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Mark Scheme (Results)

October 2025

International Advanced Level in Economics
WEC12/01
Unit 2: Macroeconomic performance and policy

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed-out work should be marked UNLESS the candidate has replaced it with an alternative response.

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Section A

Question	Quantitative skills assessed	Answer	Mark
1	**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 this is the value of the MPW* ***B*** *is not correct because this is the value of the MPC* ***C*** *is not correct because this is 1/0.6*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct because this is most likely to shift the LRAS curve to the left* ***B*** *is not correct because this is most likely to shift the LRAS curve to the left* ***D*** *is not correct because this is most likely to shift the LRAS curve to the left*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C** ***A*** *is not correct as a rise on the rate of unemployment is likely to cause spending in an economy to fall which will lead to a fall in imports* ***B*** *is not correct as a fall in the exchange rate means that, ceteris paribus, the price of imports will rise which will cause a fall in the demand for imports* ***D*** *is not correct as commercial banks are less likely to lend money to consumers which reduces spending and therefore a reduction in imports*	**(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 as an increase in investment is likely to reduce the rate of unemployment* ***C*** *is not correct as an increase in investment is likely to increase employment*	**(1)**

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		***D** is not correct as an increase in investment is likely to cause an increase in aggregate demand*	
5	**QS5:** Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A** is not correct as nominal GDP rose by 5% and inflation rose by 10% meaning that there was a fall in real GDP* ***C** is not correct as the population grew by 5% and inflation rose by 10%* ***D** is not correct as nominal GDP rose by 5%*	**(1)**
6	**QS5:** Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** ***A** is not correct as France's real GDP rose by approximately 2% over the period* ***B** is not correct as Spain experienced a larger recession than Italy in 2020* ***C** is not correct as the level of inflation cannot be seen from the graph*	**(1)**

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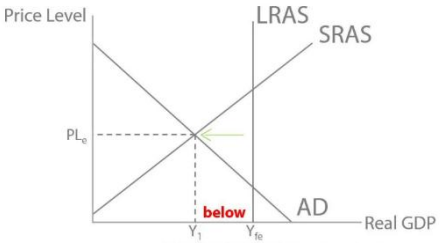
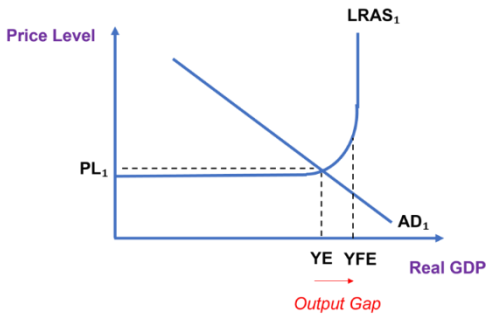
Section B

Question	Draw an aggregate demand and aggregate supply diagram to show a negative output gap.	Mark
7	**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, tabular and numerical forms   **Knowledge** 1 mark for: • Correctly drawn diagram with correctly labelled initial AD/AS curves and axes. The diagram must include an LRAS curve. **(1)** **Application** Up to 3 marks for showing the following information on the diagram: • The full employment level of real output **(1)** • An equilibrium where real output is lower than full employment output. This may be shown with an inward shift of the AD curve or an outward shift of the LRAS curve. **(1)** Do **not** reward this mark if either 'price' and 'quantity' is used on the axes • Annotation of the negative output gap showing the distance between the full employment output level and the equilibrium level of output. **(1)** Do **not** reward this mark if 'quantity' is used on the x-axis.	**(4)**

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Question	With reference to the data, explain what is meant by the term 'productivity'.	Mark
8	**Knowledge 2, Application 2** **Quantitative skills assessed:** **QS4:** Construct and interpret a range of standard graphical forms **QS5:** Calculate and interpret index numbers **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for defining what is meant by productivity: • Output/GDP **(1)** per unit of input/worker/time period **(1)** • How efficiently inputs are used **(1)** to produce output **(1)** **Application** Up to 2 marks for explicit reference to the data, e.g.: • UK productivity was 87 in 2000 **(1)** • UK productivity was 105 in 2024 **(1)** • UK productivity was 5% higher in 2024 compared to 2007 **(2)** • UK productivity has increased **(1)**	**(4)**

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<table>
<tr><th>Question</th><th>Calculate the rate of inflation for this person between Year 1 and Year 2. Show your workings. You may wish to use the extra columns in the table.</th><th>Mark</th></tr>
<tr><td>9</td><td>
Knowledge 1, Application 3

