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Mark Scheme (Results)

Summer 2023

International A Level in

Economics (WEC12)

Unit 2: Macroeconomic performance

and policy

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Section A

Question	Quantitative skills assessed	Answer	Mark
1	**QS4**: Construct and interpret a range of standard graphical forms	**The only correct answer is C** ***A*** *is not correct because this is an injection into the circular flow of income* ***B*** *is not correct because this is not a withdrawal* ***D*** *is not correct because this is an injection into the circular flow of income*	**(1)**
2	**QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because this conflict is best illustrated by the short-run Phillips curve* ***C*** *is not correct because this conflict is best illustrated by the short-run Phillips curve* ***D*** *is not correct because this conflict is best illustrated by the short-run Phillips curve*	**(1)**
3	**QS4**: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct because the classical LRAS will be perfectly inelastic, and the economy will be operating at full capacity* ***C*** *is not correct because the economy will be operating at full capacity* ***D*** *is not correct because at full employment level of real output, the classical LRAS would be perfectly inelastic*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct because an increase in house prices will lead to positive wealth effects* ***C*** *is not correct because this is an impact on firms and not on existing homeowners* ***D*** *is not correct because an increase in house prices would result in greater confidence and then to an increase in consumer expenditure*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because fiscal policy involves the use of taxation and government spending as policy instruments* ***B*** *is not correct because fiscal policy involves the use of taxation and government spending as policy instruments* ***C*** *is not correct because this will involve the ECB increasing it asset purchases*	**(1)**

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6	**QS1:** Calculate, use and understand ratios and fractions **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A*** *is not correct because nominal GDP increased by 134.8%* ***B*** *is not correct because population increased by 5%* ***C*** *is not correct because this uses an incorrect formula for GDP per capita*	**(1)**

Section B

Question	Explain **one** possible effect of the increase in the rate of unemployment on the public finances of Pakistan.	**Mark**
7	**Knowledge 1, Analysis 2, Application 1** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 mark for definition of rate of unemployment or public finances, e.g. • The rate of unemployment refers to the percentage of the total workforce that is unemployed but is actively seeking employment and willing to work *OR* • Public finances refer to tax revenues and public expenditure **(1)** **Analysis** Up to 2 marks for possible effect and linked expansion, e.g. • This increase in the rate of unemployment leads to an increase in the number claiming/receiving unemployment benefits **(1)** leading to increased government spending/to a deterioration in public finances **(1)** / This increase in the rate of unemployment leads to a reduction in the number of people paying income tax **(1)** leading to a fall in the government tax revenues/to a deterioration in the public finances **(1)** **Application** 1 mark for appropriate link to Pakistan, e.g.: • Unemployment rate increased by 2.4 percentage points / • Between 2018 and 2021 the annual rate of unemployment increased from 4.1% to 6.5% **(1)**	**(4)**

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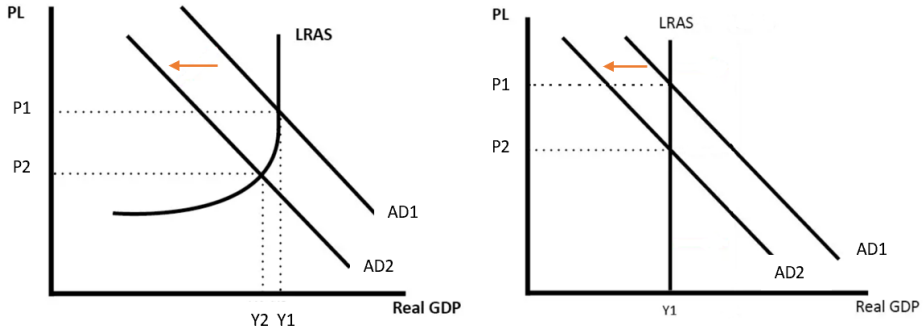
Question	Draw an AD and LRAS diagram to show the likely impact of a fall in business confidence on the economy of Germany.	Mark
8	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms  **Knowledge** Correctly drawn diagram with correctly labelled AD/LRAS curves showing the original equilibrium price level and real output **(1)** **Application** Up to 3 marks for the following information included on the diagram: • Drawing AD shifted to the left **(1)** • Showing correct lower price level **(1)** (not rewarded if 'price' is used on the axis) • Showing correct lower real output **(1)** (not rewarded if 'quantity' is used on the axis) **NB: also allow LRAS/AD diagram showing a decrease in LRAS as follows** • Drawing LRAS shifted to the left **(1)** • New equilibrium showing correct higher price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct lower GDP/Y/real output/ real income **(1)** (not rewarded if 'quantity' is used on axis) **NB: also allow LRAS/AD diagram showing both a decrease in LRAS and a decrease in AD as follows** • Drawing LRAS and AD shifted to the left **(1)** • New equilibrium showing correct price level **(1)** (not rewarded if 'price' is used on axis) • New equilibrium showing correct lower GDP/Y/real output/ real income **(1)** (not rewarded if 'quantity' is used on axis)	**(4)**

