Past-paper walk-through

Aggregate Demand and Aggregate Supply analysis ▪ 4.3

eXercise

Questions in this set

- 9708/11 N25 Q21 ▪ 1 mark
- 9708/12 N25 Q16 ▪ 1 mark
- 9708/12 N25 Q17 ▪ 1 mark
- 9708/12 N25 Q22 ▪ 1 mark
- 9708/12 N25 Q28 ▪ 1 mark
- 9708/22 N25 Q5 ▪ 20 marks
- 9708/11 J25 Q19 ▪ 1 mark
- 9708/12 J25 Q25 ▪ 1 mark
- 9708/1 23 Q17 ▪ 1 mark

Reading the mark scheme

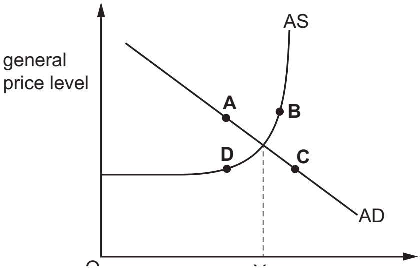
- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 21

9708/11 N25 ▪ Q21 ▪ 1 mark

21 The diagram shows the AD and AS curves for a low income country. Oil and gas make up 90% of its exports. The initial equilibrium level of national income is Y_1.

What is the most likely new equilibrium point if the worldwide prices of oil and gas rise dramatically?



Question 21

Y_1

national income

Solution 21

Answer: **B**

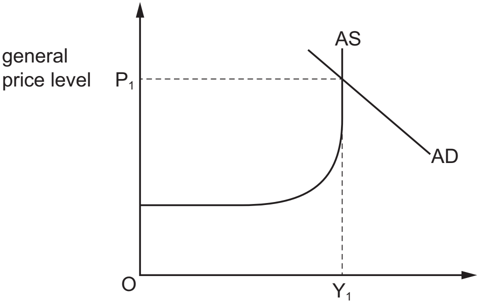
Why

- When one commodity is 90% of exports, the economy is extremely exposed to its price.
- A fall in the oil price cuts export revenue sharply, so aggregate demand falls.
- Both output and the price level then fall, and the current account worsens.

Question 16

9708/12 N25 ▪ Q16 ▪ 1 mark

16 The diagram shows the AD and AS curves for a country. The equilibrium level of national income is Y_1 and the general price level is P_1.



Question 16

national income

What is the most likely effect on employment and the general price level of a small decrease in government expenditure?

	employment	general price level
A	falls	falls
B	falls	unchanged
C	unchanged	falls
D	unchanged	unchanged

Solution 16

Answer: **C**

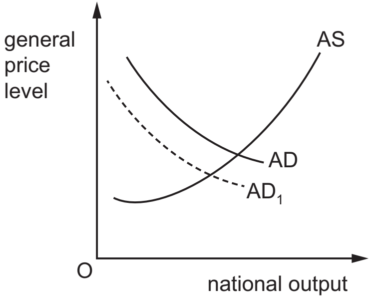
Why

- Read where the AD and AS curves cross to find the equilibrium.
- A shift in either curve moves both the price level and real output.
- Whether output or price responds more depends on how steep the AS curve is at that point.

Question 17

9708/12 N25 ▪ Q17 ▪ 1 mark

17 The diagram shows aggregate demand and aggregate supply curves for an economy.



Question 17

What would cause a change in the aggregate demand from AD to AD_1?

A government campaigns to encourage household savings

B consumption of domestic instead of foreign goods

C a decrease in the budget surplus

D investment in knowledge-based enterprises

Solution 17

Answer: **A**

Why

- The aggregate *supply* curve shifts when the economy's capacity or costs change.
- So a change in wage rates, raw material prices, technology or the size of the workforce will do it.
- A change in spending shifts aggregate *demand* instead.

