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

- multiplier $1/0.2 = 5$
- $5000 \times 5 = \$\mathbf{25\,000}$

2.2

- P rises in proportion to M: $10/100 \times 100$
- $+\mathbf{10}\%$

3.1

Any three (K each, explained): a medium of exchange, used to buy goods; a unit of account, to compare values; a store of value, to save for later; a standard of deferred payment, for debts

3.2

- banks keep only part of each deposit as reserves and lend the rest (K)
- the loan is spent and becomes a new deposit in another bank (An)
- that bank lends part of it again, so total deposits grow to a multiple of the first deposit (An)

3.3

(a) P rises in proportion to M; $+\mathbf{15}\%$

(b) T (output) can rise if the economy has spare capacity, so more money buys more goods, not higher prices (An); V can fall if people and banks hold the new money instead of spending it (An); in a recession, low confidence makes V fall (An); so the price level may rise by less than 15% (An)

(c) points to include:

- if the economy is at full capacity and V is stable, more money raises prices (An)
- after recent crises, large money creation led to little consumer price inflation, because banks and firms held the money (App)
- the money may raise asset prices, such as houses and shares, rather than goods prices (An)
- expectations matter: if people expect inflation, they spend faster and V rises (An)
- judgement: not always; it depends on spare capacity and on how much of the new money is spent (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.