



*Rewarding Learning*

**ADVANCED**  
**General Certificate of Education**  
**2025**

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## **Economics**

**Assessment Unit A2 2**

*assessing*

**Managing the Economy in a Global World**

**[AEC21]**

**WEDNESDAY 28 MAY, AFTERNOON**

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**MARK**  
**SCHEME**

## General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark schemes should be read in conjunction with these general marking instructions which apply to all papers.

### Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 18-year-olds, which is the age at which the majority of candidates sit their A2 examinations.

### Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

### Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect and inappropriate.

### Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

### Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

**Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

**Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

**High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

## Marking calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

## Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

**Level 1 (Limited):** The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

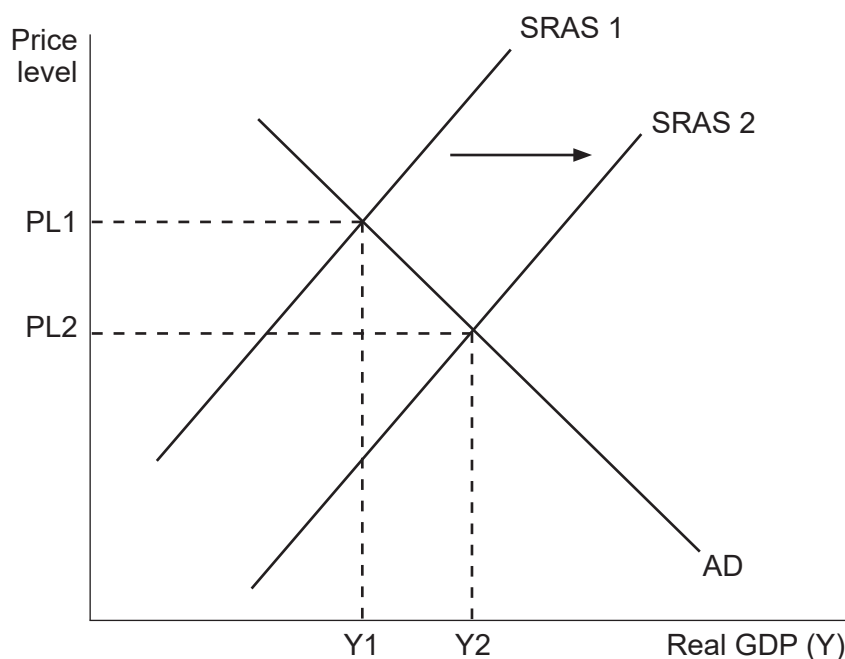
**Level 2 (Satisfactory):** The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

**Level 3 (High Standard):** The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

**Level 4 (Excellent):** The candidate successfully selects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.



- 4 The Swiss Central Bank believed that their inflation was driven by the rising price of imports. Appreciating the currency will impact this in 2 ways. Firstly, the Swiss Franc price of imports should fall directly reducing inflation. Secondly, the price of imported components and raw materials will fall reducing business costs and easing cost push pressures. The latter can be illustrated by a rightward shift in the Short Run Aggregate Supply curve in the diagram below.



Candidates who's analysis is based on a fall in AD will be equally credited.

**Issues for analysis and discussion:**

- Explanation and definition of inflation.
- Explanation of currency appreciation.
- Reference to cost-push inflation.
- Discussion of demand-pull inflation.
- Appropriate diagrams.
- Appropriate examples.

**Level 1 ([1]–[2])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question.
- Some limited use of data and, where relevant, diagrams to address the issues in the question.
- Basic analysis – may lack focus.
- A low quality of written communication.

**Level 2 ([3]–[4])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and

- models to the context of the question.
- Where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis in relation to the impact on economic agents.
- Analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

**Level 3 ([5]–[6])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question.
- Where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication.

All other valid responses will be given credit.

[6]

**Section A**

**AVAILABLE  
MARKS**

6

**20**

Section B

AVAILABLE  
MARKS

- 5 (a) The yield, or interest rate, on UK government bonds was initially quite low, being 1.54% in January 2015. It then fell further to a low of 0.28% in Jan 2021, a reduction of 1.26 percentage points. However, it then started to rise climbing to 1.18% in January 2022 and more than doubling to 3.49% by January 2023. At the end of the period interest on bonds was 1.95 percentage points higher than it had been at the start.

