might Include

- Short run: Keep the fixed rate – it keeps prices stable and gives investors confidence.
- But: Build reserves and cut the budget deficit; otherwise, the peg could snap under pressure.
- Medium term: Move to a *crawling peg or managed float* once lithium money flows and reserves are healthy, so Bolivia gains more flexibility without losing all stability.
- Depends on the magnitude of the increase in the Progressive tax.

1(f)* Using information from the stimulus, evaluate, whether Bolivia's income tax revenue is likely to increase in the future.

Level / mark	Descriptor
Level 3 (9-12 marks)	**Good knowledge and understanding** of relevant economic idea(s), principle(s) or model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Strong analysis** of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. **Strong evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 2 (5-8 marks)	**Good knowledge and understanding** of relevant economic idea(s), principle(s) or model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Reasonable analysis** of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. **Reasonable evaluation** of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 1 (1-4 marks)	**Reasonable knowledge and understanding** of relevant economic idea(s), principle(s) or model(s). **Reasonable application** of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. **Limited analysis** of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. **Limited evaluation** of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

Indicative content

Knowledge

- Income tax is a compulsory financial charge imposed on the income earned by individuals (such as wages, salaries, and investments) or businesses (profits), usually collected by the government to fund public services and infrastructure.
- Personal Income tax, corporation tax

Application

- Many workers are in the informal economy, so they do not pay taxes. Stimulus material
- Economists in the case study say the government could (a) raise the flat rate or (b) switch to a progressive system that taxes higher earners more. Stimulus material
- Bolivia has the highest income inequality in South America, but it is slowly narrowing. Stimulus material
- The Laffer Curve shows the relationship between tax rate and tax revenue: revenue rises with the rate up to an optimum point.
- Laffer Curve; AD/AS Diagram; Lorenz curve

Analysis Might Include

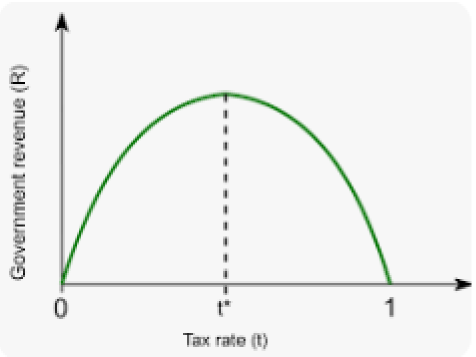
- **Growth in the lithium industry** could create new formal jobs, drawing workers from unemployment or informal work → a broader tax base and more income tax revenue.
- Bolivia is beginning to extract lithium, a metal in high global demand, likely to increase GDP and incomes.
- AD/AS diagram: Economic growth shifts AD to the right → higher income → higher tax revenue.
- A rise in the income tax rate (from 13%) could move Bolivia up the Laffer Curve, increasing revenue (e.g. from T to T_1).
- **Income inequality** is high but reducing — a progressive tax system could target high earners and increase overall revenue.
- More middle-income earners. Falling inequality means more people move into income bands that pay the tax. Stimulus material
- A Lorenz curve illustrates how reducing inequality through progressive taxation could enhance fairness and tax receipts.
- The use of **a progressive income** tax system [reference to VAT = NAQ]

