

GCSE ECONOMICS

(8132)

Marked Papers
Paper 2 8132/2

See a range of responses and how different levels are achieved and understand how to interpret the mark scheme.

Version 1.0 November 2017

EXAMPLE RESPONSES



Please note that these responses have been reproduced exactly as they were written and have not been subject to the usual standardisation process.

Specimen paper 2, question 26

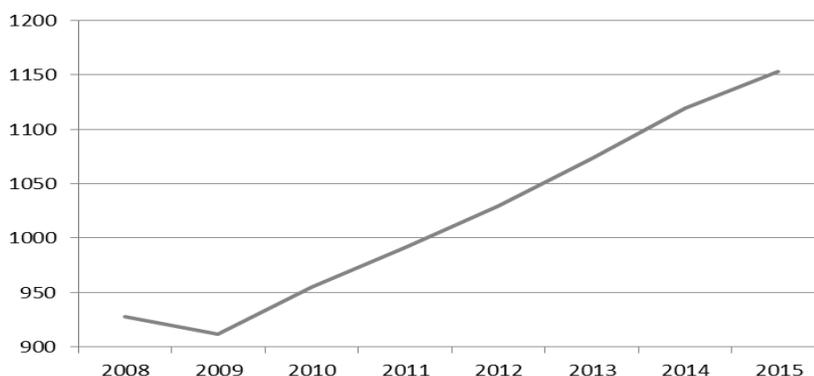
Question

Item A – Supply-side policies, low interest rates and low inflation in the UK

Figure 6

Governments have increasingly used supply-side policies to manage the economy. These policies are aimed at making the economy operate more efficiently by increasing productivity, reducing unemployment and stimulating economic activity as well as enabling the government to achieve its objectives. By March 2016, the interest rate set by the Bank of England had been at a record low of 0.5% for exactly 7 years. The Monetary Policy Committee (MPC) had reduced the interest rate to this low level to help the economy to recover following a relatively long and deep recession that had begun in 2008. By 2015 several economists, including members of the MPC, were calling for a rise in the interest rate as stronger signs of recovery became clear. Indeed, the UK had been referred to in 2014 as the fastest growing developed economy in the world. As a consequence of low interest rates, consumer and business confidence have grown.

Annual UK consumer spending from 2008 to 2015.



Since 2011, annual business start-up rates have increased from 440 600 in 2011 to a record-breaking 581 173 in 2014. More than 600 000 new businesses were launched in 2015. Despite this, deep economic inequality exists between the different regions of the UK as has been revealed in the latest figures from the Office of National Statistics (ONS). The North-east of England has a 70.6 per cent employment rate against an average of 74.1 per cent across the UK. The region also has the lowest house prices in England and the highest rate of infant mortality.

Figure 7

One factor that members of the MPC have had to take into account was that inflation, measured by the consumer prices index (CPI), has remained very low. Because a key objective of the MPC is to meet the Government's target of 2.0% CPI inflation, low inflation gave less pressure for an increase in the Bank's interest rate. It is argued that low inflation creates benefits for an economy, both domestically and through international trade. Other economists felt that the low inflation was evidence that the UK economy had not recovered fully and therefore called for a delay in raising the interest rate. They argued that increasing interest rates too soon might lead to a contraction in spending which could harm the economy.

UK CPI inflation (%) from 2011 to 2015

Year	CPI (%)
2011	4.5
2012	2.8
2013	2.6
2014	1.5
2015	0.0

The government can use supply-side policies or direct government intervention to address regional inequalities in the UK. Which of these do you think would be most effective?

Use **Figure 6 and 7** and your own economic knowledge to justify your view.