Question 22

9708/12 N25 ▪ Q22 ▪ 1 mark

22 What is the effect of an increase in the money supply on the interest rate and the aggregate demand (AD) curve?

	interest rate	AD curve
A	falls	shifts left
B	rises	shifts left
C	falls	shifts right
D	rises	shifts right

Solution 22

Answer: **C**

Why

- An increase in the money supply makes credit more plentiful, so the interest rate falls.
- Cheaper borrowing raises consumption and investment.
- So aggregate demand shifts to the *right* while the interest rate falls.

Question 28

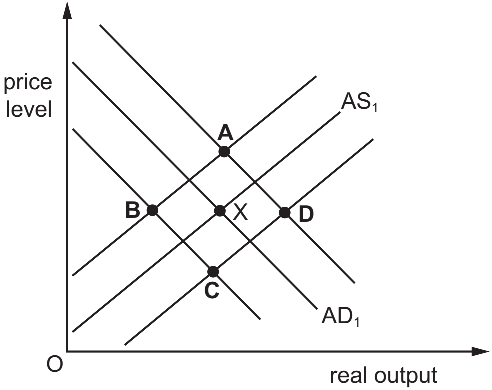
9708/12 N25 ▪ Q28 ▪ 1 mark

28 Between June and the end of July 2016, the UK pound sterling depreciated by 11% against a basket of currencies of the UK's major trading partners.

The diagram shows the original aggregate demand curve AD_1 and the original aggregate supply curve AS_1 for the UK economy before June 2016. The equilibrium is at X.

What would have been the new equilibrium for the UK economy as a result of the depreciation of the pound sterling?

Question 28



Solution 28

Answer: **A**

Why

- A depreciation makes exports cheaper in foreign currency and imports dearer at home.
- Read the diagram to see which curve shifted and by how much.
- The trade balance improves only if the volumes respond enough to outweigh the higher import prices.

Question 5

9708/22 N25 ▪ Q5 ▪ 20 marks

5 (a) With the help of an aggregate demand and aggregate supply (AD/AS) diagram, explain why two components of AD may increase and consider the extent to which an increase in AD will always lead to inflation. [8] (b) Assess the view that the effects of a high rate of inflation are always more damaging for consumers than for firms. [12]

(a) (a) With the help of an aggregate demand and aggregate supply (AD/AS) diagram, explain why two components of AD may increase and consider the extent to which an increase in AD will always lead to inflation. [8] **[8]**

(b) (b) Assess the view that the effects of a high rate of inflation are always more damaging for consumers than for firms. [12] **[12]**

Solution 5

(a) Mark scheme

- With the help of an AD /AS diagram, explain why two components of AD
- may increase and consider the extent to which an increase in AD will
- always lead to inflation.
- 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.

Solution 5

- AO1 Knowledge and Understanding (max 3 marks)
- An accurately labelled AD/AS diagram e.g., axes labelled price level and GDP
- showing an increase in AD and the increase in the price level (1) plus two
- components from consumption, investment, government spending and net
- exports and briefly explain why each may increase (2 x1)
- AO2 Analysis (max 3 marks)
- A rise in AD will lead to possible demand-pull inflation (1). However, the extent
- to which this may occur depends on the position of AD in relation to AS (1). It
- also depends on the supply side effect of the increase in AD e.g., government
- spending on subsidies may increase LRAS and therefore minimise any

Solution 5

- inflationary pressure (1).
- AO3 Evaluation (max 2 marks)
- For an overall assessment of the possible impacts which may result in inflation
- or not. Reserve 1 mark for a valid conclusion.
- 8
- AO1 Knowledge and understanding
- 3
- AO2 Analysis
- 3
- AO3 Evaluation

Solution 5

- 2
- 9708/22
- October/November
- 2025

Solution 5

(b) Mark scheme

- Assess the view that the effects of a high rate of inflation are always
- more damaging for consumers than 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