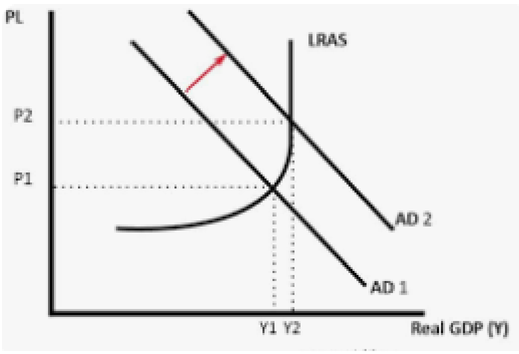
Evaluation Might Include

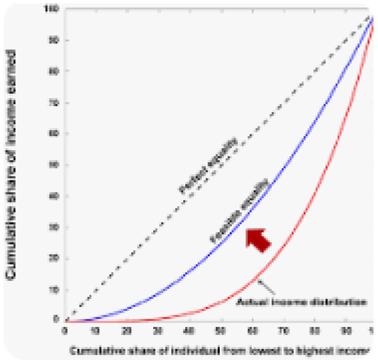
- The large informal sector stays untaxed. Unless the government can bring these workers into the system, higher rates won't bite. Stimulus material
- Political and administrative hurdles. Raising rates or running a progressive system needs good tax offices and voter support—both uncertain.
- Raising tax rates could lead to greater tax evasion, tax avoidance, tax exiles, informality, or reduced work incentives, especially if poorly enforced.
- Resistance to formalisation or progressive reforms could arise from powerful interest groups or the elite.
- The pace of revenue growth depends on how quickly the lithium sector develops and the government's capacity to tax new income sources.
- Behavioural changes (e.g. working fewer hours, informality) could limit tax base growth if marginal tax rates are too high.
- Reducing income inequality may reduce demand for luxury goods, lowering indirect tax revenue on items like alcohol and tobacco.
- Commodity price risk. If lithium or metal prices fall, wages and profits could stall, shrinking the tax base.
- Equity measures could cancel gains. Bigger tax-free allowances to help low earners might offset some extra revenue.

Supported Judgement/Conclusion Might Include

- Likely direction: Income-tax revenue can increase if the lithium boom lifts formal incomes *and* the government follows through with a higher or progressive rate.
- Key condition: Success depends on shrinking informality and building better tax administration. Without that, even higher statutory rates will raise little extra cash.
- It depends on the size of the increase in progressive tax
- Difficult to raise revenue using income tax [informal economy] but could increase other taxes.







Section B and Section C

Level / mark	Descriptor
Level 5 **(21-25 marks)**	**Strong knowledge and understanding** of economic idea(s), principle(s), and model(s). **Strong application** of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. **Strong analysis** of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. **Strong evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.
Level 4 **(16-20 marks)**	**Good knowledge and understanding** of economic idea(s), principle(s), and model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Good analysis** of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. **Good evaluation** of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.
Level 3 **(11-15 marks)**	**Good knowledge and understanding** of economic idea(s), principle(s), and model(s). **Good application** of economic concepts to the context and scope of the question, or some good use of data where appropriate. **Good analysis** of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. **Reasonable evaluation** of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement

Level / mark	Descriptor
Level 2 (6-10 marks)	**Reasonable knowledge and understanding** of economic idea(s), principle(s), and model(s). **Reasonable application** of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. **Reasonable analysis** of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. **Reasonable evaluation** of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement
Level 1 (1-5 marks)	**Limited knowledge and understanding** of economic idea(s), principle(s), and model(s). **Limited application** of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant. **Limited analysis** of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis. **Limited evaluation** of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.
0 marks	Response is not worthy of credit

2* **Evaluate, with the use of an appropriate diagram(s), whether there is a conflict between the two economic objectives of low inflation and full employment.**

Question 2* Guidance

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

Indicative content

- The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation
- **To access a good analysis or good evaluation, the answer must have one relevant diagram**

Knowledge

- Inflation is the sustained increase in the general price level of goods and services in an economy over a period of time, typically measured annually.
- Measured by indices like the Consumer Price Index (CPI) or Retail Price Index (RPI)
- Unemployment refers to the situation where people who are willing and able to work at the current wage rate cannot find employment.
- Full employment is a situation where all those willing and able to work at the going wage rate are employed, except for those temporarily between jobs (frictionally unemployed).
- Under-employment occurs when workers are employed in jobs that do not fully use their skills or availability.

Application

- Low inflation means prices are rising slowly or are stable, typically targeted around 2% ±1%.
- Bank of England raised the base rate from 3.5% to 4% in February 2023
- The Bank of England uses interest rates to control inflation — raising rates helps reduce inflation but may increase unemployment.
- There can be a conflict because measures to reduce inflation (like higher interest rates) can slow economic growth and increase unemployment.

Analysis might include: Why low inflation and full employment clash or are incompatible.