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Question	In 2022 it was estimated that an increase in government spending of $25 billion in an economy would eventually result in an increase in the country's national income of $100 billion. Based on this information, calculate the marginal propensity to consume (MPC) in this economy. Show your workings.	Mark
9	**Knowledge 1, Application 3** **Quantitative skills assessed:** **QS1:** Calculate, use and understand ratios and fractions **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for knowledge of multiplier formula • Multiplier = 1/(1-MPC) or 1/MPW *OR* 1 mark for understanding of marginal propensity to consume (MPC) • MPC = ΔC/ΔY • MPC is the proportion of one additional unit of income that is spent by households **Application** Calculate that the multiplier ratio = $100bn/$25bn = 4 **(1)** Calculate that (1-MPC) or MPW = 0.25 **(1)** Calculate that the MPC = 0.75 **(1)** **NB If the correct answer is given (0.75 OR ¾), award full marks regardless of working** **NB If the answer is given as 0.75 billion/$0.75/$0.75 billion, award only 3 marks**	**(4)**

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Question	Explain **one** likely impact of a negative output gap on Vietnam's economy.	Mark
10	**Knowledge 1, Analysis 2, Application 1** **Quantitative skills assessed:** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for understanding of negative output gap, e.g.: when actual GDP is less than potential GDP (this may be shown via an accurately drawn/labelled diagram) **Analysis** Up to 2 marks for identification and development of the impact, e.g.: - The Government is likely to have a budget deficit **(1)** as government expenditure on means-tested/unemployment benefits is high **(1)** / tax revenue, e.g. income tax, is relatively low **(1)** - There is likely to be high unemployment **(1)** because a slowdown in the economy would lead to firms making the workers redundant **(1)** / resulting in spare capacity/an inefficient allocation of resources/lower living standards **(1)** - Low inflation/disinflation/deflation **(1)** because there is low cost-push inflationary pressure **(1)** / because high levels of unemployment will put downward pressure on wage rates **(1)** / Low inflation/disinflation/deflation **(1)** because there is less demand-pull inflationary pressure **(1)** / because AD or real output/GDP is relatively low **(1)** **Application** 1 mark for appropriate application, e.g.: - The size of Vietnam's negative output gap was forecast to be between -5% and -10% in 2022 / - Award for accurately showing the figure on the negative output gap diagram **(1)**	**(4)**

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Question	With reference to the chart, explain what is meant by deflation.	Mark
11	**Knowledge 2, Application 2** **Quantitative skills Assessed:** **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **QS10:** Distinguish between changes in the level of a variable, and the rate of change. **Knowledge** Up to 2 marks for defining deflation, e.g.: - A decrease/fall **(1)** in the average/general price level in an economy **(1)** - The rate of inflation is negative/below zero **(1)** **Application** Up to 2 marks for correct use of the chart, e.g.: • Rwanda experienced deflation between July 2021 and December 2021/last six months of 2021 **(1)** • Rwanda had a negative inflation rate of 3.3% **(1)** in October 2021 **(1)** / Lowest rate of deflation was 1.1% **(1)** in July 2021 **(1)** / Highest rate of deflation was 3.4% **(1)** in November 2021 **(1)**	**(4)**

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Section C

Question	Define the term 'GDP growth rate' (Extract A, line 23).	Mark
12 (a)	**Knowledge 2** • The annual percentage change/increase/decrease **(1)** in the total amount of/value of goods and services produced in an economy **(1)**	**(2)**

Question	With reference to Figure 1, explain the difference between a balance of trade deficit and a balance of trade surplus.	Mark
12 (b)	**Knowledge 2, Application 2** **Quantitative Skills Assessed** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms. **Knowledge** 1 mark for defining a balance of trade deficit: • Value of imports is greater than the value of exports / • Allow (M>X) / imports>exports **(1)** 1 mark for defining a balance of trade surplus: • Value of imports is less than the value of exports / • Allow (M<X) / imports<exports **(1)** **Application** 1 mark for correctly identifying a period when India was experiencing a balance of trade deficit, e.g.: • In December 2020 balance of trade deficit was $15.4 billion / • There was a balance of trade deficit between July 2020 and July 2022 **(1)** 1 mark for correctly identifying a period when India was experiencing a balance of trade surplus, e.g.: • Only one month where India had a balance of trade surplus / • Balance of trade surplus of $0.8 billion in June 2020 **(1)**	**(4)**

