



GCE AS MARKING SCHEME

SUMMER 2016

**ECONOMICS - NEW AS UNIT 2
252OU20-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2016 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good learner to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of economic concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

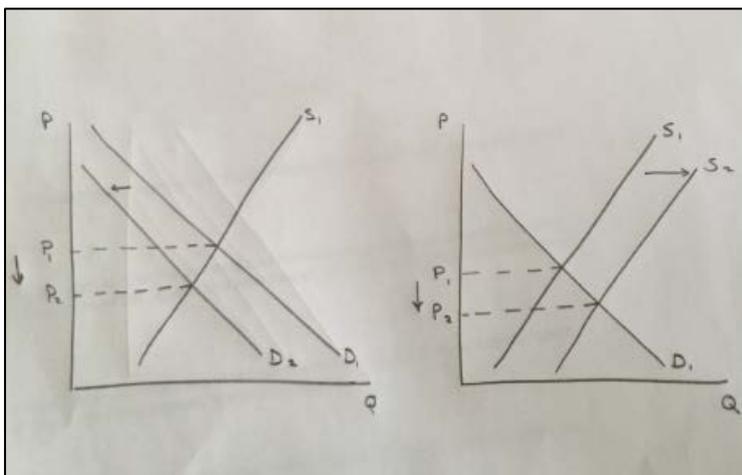
GCE ECONOMICS NEW AS UNIT 2

SUMMER 2016 MARK SCHEME

	Mark scheme	Total
<p>Q.1 (a)</p>	<p>According to Figure 2, calculate the percentage fall in the world price of oil between 1st June 2014 and 1st January 2015. <i>Show your workings.</i></p> <p>AO2: 2 marks</p> <p>1st Jun figure is \$103. 1st Jan figure is \$55. % fall = $((55-103)/103) \times 100 = -46.6\%$ (Accept a positive or negative answer).</p> <p>Accept +- 2 (\$105 to \$101) from 1st Jun figure and \$53 to \$57 for the 1st Jan figure. Therefore, answers in the range of -43% to -51% are acceptable.</p> <p>1 mark Only 1 number (1st Jun or 1st Jan) is within acceptable range (given above) but the other is not. Calculation is otherwise performed correctly.</p> <p>0 Both figures are not acceptable (within given range) even though calculation is performed correctly.</p> <p>Figures are accurate but the candidate did not carry out % change calculation.</p>	<p>2</p>

Q.1 (b)	Using a demand and supply diagram, explain why 'the world price of oil fell dramatically between June 2014 and January 2015'. (Line 5). [4]	
Band	AO1	AO2
	2 marks	2 marks
	Is the diagram correct?	Is knowledge and understanding applied to the context to show how Demand and Supply factors have changed?
2	2 marks Demand shifts left AND/OR Supply shifts right. AND Price is shown to fall on the y-axis.	2 marks Identification from the data as to why EITHER/BOTH demand shifts ("reduced demand" across the world) or supply shifts ("increased production" in the USA). AND An explanation that this leads to a decrease in price.
	1 mark Only one of the above. Correct diagram but unreasonable labelling errors.	1 mark Only one of the above.
0	0 marks No diagram or totally incorrect diagram.	0 marks No application.

Indicative Content:



Q.1 (c)	Discuss the view that consumers, workers and firms will always benefit if their country adopts free trade policies [10]		
Band	AO1 3 marks	AO3 3 marks	AO4 4 marks
	Candidate can identify the benefits of free trade.	Has relevant economic theory been developed in order to make logical arguments in favour of the view?	Does the answer evaluate the points already made and justify those evaluative points with economic theory
2	3 marks Candidate identifies at least one benefit of free trade to each of the 3 economic agents mentioned in the question.	3 marks Good analysis of the possible benefits of free trade to each of the 3 economic agents mentioned in the question. Analysis shows a clear understanding of the benefits of free trade.	3-4 marks Candidate develops strong, logical economic arguments that help to counter-argue the views expressed in AO3. Candidates in this band <u>must</u> attempt to consider at least 2 of the 3 economic agents specified.
1	1-2 marks Candidate identifies benefits of free trade to some (but not all) agents OR Candidate demonstrates a clear understanding of free trade (1).	1-2 marks Limited analysis of the possible benefits of free trade to some (but not all) agents. Analysis shows a superficial understanding of the benefits of free trade.	1-2 marks Candidate only develops limited economic arguments that help to counter-argue the views expressed in AO3. A response will be Band 1 if only 1 of the 3 agents specified are considered.
0	0 marks No benefits of free trade identified. AND no understanding of free trade demonstrated.	0 marks Development is offered but it is theoretically incorrect or unsatisfactorily developed.	0 marks Evaluation is offered but it is theoretically incorrect or unsatisfactorily developed.