Quantitative skills assessed:
QS2: Calculate, use and understand percentages, percentage changes and percentage point changes
QS5: Calculate and interpret index numbers
QS9: Interpret, apply and analyse information in written, graphical and tabular forms

Knowledge
1 mark for:
• Calculation of inflation = Sum of (weight x percentage price change)/sum of weights (1)

Application
Up to 3 marks for correct application:

<table>
<tr><th></th><th>Price in Year 1 ($)</th><th>Price in Year 2 ($)</th><th>Percentage of total spending (Weight)</th><th>Percentage price change</th><th>Weight x percentage price change</th></tr>
<tr><td>Bread</td><td>2.00</td><td>2.50</td><td>80</td><td>25</td><td>2000</td></tr>
<tr><td>Milk</td><td>1.00</td><td>1.20</td><td>20</td><td>20</td><td>400</td></tr>
<tr><td>Sums</td><td></td><td></td><td>100</td><td></td><td>2400</td></tr>
</table>

Calculation of both percentage changes:
• Bread = 25% and Milk = 20% (1)

Calculation of both correct weight x price change
• Bread = 2000 and Milk = 400 (1)
</td><td>(4)</td></tr>
</table>

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	Calculation of the sum of the weighted price changes for bread and milk **and** the rate of inflation • 2000 + 400 = 2400 • 2400 / 100 = 24% **(1)** **Award 4 marks for correct answer (24%)**	

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Question	With reference to the table, explain the impact of these changes in the value of exports and imports on the circular flow of income.	Mark
10	**Knowledge 1, Application 1, Analysis 2** **Quantitative skills assessed:** **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** 1 mark for identification of the impact on the circular flow of income: • There is an increase in the money in the circular flow of income **Application** 1 mark for use of the data, e.g.: • X increased by $940m / • M decreased by $348m / • In 2021 there is a balance trade deficit of $988m / • In 2022 there is a balance trade surplus of $300m **(1)** **Analysis** Up to 2 marks for relevant analysis: • Exports exceed imports /there is an increase in the surplus on the balance of trade /net exports are increasing **(1)** • Injections exceed withdrawals /net injections are increasing **(1)**	**(4)**

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Question	With reference to the data, explain **one** likely cause of this change in the savings ratio.	Mark
11	**Knowledge 1, Application 1, Analysis 2** **Quantitative skills assessed:** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge and analysis** 1 mark for identification of a likely cause and up to 2 marks for linked analysis : • Increase in interest rates **(1K)** which will reduce the level of consumption / which increases the reward for saving **(1AN)** and therefore increase savings **(1AN)** • A fall in the rate of economic growth/recession **(1K)** will reduce consumer confidence/increase the amount of uncertainty by consumers **(1AN)** who will want to save more **(1AN)** • An increase in trust of the banking system/financial institutions **(1K)** will increase consumer certainty in their use **(1AN)** so they are more likely to save **(1AN)** • Rising real wages **(1K)** means that people have more disposable income **(1AN)** so they can save more **(1AN)** **Application** 1 mark for appropriate use of data, e.g.: • There is a rise in the savings ratio between 2020 and 2022 / • The savings ratio rose from 25.1% to 31.1% / • The savings ratio increased by 6 percentage points between 2020 and 2022 **(1)**	**(4)**

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Section C

Question	Define the term 'inflation target'. (Extract B, line 7)	Mark
12 (a)	**Knowledge 2** 1 mark for understanding that: • Inflation target is set by the government for the central bank/monetary authorities **(1)** 1 mark for linked development, e.g.: • Monetary policy/interest rates are used to achieve inflation close to the target/ • To achieve stable prices/this helps firms and consumers plan for the future **(1)** •	**(2)**

Question	With reference to Figure 1 and Extract A, explain what is meant by the term 'a balanced government budget'.	Mark
12 (b)	**Knowledge 2, Application 2** **Quantitative Skill Assessed** **QS4:** Construct and interpret a range of standard graphical forms **QS9:** Interpret, apply and analyse information in written, graphical and tabular forms **Knowledge** Up to 2 marks for 2 of the following: • Government spending is equal to tax revenue **(1+1)** • G=T **(1+1)** **Application** 1 mark for reference to Figure 1, e.g.:	**(4)**