Solution 5

- For consumers problems include:
- ▪
- A loss of purchasing power that particularly affects fixed income earners
- and those with weak wage bargaining power
- ▪
- Fiscal drag pulling individuals into higher tax brackets
- ▪
- Shoe leather costs
- ▪
- A loss of consumer confidence particularly at a time of high rates of

Solution 5

- inflation leading to an increased use of alternative methods of payment
- However
- ▪
- Consumers with debts gain as the value of their debts is eroded with
- inflation
- ▪
- Consumers with assets gain e.g., house owners
- For firms problems include:
- ▪
- A loss of sales domestically and overseas due to higher prices / loss of

Solution 5

- competitiveness
- ▪
- Menu costs
- ▪
- Increased costs of production due to raw material costs and wages rising.
- ▪
- At a time of high inflation, this will lead to a loss of confidence and lower
- investment
- ▪
- Inflationary noise leading to poor decision making

Solution 5

- However
- ▪
- If it is demand led and sales increase, then firms will make increased
- profits.
- ▪
- If the price level is rising at a faster rate than production costs then profits
- will rise.
- 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.

Solution 5

- Analysis will be explained at least in part and will be largely relevant to the
- question.
- 12
- 9708/22
- October/November
- 2025
- Level 3 responses will consider alternative policies / concepts etc. and will
- be balanced. Explanations of points raised will be offered and will be accurate
- and relevant to the question.
- Guidance: Answers that refer to a moderate or low rate of inflation cannot

Solution 5

- gain more than mid-level 2 mark.
- AO3 Evaluation
- That clearly considers and compares both sides of the analysis and reaches a
- justified conclusion.
- 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 19

9708/11 J25 ▪ Q19 ▪ 1 mark

19 Which statement is **not** correct?

A The long-run aggregate supply curve can be downward sloping.

B The long-run aggregate supply curve can be horizontal.

C The long-run aggregate supply curve can be upward sloping.

D The long-run aggregate supply curve can be vertical.

Solution 19

Answer: **A**

Why

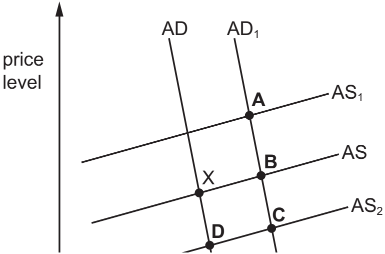
- The long-run aggregate supply curve shows capacity, so it can be vertical (classical) or horizontal.
- A Keynesian LRAS is horizontal at low output and then becomes steeper.
- But it can never be *downward* sloping – a lower price level cannot raise capacity.

Question 25

9708/12 J25 ▪ Q25 ▪ 1 mark

25 The diagram shows aggregate demand (AD) and aggregate supply (AS) curves. The initial equilibrium is at X. A government decides to invest in an increase in infrastructure.

What will be the short-term effect of this policy on the equilibrium?



Question 25

Solution 25

Answer: **B**

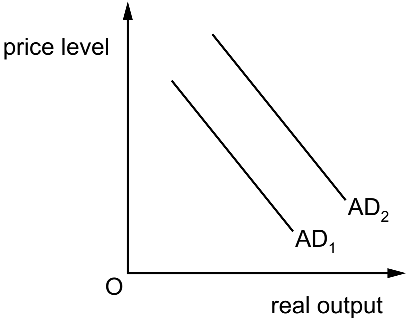
Why

- Infrastructure investment is government spending, so aggregate demand shifts right immediately.
- It also raises the economy's productive capacity, so aggregate supply shifts right in the long run.
- So output rises on both counts, with less upward pressure on the price level than a demand-only rise.

Question 17

9708/1 23 ▪ Q17 ▪ 1 mark

17 The diagram shows a shift in the Aggregate Demand curve, from AD_1 to AD_2.



Question 17

What might have caused this shift?

A a fall in the budget surplus

B a fall in the trade surplus

C a rise in imports

D a rise in the interest rate

Solution 17

Answer: **A**