Multiple Choice Answers

Q27: B

5(a)	**With the help of an AD /AS diagram, explain why two components of AD may increase and consider the extent to which an increase in AD will always lead to inflation.** 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)** An accurately labelled AD/AS diagram e.g., axes labelled price level and GDP showing an increase in AD and the increase in the price level **(1)** plus two components from consumption, investment, government spending and net exports and briefly explain **why** each may increase **(2 x1)** **AO2 Analysis (max 3 marks)** A rise in AD will lead to possible **demand-pull** inflation **(1).** However, the extent to which this may occur depends on the position of AD in relation to AS **(1)**. It also depends on the supply side effect of the increase in AD e.g., government spending on subsidies may increase LRAS and therefore minimise any inflationary pressure **(1).** **AO3 Evaluation (max 2 marks)** For an overall assessment of the possible impacts which may result in inflation or not. **Reserve 1 mark for a valid conclusion.**
	AO1 Knowledge and understanding
	AO2 Analysis
	AO3 Evaluation

5(b)	**Assess the view that the effects of a high rate of inflation are always more damaging for consumers than for firms.** 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** For consumers problems include: • A loss of purchasing power that particularly affects fixed income earners and those with weak wage bargaining power • Fiscal drag pulling individuals into higher tax brackets • Shoe leather costs • A loss of consumer confidence particularly at a time of high rates of inflation leading to an increased use of alternative methods of payment **However** • Consumers with debts gain as the value of their debts is eroded with inflation • Consumers with assets gain e.g., house owners For firms problems include: • A loss of sales domestically and overseas due to higher prices / loss of competitiveness • Menu costs • Increased costs of production due to raw material costs and wages rising. • At a time of high inflation, this will lead to a loss of confidence and lower investment • Inflationary noise leading to poor decision making **However** • If it is demand led and sales increase, then firms will make increased profits. • If the price level is rising at a faster rate than production costs then profits will rise. **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.

5(b)	**Level 3 responses** will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **Guidance:** Answers that refer to a moderate or low rate of inflation cannot gain more than mid-level 2 mark. **AO3 Evaluation** That clearly considers and compares both sides of the analysis and reaches a justified conclusion. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**
	AO1 Knowledge and understanding and AO2 Analysis
	AO3 Evaluation

Multiple Choice Answers

Q16: D