[15 marks]

Mark scheme

AO2 – 5 marks, AO3 – 10 marks

Level	Marks	Description
5	13-15	<p>A justified conclusion with sustained evaluation, which is coherent and relevant, with judgements fully supported by evidence.</p> <p>Analysis of a relevant selection of the economic evidence, with a well-developed logical chain of reasoning.</p> <p>Comprehensive application of knowledge and understanding of pertinent concepts/issues relevant to the context; effective use of specialist language maintained throughout.</p>
4	10-12	<p>A partially justified conclusion with an evaluation, which is mostly coherent and relevant; judgements may not be fully supported by evidence.</p> <p>Analysis of a relevant selection of the economic evidence; a logical chain of reasoning is established but not fully developed.</p> <p>Strong application of knowledge and understanding of a broad range of concepts/issues relevant to the context; mostly effective use of specialist language throughout.</p>
3	7-9	<p>A partially justified conclusion with an evaluation, but not integrated in a coherent way; judgements are not fully supported by evidence.</p> <p>Analysis of a relevant selection of the economic evidence and starts to develop a chain of reasoning.</p> <p>Good application of knowledge and understanding of a broad range of concepts/issues relevant to the context; consistent use of specialist language but not always effective.</p>
2	4-6	<p>A basic conclusion is present based on simple evaluative judgements supported by little or no evidence.</p> <p>Analysis of a relevant selection of the economic evidence with no chain of reasoning attempted.</p> <p>Simple application of knowledge and understanding of a narrow range of concepts/issues relevant to the context; sporadic use of specialist language.</p>
1	1-3	<p>Evaluative judgements are simple with no conclusion present.</p> <p>Analysis of a limited selection of the economic evidence with no chain of reasoning attempted; selection of evidence may lack relevance.</p> <p>Basic application of knowledge and understanding of concepts/issues with limited relevance to the context; uses non-specialist language.</p>
	0	Nothing written worthy of credit.

Issues for exploration may include:

- Business investment – Should the government try to stimulate business investment by cutting business taxes for firms located in those areas, or would it be better to offer direct subsidies to encourage existing businesses to stay or to attract new businesses to the area?
- Consumer spending – Should the government try to stimulate consumer spending through establishing a higher minimum/living wage in affected areas or would this be counter to increasing business investment, as businesses would now have higher costs.
- Business start-ups – Should the government try to increase the number of new businesses starting up in affected areas through actions like encouraging entrepreneurial activity, removing red tape and barriers for business start-ups, and reforming employment laws? Or would offering grants to new businesses as well as subsidising some overheads be a more effective strategy?
- The labour market – increased mobility of labour. The government could invest in transport infrastructure or subsidise transport and/or rented accommodation costs for workers who have to travel long distances to work in the area. To try and increase employment they could also increase incentives to firms taking on additional labour and/or offering apprenticeships.
- Structural unemployment – supply-side policies are unlikely to be effective when a major industry has gone into decline. The resulting long term, structural employment can be counteracted most effectively by direct government intervention. This could be direct subsidies to affected businesses, or providing benefits to the unemployed, or nationalising the affected industries.
- Interest rates – These are currently at a record low, and in the medium to long term are likely to go up. The data demonstrates the link between interest rates and business investment and consumer spending, implying that increases in the interest rate will have a detrimental effect on the level of economic activity. Will regional inequality increase as a consequence of this?
- Supply-side policies are a long term strategy, whereas in the case of regional disparities immediate action is required.
- Does government intervention simply result in a large public sector debt and prop up inefficient industries?

Note: This indicative content is not exhaustive; other creditworthy responses should be awarded marks as appropriate.

Student responses

Student response 1

The government should use direct intervention to address the regional inequality. This is because supply side policies take too long to come into effect, and regional inequality is a problem that needs action now, as it will only get worse in the future.

If the government spent money on a new motorway or railway to help people travel to jobs more efficiently, there would be less unemployment in the areas but such a project would be very expensive and would take many, many years to build. While this is happening the inequality is just growing more.

The government should enforce a higher minimum wage in the area to force employers to pay people more. If the minimum wage in the South –East was £10 an hour, but in the North-East it was £20 an hour, then not only will people earn double overnight, but so many people will want to work in the North-East that it will make the house prices go up as well, because of demand.