Question 2* Guidance

Conflict in the Short Run**:**
There can be a short-run trade-off between **low inflation and full employment**. When the economy grows too quickly, **AD (Aggregate Demand)** may increase faster than AS (Aggregate Supply), causing demand-pull inflation. Central banks may respond by raising interest rates to cool down demand, which can slow real GDP growth and increase unemployment.
Diagram 1: AD and AS with contractionary policy

This diagram shows:
- An economy initially at equilibrium at point Y.
- Instead of rising to Y2 (higher output and employment), interest rate rises prevent AD from increasing to AD2, and instead it increases only to AD1, resulting in a lower output level Y1 and reduced inflation pressure (from P2 to P1).

Thus, contractionary monetary policy (e.g., the interest rate rise from 3.5% to 4% in February 2023) helps reduce inflation but restrains growth and employment.

Demand-Side Inflation:
Diagram 2: Demand outpacing supply
Here, AD increases faster than AS (AD to AD1 vs. AS to AS1), leading to a price level rise (P to P1) even as output increases to Y1. The rise in inflation may trigger policy responses that reduce demand, potentially negatively affecting employment.

Short-Run Phillips Curve and Cost-Push Pressures:
- Higher interest rates can lead to currency appreciation, reducing net exports and corporate investment.
- Inflation from cost-push shocks (e.g. energy crises) complicates matters, raising interest rates in such scenarios reduces demand but may deepen the recession.

Keynesian Perspective:
Diagram 3: Keynesian AS curve showing conflict at full capacity
This shows:
- At low output levels, AD increases raise GDP without much inflation.
- Near full employment (Y to Y1), further increases in AD primarily raise prices, not output.

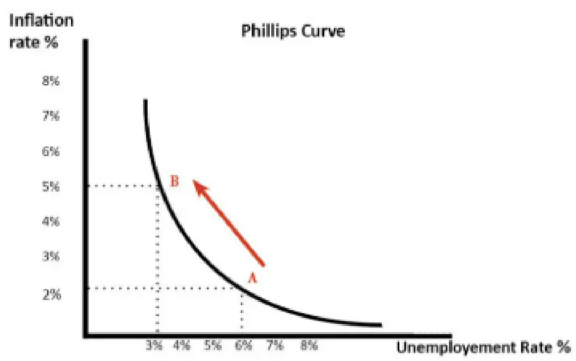
Central banks may raise rates to prevent overheating, limiting employment gains

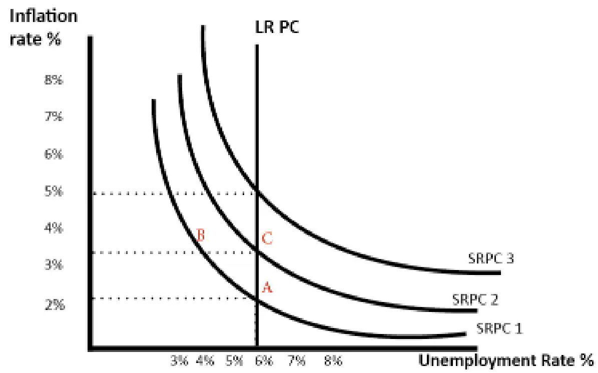
External shocks (like energy price spikes in 2022) can aggravate this trade-off. In such scenarios, more aggressive tightening may be required to reduce inflation and worsen unemployment.

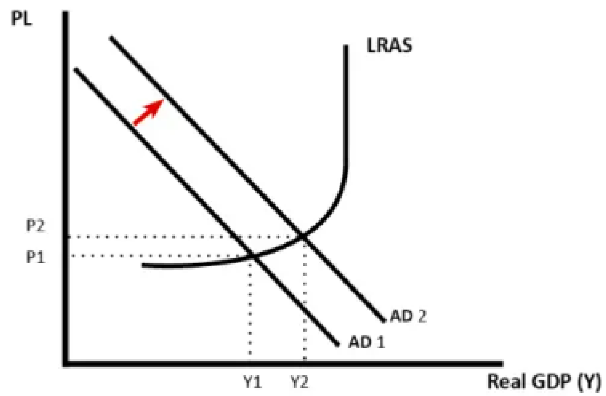
Evaluation of why low inflation and full employment work together, and what this might depend on
- **In the Long Run**, expectations adjust, and no trade-off exists. Use Phillips Curve – Vertical LRPC – explaining how the economy returns to its 'natural rate' of unemployment [also called NAIRU]