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	• The budget balance was -9.2% in 2021 / the budget balance was -5.9% in 2024 / • The budget balance improved between 2021 and 2024 / • India did not have a balanced government budget **(1)** 1 mark for reference to Extract A, e.g.: • Tax reductions for middle-income households / • These tax changes may prevent the achievement of a balanced government budget **(1)**	

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Question	With reference to Figure 2 and the first paragraph of Extract A, analyse **two** factors that have caused a 'slowdown in the rate of economic growth' in India.	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 and Analysis** Up to 2 knowledge marks for identifying two causes of the slowdown in the rate of economic growth and 1 mark for each linked explanation, e.g.: • Food price inflation **(1K)** has reduced disposable incomes and the level of consumption **(1An)** • Stagnant wages **(1K)** have reduced spending power and the level of consumption **(1An)** • High unemployment **(1K)** has reduced incomes and the level of consumption **(1An)** **Application** 1 mark for application to Figure 2, e.g.: • Food price inflation is higher than general inflation throughout 2024 and 2025 / • In October 2024 food inflation was approximately 11% but the rate of inflation was only 6% **(1)** 1 mark for application to Extract A, e.g.: • The rate of economic growth fell from 6.5% in 2023 to 5.9% in 2024 / • Economic growth slowed by 0.6 percentage points **(1)**	**(6)**

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Question	With reference to Extract B, examine how a rise in the price of imports may affect India's real GDP.	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 mark for identifying the impact: • Fall in real GDP **(1)** 1 mark for understanding: • Real GDP is output adjusted for inflation / • An accurately drawn AD/AS diagram showing a fall in real GDP **(1)** **Application** Up to 2 marks for reference to Extract B, e.g.: • The rupee has fallen in value by 2% **(1)** • Rising oil prices **(1)** cause a fall in nominal GDP by 0.4% **(1)** • India has a balance of trade deficit **(1)** **Analysis** Up to 2 marks for analysing the impact, e.g.: • A fall in the value of the rupee makes imports more expensive causing costs of production to rise **(1)** which will shift the SRAS to the left (this can be shown on an accurately drawn AD/AS diagram) **(1)** • India is a net importer **(1)** so higher-priced imports will shift the SRAS curve to the left **(1)** • Oil is a key raw material so rising prices will decrease net trade (X-M) **(1)** and will therefore reduce AD (this can be shown on an accurately drawn AD/AS diagram) **(1)** • Imports are a withdrawal from the circular flow of income **(1)** so higher spending on imports will reduce AD **(1)** **Evaluation** Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.:	

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	• Government spending may rise on fuel subsidies **(1)** which may offset the rise in imports **(1)** • The fall in the value of the rupee may not be permanent **(1)** so imports may fall in price in the future **(1)** • The fall in real GDP depends on excess capacity in the economy/output gap/elasticity of the AS curve **(1)**; if the economy has little spare capacity, real GDP may not fall **(1)** • Rising import prices may have a significant effect on real GDP **(1)** as it may cause a fall in consumption and investment **(1)** • To what extent can India diversify its economy away from imports in the future? **(1)** so that changes in import prices have a more limited impact on real GDP **(1)**	**(8)**

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Question	With reference to Figure 2, Extract B and your own knowledge, discuss the likely effects of the reduction in the base interest rate on the rate of inflation in India.
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** • Understanding of what is meant by a cut in interest rates • Context: the interest rate was cut by 0.25 percentage points to 6.25% for the first time in five years A reduction in interest rates should, ceteris paribus, increase inflation via a rise in the level of AD (this may be shown on a diagram): • Borrowing by households becomes cheaper, so consumers are more likely to take out a loan. This will increase consumption, AD and therefore the rate of inflation is likely to rise. • Households that already have a loan/debt/mortgage will see a reduction in their monthly payments back to the bank. Disposable incomes rise, consumption, AD and therefore the rate of inflation is likely to rise. • Households are less likely to save as the reward for saving is lower. As Y=C+S, consumption, AD and therefore the rate of inflation is likely to rise. • There may be a rise in the value of assets in an environment of falling interest rates. If assets rise in price, then households feel wealthier, consumption, AD and therefore the rate of inflation is likely to rise. • Borrowing by firms becomes cheaper, so firms are more likely to take out a loan. This will increase investment, AD and therefore the rate of inflation is likely to rise.

