CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/23**

Paper 2 AS Level Data Response and Essays **May/June 2026**

MARK SCHEME

Maximum Mark: 60

Published

This mark scheme contains the instructions and marking guidance that our examiners used to mark candidate responses for this component.

Before they start marking, examiners complete a standardisation process. They review a range of candidate responses and discuss the mark scheme in detail to agree which answers can and cannot be accepted. Examiners award marks where it is clear that candidate responses have met the requirements of the mark scheme. These requirements may vary between different components or different versions of the same component, depending on the exact requirements of the question and the candidate responses seen during the standardisation process.

Sometimes, our mark schemes may allow marks to be awarded to responses which contain elements that are factually incorrect or for content not covered by the syllabus. We do this in response to the demands of a specific question to support candidates and make sure that our assessments are fair. However, these allowances should not be used as a guide for teaching and learning.

We cannot discuss the mark scheme with schools, and we recommend that schools read the mark scheme together with the assessment material and the Principal Examiner Report for Teachers.

This document consists of **28** printed pages.

General marking principles

All examiners must apply these marking principles when marking candidate responses.

1	Examiners must award marks for each response in line with: • the specific **content** defined in the mark scheme • the specific **skills** defined in the mark scheme or in the level descriptions • the **standard of response** required as exemplified by the standardisation scripts.
2	Examiners must award **whole marks** (not half marks, or other fractions).
3	Examiners must award marks **positively**. This means that: • marks are not deducted for errors or omissions • marks are awarded for correct/valid answers as defined in the mark scheme and also for **other valid answers** which go beyond the scope of the syllabus and mark scheme referring to your team leader as appropriate • the quality of spelling, punctuation and grammar are judged **only** when the mark scheme indicates that these features are **specifically assessed** in the question. However, the meaning of all responses must be unambiguous.
4	Examiners must **consistently** apply the requirements of the mark scheme and any rules for what to do when candidates have not followed instructions correctly.
5	Examiners must use the **full range of marks** defined in the mark scheme, unless limited by the quality of the candidate responses seen.
6	Examiners must award marks according to the mark scheme and **must not** award marks with grade thresholds or grade descriptions in mind.

Social Sciences-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. corrasion/corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotations

Annotation	Meaning
✓	Correct point
✗	Incorrect point
?	Unclear response
^	Key information missing from response
K	Indicates knowledge and understanding of the concepts and issues relating to the question.
AN	Indicates where the answer has demonstrated analysis.
APP	Indicates appropriate reference to the information provided
E	Expansion of point already made in response
EVAL	Indicates where the answer has demonstrated evaluation
EE	Indicates where the answer has demonstrated particularly strong/justified evaluation
L1	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 1 in the Mark Scheme, Table A
L2	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 2 in the Mark Scheme, Table A
L3	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 3 in the Mark Scheme, Table A
BOD	Used when the benefit of the doubt is given in order to reward a response.
NAQ	Used when the answer or parts of the answer do not answer the question asked.

Annotation	Meaning
SEEN	Indicates that the page or content has been seen by examiner, but no credit given.
TV	Used when parts of the answer are considered to be too vague to be given credit.

Guidance on using levels-based mark schemes

Marking of work should be positive, rewarding achievement where possible, but clearly differentiating across the whole range of marks, where appropriate.

The marker should look at the work and then make a judgement about which level statement is the best fit. In practice, work does not always match one level statement precisely so a judgement may need to be made between two or more level statements.

Once a best-fit level statement has been identified, use the following guidance to decide on a specific mark:

- If the candidate's work **convincingly** meets the level statement, award the highest mark.
- If the candidate's work **adequately** meets the level statement, award the most appropriate mark in the middle of the range (where middle marks are available).
- If the candidate's work **just** meets the level statement, award the lowest mark.

Assessment objectives

AO1 Knowledge and understanding
- Show knowledge of syllabus content, recalling facts, formulae and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical and diagrammatic forms.