Indicative Content:

There is no requirement to refer/use the data in the answer, although candidates may wish to. Candidates may make the following arguments:

Free trade

- Domestic firms have the opportunity to look beyond their borders for demand. Therefore there is greater potential for sales, revenue and profit – which in turn leads to greater economic growth and higher levels of employment. For example, Russia biggest products – gas and oil – are sold in great volume to the EU indicating that jobs in these industries are completely dependent on foreign trade.
- Free trade is normally desirable for consumers since it leads to lower prices (provided that countries are specialising in the industries in which they have comparative advantage).
- Free trade also improves the level of choice of goods and services within a country. For example, Russian consumers would have had access to a large number of EU-produced agricultural goods, which now they do not.
- Free trade allows firms to take advantage of economies of scale which ultimately can increase competitiveness and protect employment.
- Candidates may point to the fact that, since the sanctions, Russia has been plunged into recession indicating that much of their economy was dependent on trade with foreign countries. Sanctions have led to a decrease in 25% of its entire exports which indicates that firms will see lower levels of revenue and this, in turn, implies that job losses may ensue.

However,

- Free trade is not necessary if there is a large enough domestic industry to satisfy the demand of domestic consumers. For example, Russia is a big country and there may well be enough domestic demand to satisfy domestic businesses.
- Often countries struggle to remain competitive when opened up to free trade. In these instances, job losses and economic growth may be vulnerable and therefore protectionism may be a suitable policy. In fact, workers may be better off (greater job security) if their governments have a more protectionist stance.
- Domestic industries may be uncompetitive and have to close down – therefore denying local consumers of their locally made produce.
- Free trade opens up the possibilities of Westernisation – a particular concern for Russia.
- Free trade may mean that Government loses the ability to protect ‘strategic’ domestic industries which may mean certain skilled jobs are under threat.

Q.1 (d)	Using an exchange rate diagram, explain why the Russian rouble collapsed between 2014 and 2015. [6]	
Band	AO1	AO2
	2 marks	4 marks
	Is the diagram correct?	Is the economic theory applied to the context to explain why the price of oil has fallen?
2	2 marks	3-4 marks
	Demand shifts left. AND Supply shifts right.	Demand-side factors identified (1) and linked to downwards pressure on price of the rouble (1). AND Supply-side factors identified (1) and linked to downwards pressure on price of the rouble (1). <u>NOTE: if both D&S factors are correctly identified</u> then there may only be one explanation of downwards pressure on price – which can be credited for (2).
1	1 mark	1-2 marks
	Only Demand OR Supply identified. OR Both curves shifted correctly but there is an unreasonable labelling error.	Only 1-2 elements of the above band.
0	0 marks	0 marks
	No diagram or totally incorrect diagram.	None of the above.

