Solutions

Marking: **K** = knowledge, **App** = using the data or case, **An** = analysis (explaining each step: cause, then effect), **Ev** = evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer. Longer answers are marked in levels: the top level needs clear analysis **and** a judgement with a reason.

Each answer shows the steps, then the **result**.

2.1

- $6 + 7$
- **13**

2.2

- $7 - 4$
- about **3**%

2.3

- $3 - 5 = -2\%$
- workers can buy less than before

3.1

- large inequality means some households cannot afford basic needs, which harms health and education (An)
- low-income households spend more of extra income, so a fairer spread can support demand (An)
- high inequality may cause social tension and lower trust, which harms growth (An)

3.2

- zero inflation risks falling into deflation, where people delay spending (An)
- a little inflation lets interest rates stay above zero, giving room to cut them (An)
- price indices tend to overstate inflation, so measured 2% is close to true price stability (An)

3.3

(a) A: $7 + 4 = 11$; B: $2 + 6 = 8$

(b) fast growth means AD is rising quickly (An); as the economy nears full capacity, firms cannot raise output fast enough (An); labour shortages push wages up, raising costs (An); so prices rise: demand-pull and cost-push inflation (An)

(c) points to include:

- A has faster growth and lower unemployment, raising incomes and jobs (App)
- but A's inflation is far above target and its current account deficit is large, which may not last (App)
- B has low inflation and a surplus, but slow growth and higher unemployment (App)
- the misery index favours B (App)
- judgement: B's performance is more stable; A's growth may end in a sharp slowdown if inflation and the deficit are not controlled (Ev)

Levels: **top** (6–8) clear analysis, each step explained, and a judgement with a reason; **middle** (3–5) some analysis, judgement weak or missing; **bottom** (1–2) relevant points, little explanation.