AO2 Analysis
- Examine economic issues and relationships, using relevant economic concepts, theories and information.
- Select, interpret and organise economic information in written, numerical and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

AO3 Evaluation
- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions and decisions, based on the arguments.

Table A: AO1 Knowledge and understanding and AO2 Analysis

Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.	6–8
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	3–5
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.	1–2
0	No creditable response.	0

Table B: AO3 Evaluation

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2(b)**, **3(b)**, **4(b)** and **5(b)**.

Level	Description	Marks
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).	3–4
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.	1–2
0	No creditable response.	0

Section A

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td colspan="3">Follow the point-based marking guidance at the top of this mark scheme.</td></tr>
<tr><td>1(a)</td><td>Use Table 1.1 to identify two changes in the global sales of EVs from 2020 to 2024.

• Total global EV sales increased (from 2.6 million (2020)) to (15.6 million (2024)).
• China’s EV sales rose (from 0.8 million to 10.1 million).
• Europe’s EV sales increased (from 1.2 million to 2.8 million).
• US EV sales increased (from 0.4 million to 1.4 million).
• Rest of the world EV sales increased (from 0.2 million to 1.3 million).

Any two relevant changes can get 2 marks.</td><td>2</td></tr>
<tr><td>1(b)</td><td>Give two possible reasons why the demand for Chinese EV’s in the EU has increased at a higher rate than such sales in the US.

• Chinese EVs face high import tariffs in the US (increasing their effective price and reducing demand compared to the EU).
• Chinese EV models match European consumer preferences more closely than those of US consumers, increasing EU demand.
• US consumers have stronger security concerns about Chinese EVs, reducing their willingness to buy them.
• US consumers are more sceptical about net-zero targets (lowering their preference for EVs relative to European consumers).
• European consumers place a higher value on environmentally friendly vehicles, increasing demand for EVs.
• EU governments offer more generous subsidies for EV purchases, reducing the effective price and raising demand.
• European consumers expect stricter future restrictions on petrol and diesel cars, increasing current demand for EVs.

Any two relevant reasons can get 2 marks.</td><td>2</td></tr>
<tr><td>1(c)</td><td>With the help of a diagram, explain the effects of an export subsidy on the price and sales of imported Chinese EVs in the EU <u>and</u> consider an economic factor that could affect the size of any change.

• For a clearly labelled diagram showing the shift to the right of the supply curve and the fall in the price of a Chinese vehicle imported into the EU and increase in the quantity traded (1).
• For an explanation that the subsidy reduces the market price of Chinese EVs (1).
• For an explanation that the lower price results in a rise of imported Chinese EVs in the EU

For some evaluation as to whether this will always be the outcome
• Explanation of a relevant factor affecting the size of the change (PED, PES, size of subsidy, non-price factors) (1)</td><td>4</td></tr>
</table>

Question	Answer	Marks
1(d)	**A German car manufacturer is concerned about losing sales of EV's in the EU market to imports of EV's from China. Assess how knowledge of cross elasticity of demand might be of value to the German manufacturer when seeking to maintain sales in the EU market.** **Up to 3 marks for the advantages of knowledge of cross elasticity of demand might be of value to the German manufacturer when seeking to maintain sales in the EU market.** **Possible responses may refer to:** • A correct definition/formula of XED **(1).** Understanding XED helps the German manufacturer see how sensitive demand for its EVs is to price changes in rival Chinese EVs **(1),** allowing more informed pricing decisions in the EV market **(1).** • If XED shows strong substitutability, the manufacturer can invest in EV-specific differentiation (battery range, charging speed, software features) **(1)** to reduce the risk of customers switching to Chinese EVs **(1).** • XED allows the firm to forecast how Chinese EV price cuts — often driven by lower production costs — will affect demand for its own EV models **(1),** improving production and inventory planning **(1).** • XED helps the manufacturer identify which of its EV models face the highest substitution threat from Chinese competitors **(1),** enabling targeted product development and marketing within the EV segment **(1).** **(1 mark per relevant explained point / up to 2 for a point developed through a chain of reasoning)** **Up to 3 marks for the advantages of knowledge of cross elasticity of demand might not be of value to the German manufacturer when seeking to maintain sales in the EU market.** **Possible responses may refer to:** • XED focuses on price relationships only **(1),** but EV demand is heavily influenced by non-price factors (charging network access, software ecosystems, perceived reliability), which XED cannot capture for the manufacturer **(1).** • Even with accurate XED data, the manufacturer may struggle to respond if Chinese EVs remain structurally cheaper due to lower battery costs **(1),** limiting the practical value of XED insights **(1).** • XED estimates may be unreliable because the EV market is evolving rapidly (new models, new technologies) **(1),** making it difficult for the manufacturer to base decisions on stable relationships **(1).** • The manufacturer may lack accurate, up-to-date information on Chinese EV pricing strategies **(1)** — especially in a market with frequent discounts — making real-world XED calculations difficult to apply **(1).** **(1 mark per relevant explained point / up to 2 for a point developed through a chain of reasoning)**	**6**