Indicative content

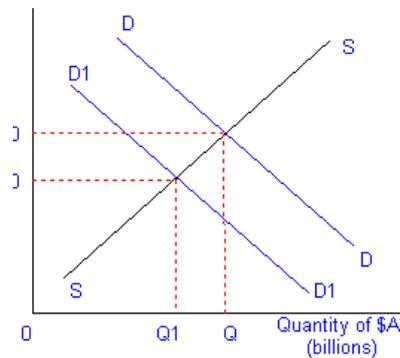


Figure 3a

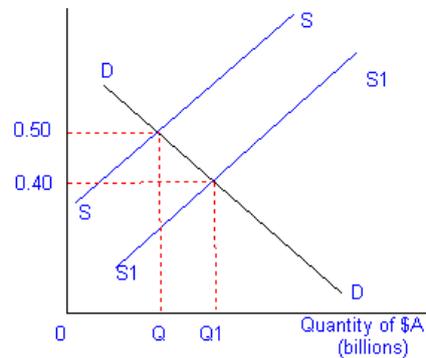


Figure 3b

Factors identified and explained:

1. Demand for the rouble shifts left - exports falling due to economic sanctions and therefore lack of demand. Also, could be argued in terms of decreasing capital inflow due to falling business confidence of investing in Russia.
2. Supply for the rouble shifts right – consumer confidence is falling and, as a result, individuals and businesses are selling off their domestic assets and putting their money abroad. Therefore, capital outflow is increasing. It could be argued that imports have fallen due to sanctions also.

Q.1 (e)	Discuss the likely effectiveness of Russia's monetary policy in its attempt to support the rouble. [8]	
Band	AO3	AO4
	4 marks	4 marks
	Has relevant economic theory been developed in order to make logical arguments in favour of the discussion?	Does the answer evaluate the points already made and justify those evaluative points with economic theory
2	3-4 marks Candidate fully develops two lines of good analysis that argue of how monetary policy can appreciate the exchange rate. Economic theory is correct and well developed at every stage.	3-4 marks Candidate successfully evaluates or provides two good counter-arguments to those points made in AO3. Candidate may wish to use the data in his/her answers – although this is not an absolute requirement (it will clearly help in most cases!). Points are developed using good economic theory and/or good use of the data.
	1-2 marks Candidate only develops one line of argument of how monetary policy can affect exchange rates. OR Candidate offers two (or more) points but the economic theory is only partially correct or candidate doesn't quite develop the points in terms of exchange rates satisfactorily.	1-2 marks Candidate only offers one good evaluative point to a point in AO3. OR Candidates offers two (or more) points but the economic theory is only partially correct or candidate doesn't quite develop the points in terms of exchange rates satisfactorily.
0	0 marks Candidate identifies that interest rates (or currency market intervention or capital controls) are part of monetary policy but absolutely fails to develop this point to link to exchange rate satisfactorily.	0 marks No evaluation offered. OR Evaluation is offered but the economic theory is incorrect, or is unsatisfactorily developed in terms of exchange rates.

Indicative Content:

Candidates may make the following arguments.

Will appreciate the ER.

NOTE: To develop two lines to argument, candidates must (by definition) offer more than just an interest rate argument.

- Interest rates have been increased. Usually this would lead to ER appreciating since the rate of return on savings is higher. Capital inflow increases and capital outflow decreases. The CBR did this and so their policy was correct.
- The CBR decided not to implement capital controls. Capital controls would have fixed the problems of capital flight and therefore kept the rouble artificially high. Perhaps, therefore, the CBR made the wrong decision.
- Selling off foreign currency to buy domestic currency helps to prop up the exchange rate by increasing demand and creating upwards pressure on the 'price' of roubles. The CBR did this and so their policy was correct.

Possible evaluation

- However, consumer confidence is extremely low and therefore, despite the high interest rates, consumers and businesses were still very keen to take their money out of Russia. Therefore, interest rates were ineffective. Moreover, they are likely to stifle the Russian economy and, in particular, future investment and productivity meaning that Russia may become less competitive in the future.
- That said, capital controls often lead to reduced business confidence and political unrest as well as being difficult to implement – especially in a country like Russia. Therefore perhaps the CBR realised there was not much to gain there.
- However, looking at the data, selling foreign currency seems to have been ineffective (again, maybe due to the lack of confidence and capital flight). In addition, the huge volume of sales (\$110bn worth of foreign reserves) is an incredibly large amount and it leaves the CBR vulnerable in any future currency collapse. When foreign reserves run out, Russia may well have to take a loan from IMF/WB which would not be desirable.