[2] for basic description of trend. [2] for description of trend with appropriate use of data. [4]

- (b) UK Government gilts will be bought by investors hoping to make a return. Similarly, a significant part of demand for sterling is by speculators hoping to make a profit. In simple terms the actions of the Truss government caused a loss of confidence in the markets which generated higher interest rates and a lower exchange rate. In the bond markets investors were concerned that the government was planning unfunded tax cuts. As a result of this loss of confidence demand for UK gilts fell leading to a decrease in their price. As the interest rate has an inverse relationship to the price of gilts it rose. Another way of looking at it is that bond market investors now felt that UK gilts were a riskier investment and wanted a higher rate of interest to compensate for that higher risk.

On the foreign exchange markets overseas investors were less likely to demand sterling to buy gilts so that would cause a fall in demand. Of far more importance was a loss of confidence in sterling with speculators fearing that government policy would lead to a long-term fall in the exchange rate, so they were buying less sterling and selling their existing holdings. The subsequent fall in demand and rise in supply lead to a significant depreciation.

**Issues for analysis and discussion:**

- Operation of the bond markets.
- Operation of foreign exchange markets, in particular speculative demand.
- Relationship between price of gilts and interest rate.
- Role of confidence in both markets.
- Impact of Truss government policies on market.
- Appropriate diagrams.
- Appropriate examples.

**Level 1 ([1]–[3])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts and models to the context of the question; limited use of relevant data, and diagrams where relevant, to address the issues in the question.
- Basic analysis; may lack focus.
- A low quality of written communication.

**Level 2 ([4]–[6])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used reasonably to address the issues in the question.
- Good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times.
- A good quality of written communication.

**Level 3 ([7]–[9])**

An excellent response provides an answer that demonstrates:

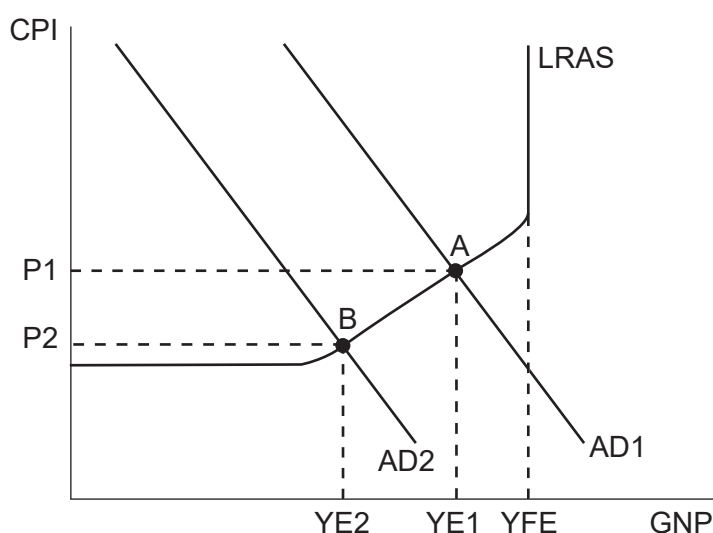
- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Excellent, relevant analysis used accurately and appropriately in relation to the impact on economic agents.
- An excellent quality of written communication. [9]

- (c) Rising interest rates are likely to reduce consumption as consumers are less likely to borrow to finance spending. At the same time, mortgage payments are likely to increase for those on variable rate mortgages and so real disposable income falls.

Rising interest rates are also likely to reduce investment by firms as the return on any investment financed by borrowing is likely to be reduced. The increase in interest rates could also attract hot money into the UK and hence cause an appreciation in the value of the Pound. This is likely to have a negative impact on the external component of aggregate demand.

This fall in aggregate demand could lead to a reduction in economic growth and employment in the UK and could risk pushing the UK economy back into recession.

However, the fall in aggregate demand could help to reduce inflationary pressures in the UK as shown in the diagram below.



## Issues for analysis and discussion:

- Likely impact of rising interest rates on consumption.
- Likely impact of rising interest rates on investment.
- Likely impact of rising interest rates on exports and imports.
- Likely impact of reduction in AD on employment, output and prices.
- Impact of higher interest rates on particular markets, e.g. housing market.
- Impact of higher interest rates on exchange rate.
- Impact of higher interest rates on government borrowing and private borrowing.
- Classical v Keynesian views on the long term impact of higher interest rates.
- Appropriate examples.
- Appropriate diagrams.