Question	Answer	Marks
1(d)	**Up to 2 marks for evaluation:** For an overall assessment of the extent whether the use of XED data would be of value to the German manufacturer when seeking to maintain sales in the EU market. **Reserve 1 mark for a valid conclusion.**	

Question	Answer	Marks
1(e)	**Assess the impact of increased sales of Chinese EV's on the economy of a major EU car manufacturing country such as Germany.** **Up to 3 marks for an analysis of the negative impact of increased sales of Chinese EV's on the economy of a major EU car manufacturing country such as Germany.** **Possible responses may refer to:** • Higher sales of Chinese EVs reduce demand for German-made vehicles, lowering domestic output **(1).** This can reduce Germany's GDP and weaken short-run aggregate demand **(1).** • Buying more Chinese EVs increases Germany's imports, causing money to flow out of the economy **(1).** This worsens the current account balance **(1).** • Reduced sales of German EVs may force domestic producers to cut production or delay investment **(1)**. This can lead to job losses in car manufacturing and supply-chain industries, raising unemployment **(1).** • As Chinese EVs take market share, German carmakers earn lower profits, reducing corporation tax and VAT revenue for the government **(1).** This weakens Germany's fiscal position/may limit its ability to fund public services or invest in long-run economic growth **(1).** **(1 mark per relevant explained point / up to 2 for a point developed through a chain of reasoning)** **Up to 3 marks for an analysis of the positive impact of increased sales of Chinese EV's on the economy of a major EU car manufacturing country such as Germany.** **Possible responses may refer to:** • More Chinese EVs in the German market increase competitive pressure on domestic firms **(1)**. This encourages German producers to innovate and raise efficiency, supporting long-run economic growth **(1).** • Chinese EVs are often cheaper, allowing households to buy vehicles at lower cost **(1).** This increases real disposable income and improves living standards as consumers can spend more elsewhere **(1).** • Higher sales of Chinese EVs increase demand for installation, maintenance and charging-infrastructure services in Germany **(1).** This may result in the creation of new jobs/reducing unemployment **(1).** • Stronger EV demand may encourage the German government to continue investing in green infrastructure (such as charging networks and renewable energy) **(1),** which can stimulate wider economic activity and support long-term growth **(1).** **(1 mark per relevant explained point / up to 2 for a point developed through a chain of reasoning)** **Up to 2 marks for evaluation:** For an overall assessment of the impact of increased sales of Chinese EV's on the economy of a major EU car manufacturing country such as Germany. **Reserve 1 mark for a valid conclusion.**	**6**