Answer is reversible.

Q.1 (f)	To what extent should low inflation be the main macroeconomic objective for Russia? [10]		
Band	AO2 2 marks	AO3 4 marks	AO4 4 marks
	Has the candidate used qualitative and/or quantitative evidence?	Does the answer explain fully why governments seek to achieve low inflation targets in Russia?	Does the answer evaluate the points already made and justify those evaluated with economic theory?
2	<p align="center">2 marks</p> <p>Clear reference to the data.</p> <p>The points are heavily contextualised within the framework of the Russian data above and numerous evidence is used to support the answer.</p>	<p align="center">3-4 marks</p> <p>A good analysis that fully develops two points and makes a strong economic explanation as to why low inflation targets are the most important objective.</p>	<p align="center">3-4 marks</p> <p>A good evaluation that fully develops two points and makes a strong economic explanation as to why low inflation targets are not the most important objective.</p> <p>Answer may consider the relative importance of other macro-objectives.</p>
1	<p align="center">1 mark</p> <p>Limited use of the data.</p> <p>The data is only used specifically to build an argument on one occasion.</p>	<p align="center">1-2 marks</p> <p>Only one point offered – which demonstrates good analysis.</p> <p>OR</p> <p>Several points which are only of limited analysis.</p>	<p align="center">1-2 marks</p> <p>Only one point offered – which demonstrates good evaluation.</p> <p>OR</p> <p>Several points which are only of limited analysis.</p>
0	<p align="center">0 marks</p> <p>No data used.</p> <p>Or</p> <p>Candidate has used data in the answer but it is not used to develop argument or referred to in any meaningful sense.</p> <p>OR</p> <p>All points made for AO3 and AO4 are generic and are not justified using data.</p>	<p align="center">0 marks</p> <p>Candidates only identifies issues but does not develop them at all.</p>	<p align="center">0 marks</p> <p>No evaluation offered.</p> <p>OR</p> <p>Candidates only identifies issues but does not develop them at all.</p>

Indicative Content:

Candidates may make the following arguments:

- High levels of inflation mean that Russians now lack any sort of disposable cash after buying food and other basic items. Therefore economic growth and unemployment levels are at stake unless inflation can be brought under control.
- Due to high inflation levels, poverty levels are now at their highest in 10 years with almost every sixth person earning less than the minimum subsistence level. This means that the budget deficit is in peril because poverty may lead to an increase in the levels of benefits.
- In addition, if poverty persists then Government will collect less tax revenue from sales tax and therefore the budget deficit may get worse.
- Russia's economy has suffered incredibly due to huge falls in exports. This is likely to continue if inflation is so high. Russia needs to focus on lowering inflation so that they can become competitive in world markets again.

Counter-arguments

- The CBR seems confident that it can bring inflation under control with its use of monetary policy, therefore inflation should not be seen as such a large priority.
- Currently, Russia is in recession and therefore economic growth should well be the main priority. It can be achieved as well as low inflation targets if supply side policies are used.
- The problem with the trade balance is that it is caused by the economic sanctions rather than being uncompetitive because of inflation. In fact, Russia is very competitive in goods such as oil and therefore it should look to foster better trade relations rather than focus on inflation for now.
- With oil prices so low, Russia's fiscal deficit is getting worse and this is leading to big cuts in Government spending which may have a greater impact on poverty than inflation.
- A generic argument that low unemployment may be a better macro-objective to pursue since this will increase tax revenues for the government, increase GDP and hopefully lead to subsequent investment (accelerator effect) is also credible as AO4 (though not AO2).

Answer is reversible.

