Past-paper walk-through

Price stability ▪ 4.6

eXercise

Questions in this set

- 9708/11 N25 Q27 ▪ 1 mark
- 9708/13 N25 Q22 ▪ 1 mark
- 9708/23 N25 Q4 ▪ 20 marks
- 9708/12 J25 Q16 ▪ 1 mark
- 9708/1 23 Q18 ▪ 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 27

9708/11 N25 ▪ Q27 ▪ 1 mark

27 The terms of trade of a developing country fell from 90 in 2010 to 80 in 2015.

Assuming the index of its import prices remained constant at 110 between these two years, what happened to its index of export prices?

A fell by 10

B fell by 11

C increased by 10

D increased by 30

Solution 27

Answer: **B**

Why

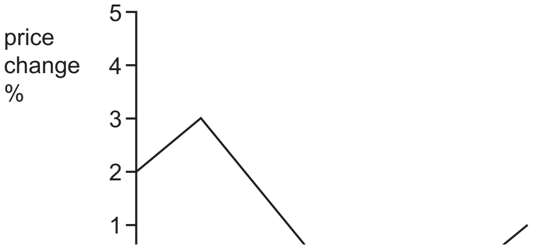
- Terms of trade $=$ (export price index $\div$ import price index) $\times 100$.
- Import prices were constant at 110, so $90 \to 80$ must come from export prices falling.
- Export price index $= 90 \times 110/100 = 99$, then $80 \times 110/100 = 88$ – so export prices fell.

Question 22

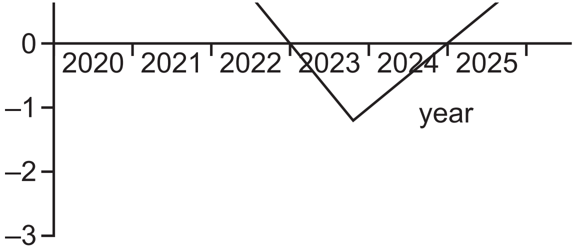
9708/13 N25 ▪ Q22 ▪ 1 mark

22 The diagram shows changes in a country's price level over a number of years.

During which period of time did **only** disinflation occur?



Question 22



A from the start of 2020 to the end of 2025

B from the start of 2021 to the end of 2022

C from the start of 2021 to the end of 2023

Question 22

D from the start of 2023 to the end of 2024

Solution 22

Answer: **B**

Why

- Disinflation is a *fall in the rate* of inflation while prices are still rising.
- So the rate must be falling but still above zero.
- A rate below zero would be deflation, and a rising rate would be accelerating inflation.

Question 4

9708/23 N25 ▪ Q4 ▪ 20 marks

4 (a) For your economy or for one that is known to you, explain three causes of inflation and consider which of these causes is likely to be most important in 2025. [8] (b) Assess whether supply-side policy or demand-side policy is the better way of reducing this inflation. [12] OR

(a) (a) For your economy or for one that is known to you, explain three causes of inflation and consider which of these causes is likely to be most important in 2025. [8] **[8]**

(b) (b) Assess whether supply-side policy or demand-side policy is the better way of reducing this inflation. [12] **[12]**

Solution 4

(a) Mark scheme

- For your economy or for one that is known to you, explain three causes
- of inflation and consider which of these causes is likely to be most
- important in 2025.
- 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)

Solution 4

- ▪
- Inflation is a sustained rise in the general price level (1).
- ▪
- Understanding of three causes of inflation. The cause must be identified
- by name together with a brief explanation–e.g. demand-pull inflation
- when aggregate demand increases faster than aggregate supply, e.g.,
- due to higher consumer spending, government expenditure etc. (1). Cost-
- push inflation when rising costs of production result in firms raising prices
- (1).
- Up to 2 marks maximum for each cause, with an overall maximum of 3

Solution 4

- knowledge marks.
- AO2 Analysis (max 3 marks)
- ▪
- An explanation of the identified cause of inflation for a named economy.
- For example, a reduction in income tax increases disposable income,
- leading to higher consumption, which raises aggregate demand and can
- cause an increase in the price level/demand pull inflation (1 + 1).
- However, if high levels of job insecurity exists then the increase in
- consumption/AD/demand-pull inflation may be less important (1).
- AO3 Evaluation (max 2 marks)

Solution 4

- ▪
- Evaluation should consider the extent to which a single cause can be
- identified as being the most important.
- ▪
- 1 mark reserved for a justified conclusion.
- 8
- AO1 Knowledge and understanding
- 3
- AO2 Analysis
- 3

