Past-paper walk-through

Inflation ▪ 4.7

eXercise

Questions in this set

- 0455/11 N25 Q25 ▪ 1 mark
- 0455/12 N25 Q20 ▪ 1 mark
- 0455/12 N25 Q24 ▪ 1 mark
- 0455/13 N25 Q24 ▪ 1 mark
- 0455/11 J25 Q24 ▪ 1 mark
- 0455/13 J25 Q19 ▪ 1 mark
- 0455/12 M25 Q23 ▪ 1 mark
- 0455/12 N24 Q20 ▪ 1 mark
- 0455/21 N24 Q5 ▪ 20 marks

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 25

0455/11 N25 ▪ Q25 ▪ 1 mark

25 What is most likely to cause more poverty in a country?

A a decrease in the general price level

B a decrease in the rate of income tax

C a decrease in the level of unemployment

D a decrease in the level of wages

Solution 25

Answer: **D**

Why

- Poverty rises when incomes fall, prices rise faster than incomes, or support is withdrawn.
- So higher unemployment, lower benefits or higher indirect taxes would all increase it.
- A fall in the price level or in income tax would leave people better off.

Question 20

0455/12 N25 ▪ Q20 ▪ 1 mark

20 What is the most likely result of a fall in interest rates?

A a fall in inflation

B a fall in investment

C a rise in consumer spending

D a rise in saving

Solution 20

Answer: **C**

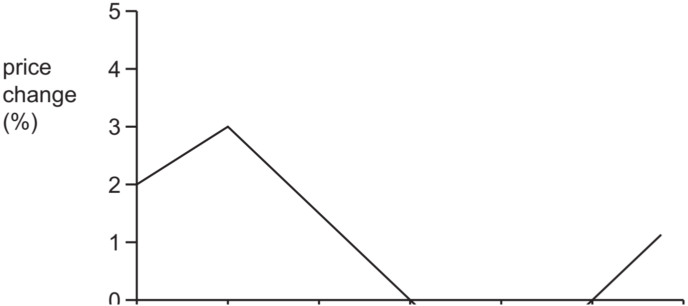
Why

- Lower interest rates make borrowing cheaper and saving less rewarding.
- So consumers borrow and spend more, and firms invest more.
- Consumer spending therefore rises, and saving falls.

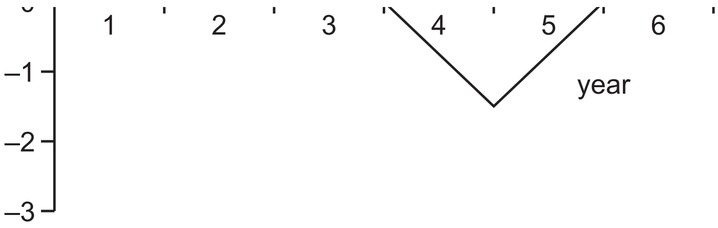
Question 24

0455/12 N25 ▪ Q24 ▪ 1 mark

24 The graph shows changes in the average price level.



Question 24



When did the country experience deflation?

A year 2 to year 5

B year 2 to year 3

Question 24

C year 2 to year 4

D year 4 to year 5

Solution 24

Answer: **D**

Why

- Deflation is a *negative* rate of price change.
- So read the graph for the years where the plotted percentage falls below zero.
- A falling but still positive rate is disinflation, not deflation.

Question 24

0455/13 N25 ▪ Q24 ▪ 1 mark

24 A country's Consumer Prices Index (CPI) falls from 120 to 110 in a year.

What will be a likely effect of this fall?

A incomes will fall in real terms

B savings will fall in real terms

C the rate of interest will rise

D the real value of debt will rise

Solution 24

Answer: **D**

Why

- A CPI falling from 120 to 110 means the general price level has fallen – deflation.
- So the purchasing power of money rises and real incomes rise.
- But consumers may delay purchases expecting further falls, which reduces demand.

Question 24

0455/11 J25 ▪ Q24 ▪ 1 mark

24 A Consumer Prices Index (CPI) consists of four items. The table shows the percentage price change for each item over a period of a year and the weight of each item.

Which price change will affect the level of the CPI most?

	item	% price change over 1 year	weight
A	food	+5	0.30
B	housing	+6	0.20
C	recreation	+3	0.40
D	transport	+4	0.10

Solution 24

Answer: **A**

Why

- A weighted index multiplies each item's price change by its weight.
- So multiply each percentage change by its weight, add them, and divide by the total weight.
- The item with the largest weight has the greatest effect on the final figure.

Question 19

0455/13 J25 ▪ Q19 ▪ 1 mark

19 In a country, some highly-paid workers reduce their working hours because of very high income tax rates at higher levels of income.

What is a disadvantage of this income taxation?

A It creates uncertainty for workers.

B It does not maximise tax revenue.

C It is inequitable for lower-income earners.

D It is regressive in the distribution of income.

Solution 19

Answer: **B**

Why

- Very high top tax rates can reduce the incentive to work extra hours.
- If highly paid workers cut their hours, output falls and tax revenue may fall too.
- That is the disincentive effect – the reason a higher rate does not always raise more revenue.

Question 23

0455/12 M25 ▪ Q23 ▪ 1 mark

23 The table shows the weights attached to various categories of goods in a Consumer Prices Index (CPI) in two years.

CPI category	year 1	year 2
clothing	100	200
food	400	300
energy	100	100
household goods	200	100
motoring	200	300
total	1000	1000

Question 23

What can be concluded from the table when comparing year 1 and year 2?

A Real income spent by the average consumer on motoring increased.

B The cost of producing food has fallen.

C The CPI has not changed over the two years.

D The proportion of income spent on clothing has increased.