		Total
Q.2 (a)	<p>Explain what is meant by: “Using an index figure of 100 for the UK as a whole, Wales scored just 72.2 (lines 11-12)”</p> <p>AO1: 2 marks</p> <p>Award 2 marks for a clear understanding shown that the Welsh figure for GVA per head is 27.8% lower than that of the UK as a whole at that moment in time. Also accept it is 72.2% of the UK GVA per head.</p> <p>Award 1 mark for understanding that index numbers show relative performance – for example, “Wales GVA is lower than the UK” <u>or</u> perhaps the data is not interpreted the data correctly (e.g. “Welsh GVA is 72.2% lower than the UK”).</p>	2

	Mark scheme	Total
Q.2 (b)	<p>Explain, using an example, why William Graham believes that the 3.4% increase in GVA per person isn’t quite as good as it sounds (lines 22 to 24).</p> <p>AO1: 2 marks</p> <p>Award 1 mark for a clear understanding that 3.4% isn’t much of an absolute increase when coming from a low base.</p> <p>Award a further 1 mark for the use of an example/mathematical reasoning to support the explanation above.</p>	2

	Mark scheme	Total
Q.2 (c)	<p>Explain what is meant by the ‘multiplier process’ (lines 26 to 27).</p> <p>AO1: 2 marks</p> <p>2 marks</p> <p>Explanation includes both a reference to an initial injection/or an increase in AD (from England).</p> <p>AND</p> <p>that it leads to a much greater final impact on the level of national income (in Wales).</p> <p>1 mark</p> <p>Only one above points made.</p>	2

Q.2 (d)	With reference to economic theory, explain two possible reasons for the differences in the average Gross weekly wages within Wales shown in Figure 4. [6]		
Band	AO1	AO2	AO3
	2 marks	2 marks	2 marks
	Has a relevant factor impacting wage differentials been identified and understood?	Has the factor been put into the context of the Welsh economy?	Has the link to wage differentials been explained?
2	2 marks 2 correct factors have been identified.	2 marks Both factors applied correctly to the Welsh economy.	2 marks Impact on wage differentials has been explained <u>or</u> supported with a diagram for both factors.
1	1 mark 1 factor has been identified.	1 mark 1 factor applied correctly to the Welsh economy or some general application to the Welsh economy.	1 mark Impact on wage differentials has been explained or supported with a diagram for one of the factors.
0	0 marks No or incorrect factor identified.	0 marks No application.	0 marks No analysis.

Indicative content:

Allow any plausible factor, but possible points might include:

- Possible regional differences in unemployment - high in West Wales and the valleys, hence putting downward pressure in Wales.
- Links with England – Southeast Wales well linked along the M4 corridor, increasing employment opportunities – hence higher demand for and lower supply of workers in that area. North Wales links to Merseyside.
- Economic structure and available skills. Southeast Wales has the university of Cardiff and good infrastructure (with more planned) making it attractive to employers, hence boosting demand in the area. Tourism more important in some areas than others.
- Public sector vs. private sector – Wales is quite public sector dependent (25% of jobs) and public sector employees earn 18% more than their private sector counterparts. Public sector employment is particularly low in mid-Wales.
- Differential patterns and nature of immigration creating localised.

Q.2 (e)	Evaluate the Welsh government's claim that its long-term economic plan has been a success. [10]		
Band	AO2	AO3	AO4
	2 marks	4 marks	4 marks
	2 marks	3-4 marks	3-4 marks
2	Answer is well-contextualized, making full and effective use of the data on both sides of the debate.	A good analysis that fully develops at least two lines of argument to explain the ways in which the Welsh economy has performed well, (explaining the ways in which performance has been 'successful', not simply identifying good features!). Candidate must make a clear link between policy and outcomes.	Candidate successfully evaluates or provides two good counter-arguments to those points made in AO3.
1	1 mark Limited use of the data. Answer makes some use of the data, but only on one side of the case, or points are applied to the case but are not central to economics success.	1-2 marks Only one point offered – which demonstrates good analysis. OR Several points which are only of limited analysis.	1-2 marks Only one point offered – which demonstrates good evaluation. OR Several points which are only of limited evaluation.
0	0 marks Answer simply lifts the data without building an argument around it.	0 marks Identification of points without analysis or incorrect analysis. Simply repeating the data without explaining.	0 marks Identification of points without analysis or incorrect analysis. Simply repeating the data without explaining. Evaluation is only superficial.