Solution 4

- AO3 Evaluation
- 2
- 9708/23
- October/November
- 2025

Solution 4

(b) Mark scheme

- Assess whether supply-side policy or demand-side policy is the better
- way of reducing this inflation.
- 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 4

- Possible reasons why supply-side policies are the best way to reduce
- demand-pull inflation:
- ▪
- They increase productive capacity (aggregate supply), helping meet higher
- demand without causing price rises.
- ▪
- Improved efficiency and productivity lower production costs, reducing
- inflationary pressure in the long term.
- However
- ▪

Solution 4

- They take a long time to have an effect, so they may not reduce inflation
- quickly.
- ▪
- Some policies, like education or infrastructure investment, are expensive
- and may not guarantee results.
- Possible reasons why demand-side policies are the best way to reduce
- demand-pull inflation:
- ▪
- Higher interest rates reduce consumer and business borrowing, lowering
- consumption and investment, which reduces aggregate demand and

Solution 4

- inflationary pressure.
- ▪
- Increasing taxes reduces disposable income, leading to lower consumer
- spending and weaker aggregate demand.
- However
- ▪
- They can also reduce output and employment, leading to slower economic
- growth and higher unemployment.
- ▪
- Time lags may occur before interest rate or tax changes have a noticeable

Solution 4

- effect on spending and inflation
- Potential reasons why supply-side policies are the best way to reduce
- cost-push inflation:
- ▪
- Increasing investment in training and technology can raise productivity,
- allowing firms to produce more with the same resources, helping reduce
- cost pressures.
- ▪
- Improving transport and infrastructure reduces distribution costs for firms,
- helping lower overall production costs and ease inflationary pressure.

Solution 4

- 12
- 9708/23
- October/November
- 2025
- However
- ▪
- They take a long time to show results, so they are not effective in reducing
- inflation in the short term.
- ▪
- External factors like rising oil prices or imported inflation cannot be

Solution 4

- controlled by domestic supply-side policies
- Guidance: The assessment of both perspectives must be in the context of
- the reducing inflation and not a general explanation of both policies. A
- response that fails to do this is unlikely to achieve above a mid-Level 2 mark.
- 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 etc. and will be

Solution 4

- balanced. Explanations of points raised will be offered and will be accurate and
- relevant to the question.
- AO3 Evaluation
- Requires an assessment of how both supply-side policy and demand-side
- policy may reduce 'this inflation' which leads to a justified conclusion as to
- which policy is the better way for the identified country.
- Accept all valid responses.
- A one-sided response cannot gain any marks for evaluation.
- Accept all valid responses.
- AO1 Knowledge and understanding and AO2 Analysis

Solution 4

- 8
- AO3 Evaluation
- 4
- 9708/23
- October/November
- 2025
- OR

Question 16

9708/12 J25 ▪ Q16 ▪ 1 mark

16 Price stability can be said to occur if the measured value of the consumer prices index (CPI) is unchanged during the year.

Which statement is correct?

A For price stability to occur, there must be no changes in prices of any products.

B For price stability to occur, the number of products whose prices rise must exactly match the number whose prices fall.

C If some prices rise and others fall, there cannot be price stability.

D Different weightings of items used in the calculation of CPI mean that price stability can occur in many ways.

Solution 16

Answer: **D**

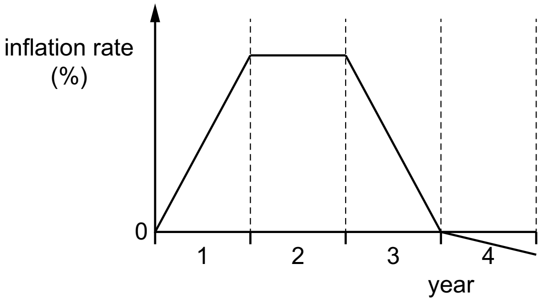
Why

- An unchanged CPI means the *average* of prices has not moved.
- Individual prices within the basket can still have risen and fallen, offsetting each other.
- So price stability does not require every price to be constant.

Question 18

9708/1 23 ▪ Q18 ▪ 1 mark

18 The diagram shows the change in an economy's rate of inflation over 4 years.



Question 18

What happened to the general price level over the 4 years?

	year 1	year 2	year 3	year 4
A	constant	constant	decreased	constant
B	increased	constant	decreased	decreased
C	increased	increased	increased	constant
D	increased	increased	increased	decreased

Solution 18

Answer: **D**