Section B

Question	Answer	Marks
EITHER		
2(a)	**Pomegranates are a 'super food' that is becoming more popular because of their health benefits. Consequently, they sell for a higher price than most other fruit** **Excluding price, explain <u>three</u> other possible determinants of demand for pomegranates <u>and</u> consider which of these determinants is likely to be most important in explaining the increasing demand for them.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** **For identifying and explaining three non-price determinants of demand, such as:** • Changes in consumer tastes and preferences, for example increased awareness of health benefits **(1).** • Changes in consumer incomes, affecting demand for normal goods like pomegranates **(1).** • Change in the prices of substitutes or complements, such as berries or other fruits consumers may switch between **(1).** **Note: Do not accept reference to pomegranates being an inferior good and demand rising due to a fall in income.** **AO2 Analysis (max 3 marks)** **For explaining how each determinant could increase demand for pomegranates:** • Greater awareness of health benefits can shift consumer preferences, increasing demand at every price **(1).** • Rising incomes increase demand if pomegranates are viewed as a normal or luxury fruit **(1).** • If the price of substitutes such as blueberries rises, consumers may switch to pomegranates, increasing demand **(1).** • Some recognition of why at least one of the determinants may be more relevant than another **(1)** **AO3 Evaluation (max 2 marks)** **For a valid evaluation** that which determinant is likely to be the most important. Note: the second mark is reserved for a justified conclusion.	**8**

Question	Answer	Marks
2(a)	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
2(b)	**Assess the extent to which restricting the supply of pomegranates may benefit small producers.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** **Analysis of the extent to which restricting the supply of pomegranates may benefit small producers. Reponses may include:** • A restriction in supply shifts the market supply curve left, raising the equilibrium price and increasing revenue for small producers if demand is relatively price inelastic. • Higher prices increase producer surplus, as the gap between the market price and the minimum acceptable price widens, improving the financial position of small producers. • Supply restrictions reduce competitive pressure from larger producers, making it easier for small producers to sell their output without being undercut by firms with lower costs. • Higher and more stable prices may help small producers cover their relatively higher costs of production, improving their ability to remain in the market. **Analysis of the extent to which restricting the supply of pomegranates may not benefit small producers Reponses may include:** • If demand is price elastic, higher prices may cause a proportionately larger fall in quantity demanded, reducing revenue and producer surplus for small producers. • Consumers may switch to substitutes such as blueberries or other fruits, limiting the gains from higher prices and reducing the market share of small producers. • Compliance with supply restrictions may impose administrative or regulatory costs that small producers struggle to absorb compared to larger firms. • A significant reduction in total output may prevent small producers from spreading fixed costs, raising average costs and reducing profitability. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts/arguments etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

Question	Answer	Marks
2(b)	**AO3 Evaluation (max 4 marks)** Consideration of the extent to which restricting the supply of pomegranates may benefit small producers, leading to a justified conclusion based on the preceding analysis. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
3(a)	**Explain, with examples, the difference between a public good and a private good <u>and</u> consider the extent to which public goods cannot be rejected by consumers.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks).** A public good has the characteristics of non-excludability, non-rivalry and non-rejectability together with an accurate explanation of 2 of these/**OR** explains that these characteristics lead to the free-rider problem which will mean that they are unlikely to be supplied by the market economy as a price cannot be charged **(1).** An explanation that a private good has the characteristics of rivalry, excludability and rejectability (however these do not need to be fully explained if the characteristics of public goods have already been established)/**OR** explains that these characteristics mean that private goods can be supplied by the market economy because a price can be charged. (explaining how this differs from public goods) **(1).** For appropriate example of **both** goods, e.g. national defence as a public good and a bottle of water as a private good **(1).** **AO2 Analysis (max 3 marks)** Public goods are non-excludable, meaning that once they are provided, individuals automatically receive the benefit and cannot avoid consumption even if they would prefer not to **(1)**. (For example, once national defence is supplied, all individuals are protected regardless of their preferences.) The way public goods are provided means people receive them as a group rather than individually, so there is no practical way for someone to opt out. Unlike private goods, there is no mechanism to stop unwilling consumers from benefiting **(1).** The extent of non-rejectability varies depending on the good. Pure public goods such as street lighting or flood defences cannot be rejected at all, while goods with public-good characteristics may allow limited avoidance, meaning non-rejectability is not absolute in every case **(1).**	8