Indicative content:

- GVA/head is rising rapidly and the gap with England is closing. This may well be linked to the WA's attempts to target key sectors, encourage innovation and so on.
- Welsh exports have doubled since devolution, which again could be ascribed to Welsh government policies. This will have contributed to the rapid increase in GVA/head.
- Welsh government also claims success in attracting inward investment. It is possible that this inward investment (at record levels) has come about as a result of the government's focus on supporting key sectors and building skills and infrastructure.
- Unemployment is decreasing faster than any other area in the UK. This is likely down to the investment in skills and innovation but also the focus on encouraging inward investment.

Possible Evaluation

NOTE: Can be argued from either of the following two ways:

1. The idea that there has not been economic success.
2. Any success that there has been has not been due to the Welsh government's economic plan.
 - The GVA performance is still a long way below England – hence economic success is at best relative.
 - Unemployment is well above the UK average.
 - According to Karel Williams, much of the growth in GVA has come from links to the fast-growing South of England and is nothing to do with the Welsh government.
 - According to William Graham, the improvements are more to do with policies in Westminster than anything the WA has done.
 - Some of the improvement must simply be to do with global economic recovery, rather than anything to do with devolution.
 - Even if there has been success, the government has been criticized for its lack of ambition and that the policies are leading only to marginal improvement.

Q 2 (f)	Discuss whether a policy of borrowing heavily to invest in capital projects is always likely to benefit unemployment levels and economic growth [8]		
Band	AO1 2 marks	AO3 2 marks	AO4 4 marks
	Does the answer show a good understanding of possible benefits of the scenario outlined?	Have the AO1 ideas been developed and linked to the benefits for an economy?	Have counterarguments been made and developed?
2	2 marks Candidate can identify the benefits of investment into capital projects on the 2 macro-objectives. Candidate identifies at least one benefit to unemployment (1) AND one benefit to economic growth (1).	2 marks Good analysis of the benefits of investment into capital projects on the 2 macro-objectives. Analysis shows a clear understanding.	3-4 marks Candidate develops strong, logical economic arguments that help to counter-argue the views expressed in AO3. Candidates in this band <u>must</u> attempt to consider both macro-objectives. OR One macro-objective <u>and</u> an evaluation of the negative impacts of borrowing to finance capital spending. The evaluation may well include the context of the Welsh data.
1	1 mark Candidate identifies at least one benefit to unemployment (1). OR one benefit to economic growth (1).	1 mark Good analysis of the benefits of investment into capital projects on 1 macro-objective. OR Limited analysis of the benefits of investment into capital projects on the 2 macro-objectives.	1-2 marks Candidate only develops limited economic arguments that help to counter-argue the views expressed in AO3. A candidate must be held at Band 1 if they have only considered 1 macro-objective or only consider the impact of borrowing.
0	0 marks There is no understanding that the borrowing might create economic benefits.	0 marks Answer asserts the impacts on the Welsh economy without explaining.	0 marks One sided answer.

Indicative Content:

Beneficial

- Welsh unemployment is above the UK's as a whole, therefore such projects may increase AD, reducing unemployment in Wales via multiplier effects.
- Building of capital projects in and of themselves creates jobs for construction workers etc ...
- Projects such as the Metro and high-speed broadband may encourage inward investment gain creating jobs and boosting wages.
- Projects such as these may increase productivity and investment hence boosting potential (AS) growth in the long run.
- Radical policies are needed if the GVA/head gap with England is to be closed. Capital projects may be expensive but they will generate the game-changing increase in growth that is required.