This is a low level response.

Student response 2

I think that the government should use supply side policies to address the regional inequalities.

One of the main signs of this inequality is the difference in employment rates, with the North-East well below the UK average, and supply side policies could fix this. The government could fund a lot of training for people in the North-East, so that their skills could improve and their employability would go up. If people in the North East have a lot of skills then employment would increase. Lots of training would be needed to bring the North-East up to the UK average, so it would cost the government a lot of money, but the whole country could benefit in the long run.

One drawback of this is that supply-side policies can take a long time to have an effect, which means that the current problems would likely continue for some time into the future. If children are dying faster than in other parts of the country, then by the time the supply side policies kick in there could have already been a significant decline in the working population, further harming the competitiveness of the area, and leading to more inequality between regions. The government could just pay for people's transport costs so that they can afford the journey to travel to a job in another region, this way more people would have enough money to feed their families, and in a very short time.

Even though there are drawbacks I still believe that the government should use supply side policies to address the regional inequalities. If the government started a region wide training program then the skills of the people in those regions would increase, and this would make them more employable. They would earn more money and have healthier lives, and the long term future of the region would be promising. Giving people money to pay for their travel is only a short sighted solution, as once the government cannot afford to pay this anymore then the problem will come back. Making sure that people have the skills to become employed is the most important thing, and even though it will take away to work, it is the only way the problem can be solved without it coming back in future.

This is a medium level response.

Student response 3

According to Figure 6, the North East of England has an employment rate well below the UK average as well as the lowest house prices in the country and the highest rate of infant mortality. To address the employment rate the government could try and stimulate the labour market and business in the North East of England. As business investment can be seen to increase as business taxes decrease, the government could cut business taxes in the affected areas which would lead to a greater number of businesses starting up and relocating to those areas. With more jobs available, a greater proportion of people could be employed, which would decrease the inequality between the North-East and the rest of the UK in this respect. This could have knock on effects on the housing market, increasing the desirability of the affected areas and increasing the number of willing buyers, which could see house prices rise and the inequality in this area decreased. A lower level of unemployment would also see the health of people in the area increasing, as people have enough income to eat healthily and in the long term can also perhaps enjoy a higher quality health service due to increased tax revenue from the area.

The government could also intervene in ways such as offering grants to new or existing businesses in the affected areas, and/or by subsidising their activities to help them operate. This could quickly increase the level of business activity in the area as businesses can exist with less financial risk. With many more jobs created the employment level in the area should increase, which should also increase people's quality of life and further decrease inequality. One issue with this is that the employment rate in the affected areas may also be being brought down by a lack of qualified workers in those areas. Stimulating businesses to move to the area quickly may not be a good choice as there still may be a lack of workers who are qualified to do the job, meaning that those businesses will struggle to fill those positions, and many people in the area would remain unemployed despite the intervention. This would cost the government money as well as not helping to solve the problem of inequality.

I believe that the best choice for the government in the long run is to implement supply side policies aimed at increasing business investment in the affected areas and increasing the employability of workers in those areas. Cutting business taxes and making training available for local people will provide more jobs in the areas as well as a larger pool of workers who have the skills to do those jobs. The increased availability of jobs should make the area more desirable to live, increasing house prices and reducing the inequality in this respect. A decrease in unemployment would also increase the health of people in those areas as they eat more healthily, have less stress and enjoy improved public services as a result of increased income tax from the area.

However, the issue of infant mortality is too significant to only address in the long run, and so actions that can immediately address this are needed. As well as implementing supply side policies as the best way of decreasing inequality in the long run, the government should look to provide increased education for expecting parents, in the form of free seminars or training days. Increased credits for healthy food and childcare would also be good choices, and in the short term these measures would hopefully reduce infant mortality in the affected areas, which can then become more prosperous in the long term when the supply side policies have their full effect.

This is a high level response.

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You can talk directly to the economics subject team

E: economics@aca.org.uk

T: 01483 477 863