Question 2* Guidance
• **Supply-side policies** (e.g., improving skills or infrastructure) can shift AS right, enabling non-inflationary growth. • Low inflation creates a stable macroeconomic environment, boosting business confidence, investment, and international competitiveness. • Full employment boosts output and tax revenues while reducing welfare costs, which can help create fiscal space for investment in supply-side improvements. • If inflation expectations are well-anchored, the central bank can be less aggressive with rate hikes, reducing the trade-off. If AS shifts right due to productivity gains or supply-side reforms, the economy can grow without inflationary pressure, allowing both inflation and unemployment to fall together. • Long-term unemployment may cause hysteresis—loss of skills and reduced labour market participation, raising the natural unemployment rate. • **Stagflation argument** • Govt intervention • *High interest rate → Appreciation → ⇑Exchange Rate → ⇓CoP → ⇑SRAS → Draw AD/SRAS → ⇓GPL → ⇑RGDP→ No conflict* Therefore, the relationship depends on: • The stage of the economic cycle. • The type of inflation (demand-pull vs cost-push). • The credibility and expectations surrounding policy. • The flexibility of labour and product markets. **Supported conclusion/judgement might be:** • There can be a conflict in the short run between low inflation and full employment, especially if the economy is overheating or recovering from a shock. • However, in the long run, this conflict may disappear if inflation is kept low and stable, which creates a better environment for investment and job growth.

Question 2* Guidance







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

Annotation

Knowledge and Understanding	KU	Grouped at end of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

Indicative content

Guidance:
- The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.
- **To access a good analysis or good evaluation, the answer must have one relevant diagram**

Knowledge and Understanding might include
- Definition of Full Employment: The lowest level of unemployment an economy can sustain, where job vacancies equal the number of unemployed. It implies no cyclical unemployment, though frictional (temporary between jobs) and structural (mismatch of skills) unemployment may still exist.
- Full employment means that almost everyone who wants a job and is able to work has one.
- It does not mean 0% unemployment – frictional and structural unemployment will still exist.
- Other Macroeconomic objectives

Application:
- Economists often see full employment when unemployment is natural (e.g. Japan's 2.4%).
- It is an important macroeconomic objective alongside low inflation, economic growth, and a balanced balance of payments.
- Labour shortages – tight labour market
- Ageing population in Japan

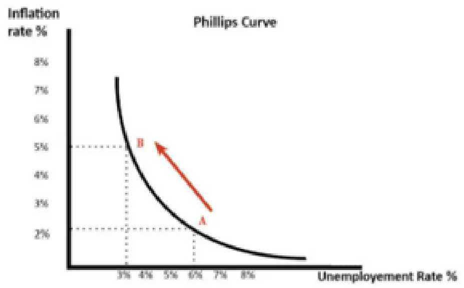
Analysis: Why achieving full employment will benefit an economy might include
- Higher output/GDP: More people working produce more goods and services.
- Higher incomes: More jobs mean higher household incomes, which boost consumer spending (C in AD).

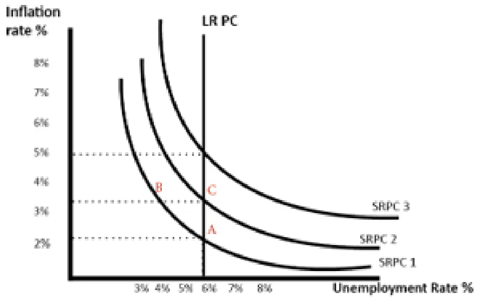
- Lower welfare payments: The government spends less on unemployment benefits and can spend more on public services like health and education.
- Increased tax revenue: More people working means more income tax and VAT, helping to reduce the budget deficit.
- Improved living standards: Families with income can afford better housing, food, and education.
- Multiplier effect: Higher employment boosts spending, further increasing aggregate demand (AD) and growth.
- Positive impact on confidence: Businesses may invest more if they see strong employment levels.

