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 analysis of both sides **and** a conclusion with a reason.

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

2.1

- $6 \div 120 \times 100$
- **5**%

2.2

- $1.5 \div 30 \times 100$
- **5**%

2.3

- real growth about **3**%
- people can buy more

2.4

Any two (1 mark each):

- more spending on education and training (K)
- lower income or company taxes to raise incentives (K)
- less red tape and deregulation (K)
- spending on infrastructure such as roads and broadband (K)

3.1

- borrowing becomes cheaper and saving gives less reward (K)
- households spend more and firms invest more (An)
- higher total demand raises output, so real GDP grows (An)

3.2

Any one conflict, explained (3 marks), e.g.:

- faster growth raises demand, which can push up prices, so inflation rises (K, An)
- lower unemployment means more income and spending on imports, worsening the current account (K, An)
- growth can harm the environment through more pollution (K, An)

3.3

(a) deficit $0.05 \times 500 + 10 = 35$bn; $35/500 \times 100 =$ **7**% of GDP

(b) points to include:

- building roads and railways needs workers, so firms hire more people directly (K, App)
- those workers spend their wages, raising demand in shops and other firms (multiplier effect) (An)
- better transport lowers firms' costs, so they expand and hire more in the long run (An)

Levels: **top** (5–6) clear analysis of both sides and a judgement with a reason; **middle** (3–4) analysis of one side, or two sides without a judgement; **bottom** (1–2) relevant points, little explanation.

(c) points to include:

- fiscal policy can be aimed at areas and industries with high unemployment (An)
- the spending is on infrastructure, which also raises long-run growth (App)
- but the deficit rises to 7% of GDP; more debt means higher interest payments later (App)
- monetary policy (lower interest rates) needs no borrowing and can be changed quickly (An)
- but rates may already be low, and with weak confidence, firms and households may not borrow more (An)
- inflation is low at 2%, so there is room for either policy to raise demand (App)
- conclusion: with 9% unemployment and low inflation, extra spending on infrastructure is effective, as long as debt stays manageable; lower interest rates can support it (Ev)

Levels: **top** (9–12) clear analysis of both sides and a conclusion with reasons that answers the question; **middle** (5–8) analysis of both sides with limited evaluation, or one side well; **bottom** (1–4) relevant points, mostly descriptive.