### Level 1 ([1]–[4])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question. Some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis and evaluation; analysis may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

### Level 2 ([5]–[8])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; where relevant, some reasonable use of data and diagrams in relation to the context of the question.
- Good analysis and evaluation in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

### Level 3 ([9]–[12])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication.

[12]

AVAILABLE  
MARKS

- (d) The climate crisis will need significant investment to limit its impact. This will require investment in renewable energy, non-fossil fuel transport and greater insulation and energy efficiency. In addition, the impact of climate change will need to be mitigated with more water conservation, flood and sea defences and resilient infrastructure. There is a strong argument for this to be funded by borrowing. Firstly, future generations will benefit so there is an argument they should bear some of the cost. Spending now will mean lower costs for them in the future than would be the case if there was no spending now. There is also an argument that borrowing to invest will help crowd in private sector investment and develop new technologies. This has been seen in the US with the Apollo Project or the Internet. Also, a programme of investment creates identifiable assets so the bond markets may be happier with lending for that as opposed to tax cuts whose impact is uncertain.

However, there are arguments against this. Firstly, interest rates on government bonds have risen significantly since the middle of 2022. This means it is now much more expensive for the UK government to borrow. The German government can finance its investment at a lower cost. The bond markets were unhappy with the Truss government borrowing and a further rise in borrowing could lead to another crisis. There is the argument that a rise in borrowing by government could crowd out private sector investment. Free market economists would also argue that the government is a poor judge of where funds should be invested, and this is a decision best left to the market. In addition, there is the option to use taxes on companies who generate carbon to fund a green transition. Oil companies are extremely profitable so there is an argument they should pay to reduce the environmental damage they are causing.

#### Issues for analysis and discussion:

- Discussion of how governments borrow.
- Distinction between budget deficit and national debt.
- Analysis of impact of public investment on the economy.
- Impact of rising interest rates.
- Impact of green investment on reducing impact of climate change
- Comparison with other economies.
- Analysis of underinvestment in the UK economy.
- Role of confidence in the bond market.
- Theory of crowding out.
- Intergenerational fairness and opportunity cost of debt interest payments.
- Free market v govt intervention.
- Use of environmental taxes.
- Appropriate diagrams.
- Appropriate examples.

#### Level 1 ([1]–[5])

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question. Some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis and evaluation; analysis may lack focus.

- Judgement(s) unsupported.
- A low quality of written communication.

**Level 2 ([6]–[10])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; where relevant, some reasonable use of data and diagrams in relation to the context of the question.
- Good analysis and evaluation in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

**Level 3 ([11]–[15])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication.

[15]

40

**Section B**

**40**

**AVAILABLE  
MARKS**

- 6 Critics of Brexit have argued that it has not delivered the benefits promised by those who supported the Leave campaign. They would argue that it has imposed additional costs on UK firms seeking to export to the EU, in many cases smaller companies have ceased exporting. The end of free movement of workers has led to many EU migrant workers returning home and this has caused labour shortages. These shortages, and increased costs of red tape have contributed to rising inflation. The UK has not been able to control imports due to lack of infrastructure and as these controls are imposed then they will add to further costs for business. There has been a loss of EU funding for projects. Trade deals have been slow to arrive and have not delivered the big gains hoped for. There has been no trade deal with the US. British tourists travelling to the EU have faced delays for passport checks.

However, those in favour of Brexit argue it needs more time to work. They would say the government has failed to take advantage of the opportunities to remove costly regulation on business. Regarding funding, the UK government can decide its own priorities for spending without being directed by the EU. Whilst freedom of movement for EU workers has ended the UK can decide on its own priorities for migration and has been successful in attracting more highly skilled workers from outside the EU. Trade deals will always take time to negotiate. If the UK were to re-join it might have less favourable terms than previous membership. Finally, the UK doesn't have to fully re-join to gain the benefits of membership. It could sign up to elements of EU cooperation such as the Horizon Programme of scientific research. It could reach a bespoke agreement re-joining single market or customs union in a similar manner to Norway or Switzerland.

**Areas for analysis and discussion include:**

- Costs to business of Brexit.
- Implications of ending freedom of movement.
- Impact of trade barriers with EU.
- Impact on government revenue and spending.
- Implications for NI economy.
- Ability of UK to set its own migration policy.
- Greater flexibility of UK government in setting regulations.
- Ability for UK to negotiate bespoke trade deals.
- Implication of Norway or Swiss style options.
- Opportunities to engage with new markets.
- Discussion of downsides of new trade agreements with other countries or blocs.
- Appropriate examples.
- Appropriate diagrams.

**Level 1 ([1]–[7])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis and evaluation; this may lack focus.

- Judgement(s) unsupported.
- A low quality of written communication.