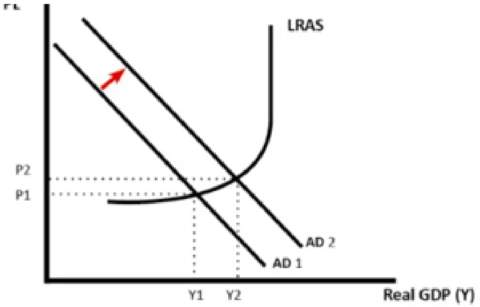
Evaluation: Why achieving full employment will not always benefit an economy might include
- Demand-pull inflation: If everyone is employed, demand may outstrip supply, causing inflation to rise.
- Labour shortages: Firms may find it hard to recruit workers, pushing up wages and costs.
- Overheating economy: High AD might push the economy beyond its productive potential (right of LRAS).
- Fall in productivity: Productivity could fall if firms hire less-skilled workers to fill roles.
- Environmental/resource pressure: Higher output and consumption may lead to more pollution and overuse of natural resources.
- Structural problems ignored: Full employment may hide deeper issues, like regional inequality or low-wage, insecure jobs.

Supported Conclusion/Judgement of the Question might include
- Achieving full employment generally brings strong benefits such as more output, income, and tax revenue.
- However, if it leads to inflation, skill mismatches, or overheating, it may harm the economy in the longer term.
- The benefits depend on how sustainable and inclusive the full employment is — e.g. whether jobs are high-quality and productivity is growing.
- Full employment is not the same as underemployment.
- It depends on the type of supply-side policy.
- Overall, full employment is positive but needs to be managed carefully with other policies to avoid inflation or labour shortages.

List of Suggested Diagrams Relevant to the Question
- AD/AS Diagram: Showing economy moving to full employment output (Y_{FE}).
- Keynesian AS Curve: Illustrating movement from underemployment to full capacity.
- PPC (Production Possibility Curve): Shows the full use of resources at the frontier.
- Phillips Curve: Illustrating the potential trade-off between unemployment and inflation.


Inflation rate %
Phillips Curve
8%
7%
6%
5%
4%
3%
2%
B
A
3% 4% 5% 6% 7% 8%
Unemployement Rate %


Inflation rate %
LR PC
8%
7%
6%
5%
4%
3%
2%
B
C
A
SRPC 3
SRPC 2
SRPC 1
3% 4% 5% 6% 7% 8%
Unemployment Rate %


LRAS
P2
P1
AD 2
AD 1
Y1 Y2
Real GDP (Y)

4* **Evaluate whether a very uneven distribution of income will result in a country having a low HDI value.**

Annotation

Knowledge and Understanding	KU	End of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

Indicative content

Guidance:
- The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation.

Knowledge and Understanding might include
- Uneven income distribution means that some people earn much more than others — a gap between the rich and the poor.
- This is also called income inequality, so yes, uneven income and inequality are the same in this context.
- HDI (Human Development Index) is a measure of development using:
    - Life expectancy
    - Mean years of schooling
    - Gross National Income (GNI) per capita
- A low HDI means a country's poor health, education, and income standards.

Application
- The Central African Republic (CAR) is stated to have a very uneven income distribution, suggesting high income inequality (possibly indicated by a high Gini coefficient).
- In countries like CAR, concentrated income among a small elite can mean limited access to education and healthcare for the majority, contributing to a low HDI.
- CAR's situation illustrates that economic growth or wealth alone doesn't guarantee a high HDI — how income is distributed and used matters significantly.
- Inequality may also reduce social cohesion, lower investment in human capital, and discourage inclusive policies, which all contribute to persistently low HDI in places like CAR.