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	• Firms who already have a loan/debt will see a reduction in their monthly payments back to the bank so they may have more funds for investment. AD and therefore the rate of inflation is likely to rise. • A falling exchange rate will make exports cheaper which will increase (X-M), AD and therefore the rate of inflation is likely to rise.

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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 an 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 • Food price inflation is already trending down (11% to 6%) and this is feeding into overall falling inflation (5.2% to 4%), so the impact on inflation following the lower base interest rate is likely to be more significant • Overall inflation is now in its target range so inflation is under control • There is falling economic growth so inflationary pressures in the economy are low	

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	• Import prices are rising which is an indicator of cost push inflation (SRAS shifting left) so a fall in interest rates will have an enhanced effect on inflation • The cut in the base interest rate of 0.25% is small so will have little effect on inflation • The impact on inflation will depend on the spare capacity in the economy; if there is significant spare capacity, then any upward pressure on inflation will be limited • The cut in interest rates will not feed fully through into the economy for at least 18 months • Fiscal policy is clearly inflationary so this is likely to add to any inflationary pressures in the economy. • Will banks in India pass on the cut in interest rates to consumers and firms? • Other factors affect consumption and investment, for example consumer and business confidence

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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

Question	Between 2000 and 2023, it is estimated that world GDP has doubled. Over the same time period, global greenhouse gas emissions increased by 32%. Evaluate the view that the pursuit of economic growth must always conflict with other macroeconomic objectives.
13	**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 economic growth (a rise in real GDP) • Understanding of other macroeconomic objectives: stable prices/control of inflation, low unemployment, balanced balance of payments account, income equality, protection of the environment. **Potential conflicts** • Growth may cause demand-pull inflation if AD grows faster than AS (credit an AD/AS diagram) • Growth may increase income inequality as growth may disproportionately benefit high-income earners • Growth may lead to a deficit on the current account as higher incomes may increase the demand for imports • Growth may lead to environmental damage and pollution **NB Award a maximum of Level 3 for answers that only consider a conflict between growth and one other economic objective** **NB Accept that there are no conflicts for KAA and that there are conflicts for EV**

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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. 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.
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 • Economic growth is likely to lead to lower unemployment, so there is no conflict between these objectives • If economic growth is driven by rising productivity (and increasing AS), then it may be possible to have growth with low inflation, so there is no conflict	

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	• Growth may not always lead to rising income inequality as some of the benefits may trickle down to the poorest members of society and bring them out of poverty • If the growth is export-led, then the current account may improve despite rising imports • Growth may lead to higher investment into new technologies that allow economic growth without harming the environment • Much depends on what other policies are put in place to offset any negative effects of growth • Prioritisation of which conflicts are the most significant

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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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Question	Between 2020 and 2024, the rate of unemployment in China increased from 3.6% to 4.2%. Evaluate the possible causes of a rise in the rate of unemployment. Refer to a country of your choice in your answer.
14	**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 unemployment and that it is measured by the ILO Labour Force Survey **Possible causes of rising unemployment:** • Higher interest rates through deflationary monetary policy which may be in response to rising inflation. This may cause a fall in consumption and/or investment which feeds through into lower aggregate demand (which may be shown using a diagram). • Reduced government spending/higher rates of taxation may cause a fall in aggregate demand through deflationary fiscal policy. This will cause aggregate demand to fall (which may be shown using a diagram). • Reference to the multiplier effect in reverse. • A decline in certain industries, often due to technological advances or global competition. There may be a mismatch between workers' skills and available jobs. • Unemployment may rise in the short-run as workers move between jobs in a dynamic/fast growing economy. • There may be seasonal increases in unemployment due to changing demand for certain jobs e.g. tourism. • Changes in labour market regulations such as greater trade union powers or higher minimum wage legislation. This may cause real wage inflexibility **NB Award a maximum of Level 3 for answers with no reference to a country in their answer**

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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. 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.
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 • If the unemployment is cyclical, falling aggregate demand is likely to be temporary and will eventually improve when there is a rise in real GDP • Structural unemployment may be the hardest type of unemployment to decrease • Frictional unemployment is ever present because it arises when workers change jobs	

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	• It may be hard to decide which type of unemployment is actually happening in the economy • It may be hard to measure the level of unemployment in some countries • Unemployment is likely to be caused by a combination of factors • Prioritisation of the cause of unemployment for a named country • Significance of factors change over 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.