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Question	Analyse how an increase in the rate of inflation could have a 'negative impact on India's balance of trade' (Extract A, line 9).	Mark
12(c)	**Knowledge 2, Application 2, Analysis 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for understanding of an increase in the rate of inflation, e.g.: • The annual percentage increase in the general price level of/ average prices of goods and services in the economy **(1)** *AND* 1 knowledge mark for identifying the impact: • Could increase India's balance of trade deficit / worsen trade balance **(1)** **Analysis** Up to 2 analysis marks for linked development (1+1), e.g.: • An increase in the rate of inflation will increase the price of Indian exports **(1)** and this may reduce demand for/value of Indian exports **(1)** • If inflation rises faster than India's main trading partners, it will make Indian exports less price competitive **(1)** and this could reduce demand for/value of Indian exports **(1)** • An increase in the rate of inflation may make import prices relatively cheaper **(1)** and this may increase the demand for/value of Indian imports **(1)** **Application** Up to 2 marks for use of Extract A, e.g., • In July 2022 India reported a record balance of trade deficit of $30 billion **(1)** • This deficit was one of the largest of all the Asian economies **(1)** • The rate of inflation was 7.01% in June 2022 compared with June 2021 **(1)** • This was the second highest rate of inflation of the larger Asian economies **(1)**	**(6)**

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Question	Examine the likely impact on India's real output of its 'increased expenditure on imported oil' (Extract A, line 7).	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 knowledge mark for understanding of real output, e.g.: • Output adjusted for inflation **(1)** *AND* 1 knowledge mark for identifying the impact: • Fall in India's real output **(1)** **Analysis** Up to 2 marks for analysing the impact (1+1), e.g.: • Net trade is likely to decrease **(1)** and as net trade is a component of AD (C+I+G+(X-M)), AD is likely to fall (this can be shown on an accurately drawn AD/AS diagram) **(1)** • May result in SRAS shifting to the left (this can be shown on an accurately drawn AD/AS diagram) **(1)** as oil is a key commodity used in the production process **(1)** • Increases withdrawals from the circular flow of income **(1)** **Application** Up to 2 marks for reference to Extract A, e.g.: • Oil accounts for 30% of India's imports by value **(1)** • This is more than double the average of 14.7% for other major Asian economies, such as China, Japan and South Korea **(1)** **Evaluation** Up to 2 marks for evaluative comments (1+1 or 2+0), e.g.: • The magnitude of oil imports is relatively large at 30% **(1)** so impact on real output is likely to be very significant **(1)** • Real output may not fall/may increase if exports of services **(1)** are rising at a faster rate than imports of goods **(1)** • Impact on real output depends on elasticity of LRAS **(1)**; real output will decrease if AD lies on elastic segment of LRAS **(1)** • Real output may not fall in long-run **(1)** as other components of AD rise, e.g. consumption **(1)** **NB Accept negative impact on real output as KAA and positive impact as evaluation (or vice versa)**	**(8)**

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Question	With reference to the information provided and your own knowledge, discuss the likely effects of the increase in the base rate of interest on the Indian economy.
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative Skill Assessed** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge, Application and Analysis (8 marks) – indicative content** • Identification that interest rates are a monetary policy instrument • India's central bank raised the base rate of interest from 4.4% in May 2022 to 4.9% in June 2022 – "an increase of 0.5 percentage points" • An increase in the base rate of interest may decrease AD as it will: o decrease consumption as it creates a disincentive to spend; consumption decreases as cost of borrowing rises and there is an incentive to save as the return on saving increases – "consumer expenditure would increase at a slower rate in the second half of 2022" o create negative wealth effects: higher interest rates will raise the cost of borrowing, so individuals will be less likely to borrow to purchase houses – this will contribute to a decrease in house prices, reducing confidence and consumption o reduces spending as consumers with variable rate loans/mortgages see interest repayments increase, decreasing their discretionary incomes – "small increase in consumer expenditure in the second half of 2022" o lower consumption could decrease imports, improving the trade balance o decrease the net trade balance as it will put an upward pressure on the exchange rate, meaning imports become relatively cheaper, and exports become relatively expensive – India's central bank wanted "to prevent the rupee from falling further" against the US dollar o decrease investment, as the cost of borrowing to finance investment rises increasing firms cost of production • AD shifts inwards leading to (may be shown diagrammatically): o fall in India's economic growth as real output falls: "ADB decreased its projected GDP growth rate for India to 6.7% for 2022" o lower demand-pull inflation as price level falls: it will help "to control the rising rate of inflation" which "reached 7.01% in June 2022" o rise in unemployment as lower real output means less workers employed **NB Accept negative effects as KAA and positive effects as evaluation (or vice versa)**

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (6 marks) – indicative content