Analysis: Why uneven distribution of income will result in a country having a low HDI might include

- If income is concentrated in the hands of the rich, most of the population may live in poverty.
- Poorer people often have limited access to education, healthcare, and decent housing, lowering life expectancy and years of schooling.
- A country like the Central African Republic, with few wealthy individuals and many poor people, may still have a low average income per person (GNI per capita).
- Even if national income is high, it doesn't benefit everyone, so HDI can stay low.
- Governments may not collect enough tax revenue to fund public services if the rich avoid taxes and the poor don't earn enough to be taxed.
- High inequality can lead to poor outcomes for development indicators, especially if spending on education and health is low.

Evaluation: Why uneven distribution of income will not always result in a low HDI might include

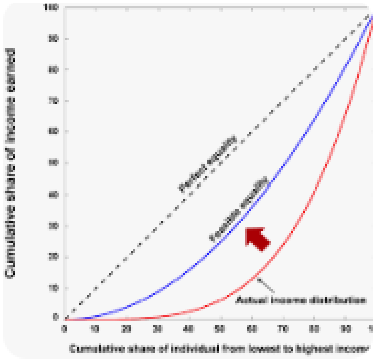
- A country can still have a high HDI if the government redistributes wealth through:
  - Free education
  - Public healthcare
  - Welfare programmes
- If the rich invest in the economy, it may create more jobs and improve incomes and living standards.
- Natural resources or tourism can increase GNI per capita, raising HDI even if inequality remains high.
- Some countries (e.g., oil-rich nations) have high incomes and inequality but can still invest in human development.
- Also, HDI is an average – it may not fully show inequality unless you use IHDI (Inequality-adjusted HDI).

Supported Conclusion/Judgement might include

- Uneven income distribution often leads to low HDI, especially in poorer countries where most people lack access to basic services.
- However, the impact depends on government policy, wealth distribution, and whether economic growth is inclusive.
- If inequality stops people from accessing education and healthcare, HDI will likely be low.
- Overall, very uneven income usually leads to a lower HDI, but the effect depends on how well the country supports its population.

List of Suggested Diagrams Relevant to the Question

- Lorenz Curve & Gini Coefficient Diagram: To illustrate the extent of income inequality.
- Tax Revenue and Redistribution Flow Diagram: This diagram shows how income from the wealthy can be redistributed for public services.
- Cycle of Poverty Diagram: To show how poor income leads to inadequate education and health outcomes, feeding back into low income.


Cumulative share of income earned
Perfect equality
Feasible equality
Actual income distribution
Cumulative share of individual from lowest to highest income

5* **Evaluate whether the UK government should increase trade restrictions on the BRICS.**

Annotation

Knowledge and Understanding	KU	End of response
Application	APP	End of response
Analysis	AN	Grouped beside the body of the analysis
Evaluation	EVAL	Grouped beside the body of the evaluation

Indicative content

Guidance:

- The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation.

Knowledge & Understanding:

- BRICS is an acronym for five major emerging economies: Brazil, Russia, India, China, and South Africa.
- BRICS is a cooperative group of emerging economies but not a trading bloc like the EU, USMCA or ASEAN.
- BRICS are geographically dispersed, with different economic structures and at times competing interests.
- Trade restrictions include tariffs, quotas, embargoes, and subsidies to protect domestic industries or reduce imports.

Application:

- BRICS = accounts for over 40% of the world's population.
- G7 = UK, US, Canada, France, Germany, Italy, Japan – traditionally the world's wealthiest economies.
- In 2023, BRICS overtook the G7 in global GDP share, showing how fast their economies are growing.
- The UK may want to use trade restrictions to **protect jobs or improve national security,** but it could also affect prices and supply chains.

Analysis: Why the UK government should increase trade restrictions on the BRICS might include

- Protect UK industries: Tariffs on cheap imports (like steel or textiles from China) could protect UK manufacturers from being undercut.
- National security: Restricting technology imports from countries like Russia or China could reduce security risks.
- Reduce dependence: Limiting imports from BRICS may help the UK diversify its supply chains and avoid being too reliant on one region.
- Correct trade imbalances: Trade barriers might reduce the UK's current account deficit with some BRICS countries (e.g. with China).
- Encourage domestic production: If imports are reduced, UK businesses may grow, leading to more investment and jobs.
- Political leverage: The UK might use trade to pressure countries (e.g. over human rights or foreign policy).