Solution 23

Answer: **D**

Why

- The CPI weights each category by how much households spend on it.
- So multiply each price change by its weight and add the results.
- A category whose weight has risen now has more influence on the index.

Question 20

0455/12 N24 ▪ Q20 ▪ 1 mark

20 What is the definition of economic growth?

A It is an increase in the general level of prices over time.

B It is an increase in the level of a nation's output over time.

C It is an increase in the level of total demand over time.

D It is an increase in wages, interest, profits and rent over time.

Solution 20

Answer: **B**

Why

- Economic growth is an increase in a country's real output over time.
- It is measured by the rise in real GDP.
- A rise in the *price* level is inflation, which is a different thing entirely.

Question 5

0455/21 N24 ▪ Q5 ▪ 20 marks

5 Hawaii's economy has grown due to tourism but the growth in this sector has also increased inflation in this US island state. It is estimated that 9% of Hawaii's population were living in poverty in 2022. Many families struggled to save. Young workers were able to leave due to high levels of labour mobility between US states. However, Hawaii is now facing an ageing population including many more retired people.

(a) Define labour mobility. [2]

(b) Explain the effects of an ageing population on spending and saving levels. [4]

(c) Analyse how a rise in tourism can increase inflation in an economy. [6]

(d) Discuss whether or not fiscal policy is effective in reducing poverty. [8]

(a) (a) Define labour mobility. [2] **[2]**

(b) (b) Explain the effects of an ageing population on spending and saving levels. [4]**[4]**

Question 5

(c) (c) Analyse how a rise in tourism can increase inflation in an economy. [6] **[6]**
(d) (d) Discuss whether or not fiscal policy is effective in reducing poverty. [8] **[8]**

Solution 5

(a)

Mark scheme

- Define labour mobility.
- The ability of workers to move (1) occupationally (1) or
- geographically (1) to take up another job (1).
- 2

Solution 5

(b) Mark scheme

- Explain the effects of an ageing population on spending
- and saving levels.
- Logical explanation which might include:
- An ageing population may mean fewer people are working
- and not earning an income (1) therefore savings need to be
- withdrawn to fund living (1) and therefore savings will
- decrease (1).
- An ageing population may mean people have reached an

Solution 5

- age where they do not need to save for the future (1) have
- accumulated savings (1) therefore spending increases (1).
- An ageing population may mean more people are
- approaching retirement / have reached retirement (1) there
- may be an increase in saving to support living standards in
- retirement (1) and decrease current spending (1).
- 4 Maximum of 3 marks for a relevant explanation of either
- spending or saving.
- 0455/21
- October/November 2024

Solution 5

- Mark
- Guidance

Solution 5

(c) Mark scheme

- Analyse how a rise in tourism can increase inflation an
- economy.
- Coherent analysis which might include:
- Tourism leads to an increase in demand for resources 1
- e.g. food or accommodation (1) therefore these prices will
- increase (1) causing demand-pull inflation (1).
- Tourists may have higher incomes (1) and higher
- purchasing power (1) therefore, producers are able to

Solution 5

- charge higher prices (1) and those living the country will
- have to pay higher prices as well (1).
- Depletion of resources due to tourism (1) decreases supply
- of these resources (1) increases the price of these
- resources for everyone (1).
- Increased demand for factors of production in tourism e.g.
- labour (1) increases costs of production (1) may cause cost-
- push inflation (1).
- 6
- 0455/21

Solution 5

- October/November 2024
- Mark
- Guidance

Solution 5

(d) Mark scheme

- Discuss whether or not fiscal policy is effective in
- reducing poverty.
- In assessing each answer, use the table opposite.
- Why it might:
- ▪
- policy measures to promote economic growth may
- increase investment and create jobs
- ▪

Solution 5

- increased spending on education providing more
- qualifications / skills, making it easier to find jobs, higher
- wages
- ▪
- more generous state benefits increasing income
- ▪
- progressive taxation may increase government revenue
- and allow more spending to reduce poverty.
- ▪
- cuts in indirect taxation e.g. VAT, may lower prices of

Solution 5

- goods and services, enabling the poor to buy more and
- reduce poverty.
- Why it might not:
- ▪
- contractionary fiscal policy / increased taxes could lead
- to more people losing jobs / income.
- ▪
- expansionary fiscal policy / tax cuts may be inflationary,
- causing higher prices for essential items and increasing
- poverty

Solution 5

- ▪
- education may only be accessible to those not in
- poverty
- ▪
- state benefits may lead to a cycle of poverty
- ▪
- progressive taxation may lead to brain drain and
- therefore less government revenue.
- ▪
- cuts in higher income tax rates may not reduce absolute

Solution 5

- poverty but may increase relative poverty.
- 8
- Level
- Description
- 3
- A reasoned discussion which
- accurately examines both sides of
- the economic argument, making
- use of economic information and
- clear and logical analysis to

Solution 5

- evaluate economic issues and
- situations. One side of the
- argument may have more depth
- than the other, but overall both
- sided of the argument are
- considered and developed. There
- is thoughtful evaluation of
- economic concepts, terminology,
- information and / or data
- appropriate to the question. The

Solution 5

- discussion may also point out the
- possible uncertainties of
- alternative decisions and
- outcomes.
- 6–8
- 0455/21
- October/November 2024
- Mark
- Guidance
- 2

Solution 5

- A reasoned discussion which
- makes use of economic
- information and clear analysis to
- evaluate economic issues and
- situations. The answer may lack
- some depth and development may
- be one-sided. There is relevant
- use of economic concepts,
- terminology, information and data
- appropriate to the question.

Solution 5

- 3–5
- 1
- There is a simple attempt at using
- economic definitions and
- terminology. Some reference may
- be made to economic theory, with
- occasional understanding.
- 1–2
- 0
- A mark of zero should be awarded

Solution 5

- for no creditable content.
- 0