- Significance of the size of the increase in the base rate of interest – 0.5 percentage points increase may not be enough as inflation is above 7%
- Changes in the base rate of interest usually have an 18 to 24 month time lag before their full effects are filtered through the economy
- Consumption and investment may not fall if both consumer and business confidence is relatively high
- Commercial banks may not pass the higher rates to consumers or firms, thereby less likely to reduce consumption and investment
- Impact on real output will depend on the size and value of the multiplier
- Impact on real output/inflation depends on the elasticity of the LRAS and the level of spare capacity in the economy
- It is unlikely that changes in the base rate of interest by the central bank will be able to control cost-push inflation caused by rising oil prices

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Section D

<table>
<tr><td>Question</td><td colspan="2">Evaluate supply-side policies that a government could use to increase the country's productivity.</td></tr>
<tr><td>13</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance.
The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

Knowledge, Application and Analysis (12 marks) – indicative content

• Supply-side policies are designed to increase productivity, competition, and incentives in an economy – it can be shown via a shift outward of the LRAS creating both actual and potential growth
• Productivity is a measure of output per worker/output per unit of input/output per hour worked
• Increased government spending on skills through investment in education and/or training – this would increase human capital and raise productivity
• Increased government spending on infrastructure investment (e.g. roads or broadband) – this would reduce industry costs or improve access to markets
• Reducing the level of welfare benefits – this would incentivise the unemployed to take jobs, work harder and increase output per worker of those in work
• Privatisation - this may lead to increased competition, greater innovation resulting from higher R&D spending, and therefore higher productivity
• Cutting cost of bureaucracy and/or deregulation of firms – this would raise efficiency and productivity by increasing competition between firms
• Reducing regulation and/or increasing competition by reducing barriers to entry in product markets
• Reducing corporation tax – this incentivises firms to innovate by investing in technological advancements and therefore increasing potential output
• Reducing income tax rates – this might motivate employees to work harder/longer

NB Award a maximum of level 3 if no reference to specific country(s)</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.
Use of generic material or irrelevant information or inappropriate examples.
Descriptive approach, which has no chains of reasoning.</td></tr>
<tr><td>Level 2</td><td>4–6</td><td>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.
Limited application of knowledge and understanding to economic problems in context.
A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</td></tr>
</table>

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Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

- Government will have to spend significant amount of money to increase Japan's productivity as it is much lower than that of the USA
- It is difficult to accurately measure productivity
- Significant time lags and implementation lags for supply-side policies
- Creates an opportunity cost for the government: funds may not be spent in areas that would contribute to high productivity (asymmetric information)
- Supply-side policies are less effective when there are large amounts of spare capacity in an economy: they create potential growth but no actual growth
- Consideration of the effectiveness of supply-side policies such as infrastructure and education at delivering sustainable growth
- Depends on the quality of education, training and infrastructure projects
- Privatisation may lead to private monopolies, leading to less productivity
- Cut in welfare benefits designed as an incentive to work may be ineffective if the unemployed are willing to receive lower payments and do not work
- Reducing bureaucracy may create unemployment in the short-term
- Reducing corporation tax rates would be ineffective if companies boost short-term profits rather than investing in productivity-boosting technology
- Reducing income tax rates may create an incentive for employees to take more leisure time

Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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<table>
<tr><td>Question</td><td colspan="2">Evaluate the likely costs of a recession on an economy of your choice.</td></tr>
<tr><td>14</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance.
The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

Knowledge, Application and Analysis (12 marks) – indicative content

• Understanding of recession: negative economic growth for two or more consecutive/successive quarters or six months

Costs include:
• Consumers will receive lower average incomes and they will not be able to afford more goods/services nor increase their standard of living; poverty rates could potentially rise
• With lower real GDP, firms employ fewer workers creating unemployment; wages fall and create greater inequality
• Firms are likely to make lower profits as consumer spending falls; less production implies lower future investment into R&D/innovation
• Reduction in government tax revenues and higher government spending on unemployment and welfare benefits; leading to a deterioration of public finances
• With lower GDP, fewer resources can be devoted to promoting the use of renewable resources
• High social dislocation/crime/civil unrest/stress issues/high divorce rates; worsens health; lower life expectancy
• Can result in depressed house prices leading to negative wealth effects

NB Award a maximum of Level 3 for answers with no reference to a country in their answer</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
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		Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

Benefits include:

- Lower demand may reduce both demand-pull and cost-push inflationary pressures; the central bank may decide to lower interest rates to control the rising rate of inflation
- Lower external costs of production due to less output produced by firms; less exploitation of finite resources and less depletion of non-renewable resources of energy
- Lower spending on imports would cause an improvement in the current account position of the BOP
- Lower inequality: those with assets may witness a proportionally smaller increase in the market value of their income on their wealth
- Depressed/lower house prices may make houses more affordable to non-homeowners

Other evaluative comments:

- The size and length of the recession is important in terms of the impact, e.g. a very small contraction may have limited impact on the economy
- Recession may not occur in 2023 as these are projections by economists

Level	Mark	Descriptor
	0	No rewardable material.
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