Question	Answer	Marks
3(a)	**AO3 Evaluation (max 2 marks)** That clearly considers extent to which public goods cannot be rejected by consumers**. Note: the second mark is reserved for a justified conclusion.**	
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
3(b)	**Assess whether increased government spending on either merit goods <u>or</u> public goods always has a positive effect on the distribution of income in an economy.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** **Analysis of whether increased government spending on merit goods has a positive effect on the distribution of income in an economy:** • Increased spending on merit goods such as education and healthcare can improve access for lower-income households, helping to reduce income inequality over time. • Merit goods are under-consumed due to information failure, so government spending can correct this and raise the welfare of poorer groups who would otherwise consume too little. • Better access to education and healthcare can increase the earning potential of lower-income individuals, improving the long-run distribution of income. **BUT** • Higher-income households may capture a larger share of the benefits if they are better placed to access or use the services, limiting the redistributive effect. • Increased spending may raise quality in areas already well served, meaning middle-income groups may gain more than the poorest. • If spending is not targeted, the improvement in income distribution may be small, as merit goods do not automatically benefit low-income households more than others. **Analysis of whether increased government spending on public goods has a positive effect on the distribution of income in an economy:** • Spending on public goods such as street lighting or national defence benefits all households, including low-income groups who could not afford them privately. • Public goods raise the baseline level of welfare for everyone, which can indirectly support poorer households by reducing exposure to risk or harm. • Some public goods, such as flood defences in vulnerable areas, may disproportionately help lower-income groups if they are more exposed to certain risks.	**12**

Question	Answer	Marks
3(b)	**BUT** • Public goods are non-excludable, so benefits are shared equally across income groups, meaning the direct effect on income distribution is limited. • Higher-income households may benefit more if public goods raise property values or business activity in wealthier areas. • Public goods cannot be targeted at specific groups, so increased spending may have little impact on reducing inequality compared with targeted merit-good spending. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts/arguments etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** Evaluation that leads to a conclusion whether increased government spending on either merit goods **or** public goods always has a positive effect on the distribution of income in an economy. A response that does not consider the advantages and disadvantages of government spending on merit goods **or** public goods **cannot** gain any marks for evaluation. Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

Question	Answer	Marks
EITHER		
4(a)	**With the help of a diagram(s), explain how increases in aggregate demand affect the level of real output and the price level in an economy and consider when such increases may become a problem.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For an understanding that Aggregate demand is the total demand for an economy's goods and services at a given price level / it is the total of C + I + G +(X-M) **(1).** For an accurate AD/AS diagram showing a rightward shift of AD **(1)** leading to a rise/fall/no change in the equilibrium price level and a fall/rise/ no change increase in real output **(1).** **AO2 Analysis (max 3 marks)** • Increases in aggregate demand may become a problem when the economy is close to full capacity **(1),** as most of the impact is on the price level rather than real output, creating inflationary pressure **(1).** • A continued rise in aggregate demand may widen the current account deficit **(1)** if higher domestic spending increases demand for imports, creating external pressures for the economy **(1).** • However, increases in AD may not be a problem when the economy has spare capacity, as firms can expand output without significant upward pressure on prices, allowing real output and employment to rise **(1).** **AO3 Evaluation (max 2 marks)** One mark for an explanation of whether the impact on real output and the price level from an increase in aggregate demand is likely to become a problem**.** One mark for a justified conclusion.	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
4(b)	**Assess whether increases in long run aggregate supply are the best way of reducing unemployment.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** **Analysis of the extent to which increases in long run aggregate supply are the best way of reducing unemployment. This may include the following:** • An increase in long-run aggregate supply can reduce unemployment by expanding the productive capacity of the economy. If firms can produce more at every price level, they may hire more labour to operate new capacity. • LRAS-increasing measures such as training, education and improved labour mobility can reduce structural unemployment by helping workers gain the skills needed for available jobs. • A rightward shift of LRAS can lower costs of production in the long run, encouraging firms to expand output and employment without causing inflationary pressure. **BUT.** • LRAS-based policies often take a long time to have an effect, meaning unemployment may remain high in the short run while training or investment programmes are implemented. • Some forms of unemployment, such as cyclical unemployment, arise from a lack of aggregate demand. Increasing LRAS does not address insufficient demand and may leave unemployment unchanged. • LRAS measures may be costly for the government to implement, and if poorly targeted, they may not reduce unemployment significantly, especially if workers do not take up training or mobility schemes. • Increases in aggregate demand can reduce cyclical unemployment more quickly by encouraging firms to raise output and hire more workers when spare capacity exists. • Wage subsidies or reductions in income tax can directly increase labour demand or labour supply, reducing unemployment without needing long-term structural changes. • Policies such as job-matching services or improved labour-market information can reduce frictional unemployment more effectively than LRAS-focused measures. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.	12

