Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

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

2.1

- consumption (C), investment (I), government spending (G), net exports (X − M) (2 for all four; 1 for two or three)

2.2

- SRAS slopes upward and shifts when production costs change; LRAS is vertical and shows full productive capacity, shifting only when factors change (2 for a clear difference; 1 for a partial idea)

2.3

- any one of: a rise in C/I/G; a tax cut; a fall in interest rates; a rise in exports (1)

3.1 B

- A tax cut raises disposable income and consumption, shifting AD right

3.2

- *[8]* AO1 1 + **AO3 diagram up to 4** (AD shifts right, SRAS upward-sloping, new equilibrium) + AO2/AO3 up to 3 — higher AD raises both the price level and real output along SRAS; near full capacity (steep AS) most of the rise is in prices, while with spare capacity (flat AS) most is in output

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** higher AD raises output and employment when there is spare capacity. **Against:** near full capacity it mainly causes demand-pull inflation, may worsen the current account (more imports) and is unsustainable. Judgement: the effect depends on how close the economy is to full capacity — beneficial in a recession, inflationary in a boom