Not beneficial (in addition to evaluative points above):

- Regional concentration of the projects may cause localised reduction in unemployment but is unlikely to reduce unemployment across Wales.
- Many jobs building the capital projects may be fulfilled by English workers or English construction firms and so any multiplier effect in Wales may be limited.
- Short-term increase in AD may create (localised) inflation which may hurt economic growth in the local area – and job creation in other sectors.
- The southern bias of the proposed spending may increase inequalities within Wales and the associated problems.
- Higher borrowing will have to be repaid, placing a burden on Welsh government finances, opportunity cost and so on. The public sector financial benefits, however, may be felt primarily in England because of the funding arrangements of the Welsh government. This may hinder economic growth in the long run.
- There is a limit to how much borrowing the Welsh government is able to undertake, so projects need to be carefully vetted to make sure borrowing powers are used appropriately.
- There is a danger that projects such as these will prove to be white elephants, creating a drag on the public purse in the medium term, not providing the jobs and the benefits that were expected and cost more than is forecast.
- As noted above, the borrowing will impact on the whole of Wales but the projects outlined are based in Cardiff and Swansea. Therefore any reduction in unemployment may be very localised indeed.

Q 2 (g)	To what extent will an increase in interest rates by the Bank of England be harmful for the Welsh Economy? [10]			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
	Answer shows a good understanding of the problems that rising interest rates might cause.	Is the answer well rooted into the context of the Welsh economy rather than being purely theoretical?	Have the AO1 ideas been developed and linked to the benefits for an economy?	Have counterarguments been made and developed?
2	2 marks Candidate can identify two problems that an increase in interest rates might cause.	2 marks Good application to the Welsh economy. Clear reference to the data. Impacts are well rooted into the case, looking either at one Welsh specific in great depth or more likely a broader range in less depth.	2 marks A good analysis that fully develops two points and makes a strong economic explanation as to increasing interest rates will be harmful to the Welsh economy.	3-4 marks Candidate successfully evaluates or provides two good counter-arguments to those points made in AO3. Evaluation is well anchored into the idea of why interest rate rises might not be that important for Wales rather than more generic discussion.
1	1 mark Candidate can identify one problem that an increase in interest rates might cause.	1 mark Limited application to the Welsh economy.	1 mark Only one point offered – which demonstrates good analysis. OR Several points which are only of limited analysis.	1-2 marks Only one point offered – which demonstrates good evaluation. OR Several points which are only of limited analysis.
0	0 marks Candidate does not identify any problem that an increase in interest rates might cause.	0 marks Answer is largely theoretical and could apply to any economy.	0 marks Identification of points without analysis or incorrect analysis. Simply repeating the data without explaining.	0 marks No evaluation offered. OR Candidates only identifies issues but does not develop them at all.

Indicative content:

Increase in interest rates will be expected to:

AO1/3:

- Cut C because of increased opportunity cost of saving, increased cost of borrowing and mortgage rate/asset price effects)
- Reduce I because of increased cost of borrowing and reduced growth prospects.
- Increase the value of sterling (Increased capital inflows/reduced capital outflows). Hence AD falls (C, I and X are reduced/rate of growth falls). Hence this may damage the Welsh economy by reducing growth, increasing unemployment and damaging export performance.
- Asset prices are likely to decrease as a result and therefore there may be a negative wealth effect leading to a reduction in AD across Wales.

AO2:

- "exports have doubled and inward investment into Wales is now at a record level." Rising interest rates may offset these benefits.
- Unemployment is above the UK average already, meaning that an increase in interest rates may be less appropriate in Wales than elsewhere.
- Likewise earnings are significantly lower in Wales than in England.
- If borrowing takes place for capital projects then the long term cost of servicing this debt may increase.

AO4

On the other hand, rising interest rates might not be that bad:

- If capital spending increases the increase in interest rates may help to damp down inflationary pressures.
- Unemployment, although higher than in England is still quite low – there is a risk that inflationary pressures may build.
- Likewise, unemployment in Wales is comparable to many parts of the UK and lower than in some. Wales isn't necessarily that different.
- Welsh economy is growing fast in terms of GVA/head, so may be in a better position to cope with an increase in rates than elsewhere.

Past evidence of the impacts of interest rate rises on Wales might be used on either side of the discussion.

More generally:

- Interest rate rises have tended to be relatively modest, being phased in increments. Hence there may be time for the economy to adapt.

There are significant lags in rates, meaning that the Welsh economy may have started to consolidate its gains before the impact of an increase is likely to bite.