AVAILABLE  
MARKS

### Level 2 ([8]–[15])

A reasonable response provides an answer that demonstrates:

- Reasonable knowledge and understanding of relevant terminology, concepts, principles and models.
- Reasonable application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Reasonable analysis and evaluation in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A reasonable quality of written communication.

### Level 3 ([16]–[23])

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis and evaluation in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

### Level 4 ([24]–[30])

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.
- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication. [30]

30

- 7 Economic theory cautions that tariffs tend to reduce economic welfare by increasing prices for consumers and sacrificing the gains achievable through specialisation.

In a trading environment in which the WTO was working to achieve a more level playing field, countries were forced to rely on expenditure switching or expenditure reducing policies, or to try to improve competitiveness through a range of supply-side policies.

Alternatives to direct trade controls include depreciation, which switches expenditure from imports to domestically produced goods, by raising the price of imports in terms of the domestic currency and lowering the price of exports in foreign currency terms. However, it is not as simple as that. Firstly, there may be a time lag effect as outlined in the J curve. Secondly, the success of a depreciation depends upon price elasticity of demand for both imports and exports so the Marshall Lerner condition must be met. A depreciation can also lead to higher inflation impacting the government's economic objectives and pushing up costs for business. A depreciation can also impact on a country's debt repayments and its ability to borrow. Finally, other countries may view the depreciation as unfair and it could result in a currency war.

Tariffs also switch expenditures by imposition of a duty on imports entering the country. This gives a government a measure of direct control over trade, but involves risks of retaliation, deterioration in international relations and domestic backlash against the price inflation they are likely to cause.

The accelerating globalisation of recent decades has caused a redistribution of wealth and a decline in secondary sectors in MDCs. Tariffs may protect a country's declining industries from sudden or complete collapse and may protect domestic producers from foreign competitors benefitting from state subsidies or exchange rate manipulation.

Some of the increased costs of imported goods may be offset by maintained tax revenues on domestic output or reduced welfare payments to those who would have lost their jobs.

Additionally, tariffs are a source of government revenue which may well be channelled into projects to increase domestic competitiveness.

Expenditure reducing policies would seek to reduce spending on imports by cutting aggregate demand. This could be done through contractionary fiscal and monetary policy but in both cases, growth might fall and unemployment rise.

In the longer-term policies to improve competitiveness through higher investment, better education, more research, and development could work but they would take time.

**Areas for analysis and discussion include:**

- Definition of tariffs.
- Discussion of impact on domestic prices.
- Discussion of advantages of protection of domestic industries.
- Discussion of welfare impact of tariffs.
- Impact of a tariff on firm's pricing strategies.

- Impact on other macroeconomic objectives.
- Impact of rising import prices on cost of producing exports.
- Use of other trade restrictions to reduce trade deficit.
- Use of policies to improve competitiveness.
- Discussion of alternative policies to reduce trade deficit, for example, devaluation or supply-side policies.
- Appropriate diagrams.
- Appropriate examples.

### **Level 1 ([1]–[7])**

A basic response provides an answer that demonstrates:

- Basic knowledge and understanding of relevant terminology, concepts, principles and models.
- Basic application of relevant economic principles, terminology, concepts, and models to the context of the question; some limited use of data, and diagrams where relevant, in relation to the context of the question.
- Basic analysis and evaluation; this may lack focus.
- Judgement(s) unsupported.
- A low quality of written communication.

### **Level 2 ([8]–[15])**

A reasonable response provides an answer that demonstrates:

- Reasonable knowledge and understanding of relevant terminology, concepts, principles and models.
- Reasonable application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Reasonable analysis and evaluation in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A reasonable quality of written communication.

### **Level 3 ([16]–[23])**

A good response provides an answer that demonstrates:

- Good knowledge and understanding of relevant terminology, concepts, principles and models.
- Good application of relevant economic principles, terminology, concepts, and models to the context of the question; some reasonable use of data, and diagrams where relevant, in relation to the context of the question.
- Good analysis and evaluation in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times.
- Reasonable judgement(s) building on analysis.
- A good quality of written communication.

### **Level 4 ([24]–[30])**

An excellent response provides an answer that demonstrates:

- Excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models.
- Excellent application of relevant economic principles, terminology, concepts and models to the context of the question; where relevant, data and diagrams are used effectively to address the issues in the question.
- Well focused, relevant analysis and evaluation used accurately and appropriately in relation to the impact on economic agents.

- Informed judgements that directly address the issues in the question and reach clear conclusions built on analysis.
- An excellent quality of written communication.

[30]

**Section C**

**Total**

AVAILABLE MARKS
30
<b>30</b>
<b>90</b>