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

- a sustained rise in the general price level, which lowers the purchasing power of money (2 for a clear definition; 1 for a partial idea)

2.2

- demand-pull inflation comes from aggregate demand rising faster than supply; cost-push inflation comes from rising costs shifting SRAS left (2 for a clear difference; 1 for a partial idea)

2.3

- any one of: people on fixed incomes; savers; exporters (whose goods become dearer) (1)

3.1 B

- Higher production costs cause cost-push inflation

3.2

- *[8]* AO1 1 + **AO3 diagram up to 4** (AD shifts right along an upward-sloping SRAS, price level rises) + AO2/AO3 up to 3 — when AD rises faster than supply, "too much money chases too few goods"
- firms raise prices
- the price level rises; near full capacity the rise is mostly in prices

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Harmful:** inflation cuts purchasing power, hurts fixed-income groups and savers, creates uncertainty and makes exports dearer. **But:** low, stable inflation can signal healthy demand and helps borrowers, while deflation can be worse (delayed spending, falling output). Judgement: high or volatile inflation is harmful, but low, stable inflation is generally acceptable — it depends on the rate and whether it is anticipated