Evaluation: Why the UK government should not increase trade restrictions on the BRICS might include

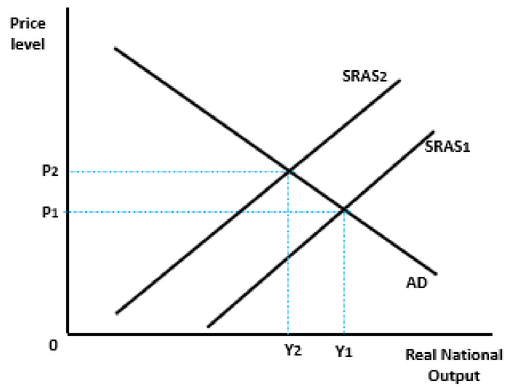
- Higher consumer prices: Import tariffs can lead to more expensive goods, like electronics or clothing.
- Retaliation: BRICS countries may impose tariffs on UK exports, harming UK firms (especially in services or high-tech).
- Reduced consumer choice: Trade restrictions limit the variety of goods available in the UK.
- Trade Diversion argument
- WTO rules: the UK must follow World Trade Organisation rules that discourage excessive protectionism.
- Loss of global competitiveness: UK businesses may become less efficient without foreign competition.
- Missed opportunities: BRICS are fast-growing markets — trade restrictions might reduce access to big export opportunities (e.g. India's growing middle class).

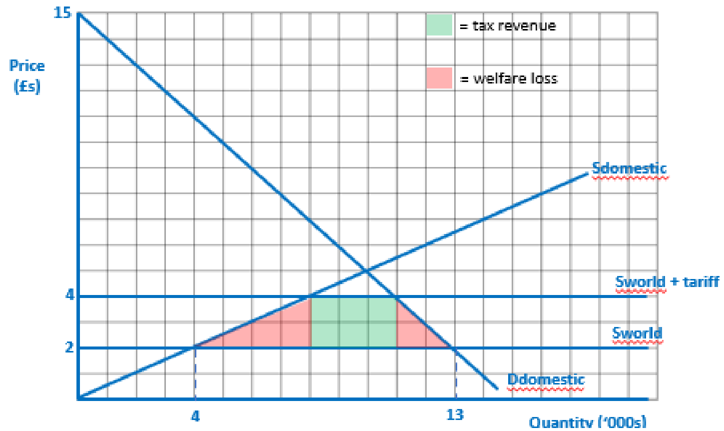
Supported Conclusion/Judgement might include

- The UK could use targeted trade restrictions to protect key industries or for national security reasons, especially with countries like Russia.
- But broad restrictions on all BRICS nations may hurt UK consumers and exporters and reduce long-term growth chances.
- The UK should focus on balancing fair trade with open markets, working through international rules and strategic trade deals.
- Overall, increasing trade restrictions may be harmful overall, unless carefully used in specific situations.

Suggested Diagrams Relevant to the Question

- Tariff Diagram: Showing effects of a tariff on imports — price rise, lower quantity demanded, welfare loss.
- Protectionist Measures Diagram: Impacts on domestic supply and demand (e.g., quota effects).
- AD/AS Diagram: Showing effects of reduced imports on aggregate demand, inflation, and employment.





ASSESSMENT OBJECTIVES GRID

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1(a)		2			**2**	
1(b)	1	1			**2**	
1(c)	1(1)	1(1)			**2**	**(2)**
1(d)	2(2)	2(2)			**4**	**(4)**
1(e)*	1	1	3	3	**8**	
1(f)*	1	1	5(2)	5	**12**	**(2)**
2* / 3*	6(2)	6(2)	6(2)	7(2)	**25**	**(8)**
4* / 5*	6	6	6	7	**25**	
TOTAL	**18(4)**	**20(8)**	**20(2)**	**22(2)**	**80**	**(16)**

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