Question	Answer	Marks
4(b)	**Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts/arguments etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** Consideration of whether increases in long run aggregate supply are the best way of reducing unemployment with at least one other appropriate method. A justified conclusion showing which method is most likely to be effective in reducing unemployment. A response that does not consider the advantages and disadvantages of increasing long-run aggregate supply with another method cannot gain any marks for evaluation. Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
5(a)	**Explain how depreciation of a currency affects the terms of trade in an economy and consider why this depreciation is not always beneficial.** Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation. **AO1 Knowledge and Understanding (max 3 marks)** For an explanation that a depreciation is a fall in the value of a currency in terms of other currencies **(1).** For an explanation that the terms of trade measure the ratio of export prices to import prices/correct formula **(1).** For an accurate explanation that a depreciation of a currency worsens the terms of trade **(1).** **AO2 Analysis (max 3 marks)** • A depreciation may become a problem because the rise in import prices worsens the terms of trade, reducing the economy's real purchasing power and making imported goods more expensive for households and firms **(1).** • A depreciation may increase pressure on living standards if essential imports such as food, fuel or medicines become significantly more expensive, reducing real incomes **(1).** • A depreciation may not be a problem if it improves competitiveness, as lower export prices in foreign-currency terms can increase demand for exports and support output and employment **(1).** **AO3 Evaluation (max 2 marks)** For an assessment leading to a justified conclusion whether the impact of a depreciation of a currency and the impact on the terms of trade is "not always beneficial" to an economy**.** **Note: the second mark is reserved for a justified conclusion.**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
5(b)	**Assess whether a deficit on the current account of the balance of payments of a country always results in negative consequences for consumers and for firms.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** **Analysis whether a deficit on the current account of the balance of payments of a country results in negative consequences for consumers and for firms. This may include the following:** • A deficit may lead to a depreciation of the currency, raising the domestic price of imported goods and reducing both consumers' real purchasing power. • If the deficit contributes to higher inflation, households may face rising living costs, especially when they rely on imported essentials such as food or fuel • A depreciation linked to a deficit can increase the cost of imported raw materials and components, raising firms' production costs. • Firms that depend on imported capital goods may find investment more expensive, limiting their ability to expand output or improve productivity. **Analysis whether a deficit on the current account of the balance of payments of a country results in positive consequences for consumers and for firms. This may include the following:** • A deficit may reflect strong domestic demand, meaning consumers are confident enough to buy more imported goods, supporting higher sales for firms in retail and services. • A depreciation associated with a deficit can improve competitiveness by making exports cheaper in foreign-currency terms, helping exporting firms increase output and employment. • A deficit may arise from high levels of investment, where firms import machinery and technology that raise long-run productive capacity and ultimately benefit consumers through better products and lower costs. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies / concepts/arguments etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

Question	Answer	Marks
5(b)	**AO3 Evaluation** Consideration of whether a deficit on the current account of the balance of payments of a country always results in negative consequences for consumers **and** for firms. A response that does not consider both the negative and positive consequences of a deficit on the current account of the balance of payments for BOTH consumers and firms cannot gain marks for evaluation. Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4