



National
Qualifications
2026

2026 Economics

Advanced Higher

Question Paper Finalised Marking Instructions

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General marking principles for Advanced Higher Economics

Always apply these general principles. Use them in conjunction with the detailed marking instructions, which identify the key features required in candidates' responses.

- (a) Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.
- (b) If a candidate response does not seem to be covered by either the principles or detailed marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.
- (c) For **describe** questions, candidates must make a number of relevant factual points, which may be characteristics and/or features, as appropriate to the question asked. These points may relate to a concept, process or situation. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant factual point
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (d) For **explain** questions, candidates must make accurate relevant points that relate cause and effect and/or make relationships clear. These points may relate to a concept, process or situation. Candidates may provide straightforward points of explanation or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant point of explanation
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (e) For **justify** questions, candidates must give good reasons for a cause of action or decision.

Up to the total mark allocation for this question

- award **1 mark** for each relevant statement or opinion
- award marks for any further development of a relevant statement or opinion.

- (f) For **analyse** questions, candidates must demonstrate their ability to identify, describe and explain relevant parts and the relationships between the parts and/or the whole. Candidates must be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question

- award **1 mark** for each relevant point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (g) For **discuss** questions, candidates must make points that communicate issues, ideas or information about a given topic or context that make a case for and/or against. Candidates do not always need to give both sides of the debate in their response.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of knowledge that is clearly relevant
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (h) For **compare** questions, candidates must demonstrate knowledge and understanding of the similarities and/or differences between, for example, things, methods or choices. Candidates may include relevant theoretical concepts in their points.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (i) For **evaluate** questions, candidates must demonstrate the ability to make a reasoned judgement in terms of the effectiveness or usefulness of something based on criteria. Candidates should be able to determine the value of something within context.

Up to the total mark allocation for this question

- **1 mark** for each accurate point of evaluation
- **1 mark** for any further development of a relevant point, including exemplification and/or a conclusion when appropriate.

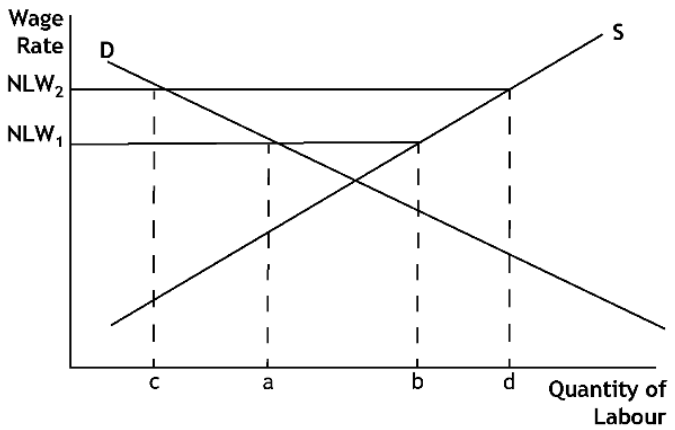
Section 1

Question			Expected response(s)	Max Mark	Additional guidance
1.	(a)		economic growth (line 16) - an increase in the value of goods and services produced in an economy over time (1) in real terms (1) - an increase in the productive potential of an economy (1)	2	Award 1 mark for each valid description. Award 1 mark for a valid development. Accept PPC diagram with outward shift for 1 mark.
	(b)		current spending (line 18) expenditure on day to day running costs/regular spending (1)	1	Award 1 mark for a valid description.

Question			Expected response(s)	Max Mark	Additional guidance
2.			- increasing government spending (such as increasing universal credit or investing in HS2) can increase employment (1) and can increase disposable incomes resulting in higher consumer spending (1) - reducing taxation, eg income tax, could lead to an increase in consumer spending (1) - the government could create a new industrial strategy which would stimulate high-growth sectors where the UK has a competitive advantage (eg advanced manufacturing/professional services/the creative industries) (1). This would involve using public investment to "crowd in" or attract private sector investment (1) - investing in training and education to ensure people are equipped with the right skills (1) - promoting innovation to stimulate the adoption of new technologies, particularly in areas like artificial intelligence (1) - investing in transport networks, such as rail and roads, improves labour mobility (1) and reduces the cost of doing business (1) - capping corporation tax to provide certainty on business taxes to encourage investment (1) - maintain schemes like a permanent full expensing system for capital investment which would give firms the confidence to invest in new equipment and technology (1) - streamlining planning processes and reducing red tape for major projects can accelerate infrastructure and housing projects (1)	6	Candidates must explain at least 2 measures to gain full marks. Award 1 mark for each valid explanation. Award 1 mark for each valid development.

Question			Expected response(s)	Max Mark	Additional guidance
			• further devolving power and financial autonomy to regions/mayoral combined authorities would allow them to develop and execute their own local economic plans (1) • the government could increase labour market flexibility, eg removing trade union rights, that would enable firms to adapt to changing market conditions (1) • the government could negotiate free trade agreement(s), providing access to new markets (1) • giving political stability fosters economic growth by creating a predictable and secure economic environment for firms which may feed through to increased consumer confidence (1). This is what Keynes called the 'animal spirits' (1)		

Question			Expected response(s)	Max Mark	Additional guidance
3.			• firms may pass on the increased costs to consumers by raising prices for their goods and services (1). This can lead to inflationary pressure across the wider economy (1) leading to a negative impact on international competitiveness/international sales (1) • higher labour costs may lead to a fall in profitability (1) • firms may respond by reducing the number of employees they hire which may disproportionately affect young, part-time, or low-skilled workers (1) and in particular industries such as hospitality (1) • NLW results in increased disposable income which could lead to an increase in consumer spending (1) • NLW typically increases income of lower earners, reducing income inequality (1) • NLW can cause wage compression (where the pay of entry-level workers becomes too close to that of more experienced or skilled staff) so businesses may need to increase wages for other employees as well (1) to maintain a clear wage hierarchy and incentivise career progression (1) • reduced employee benefits to offset the higher wage bill, firms might cut back on non-wage benefits like bonuses/staff discounts/or free meals (1) • faced with higher labour costs, some businesses may choose to invest in technology and automation to replace workers (1) • higher wages can also boost employee morale, motivation, and retention which can in turn lead to increased productivity and a reduction in recruitment costs (1) • firms may embark on cost cutting measures to restore profit margins (1) • some business pay above the National Living Wage so there will be no impact (1)	3	Candidates must discuss at least 2 consequences to gain full marks. Award 1 mark for each valid discussion point. Award 1 mark for a valid development.

Question			Expected response(s)	Max Mark	Additional guidance
4.			 Wage Rate NLW₂ NLW₁ D S c a b d Quantity of Labour • 1 mark for showing the rise in the National Living Wage (NLW₁ to NLW₂) (1) • 1 mark for showing a rise in the level of unemployment (ab to cd, or arrows to indicate the rise) (1)	2	Award 2 marks for the diagram.

Question			Expected response(s)	Max Mark	Additional guidance
5.			- to finance its deficit the government must borrow money, primarily by issuing government bonds (gilts) to investors. Over time, these cumulative deficits will add to the total national debt (1). Servicing the national debt could consume an increasing portion of the government's budget (1) - higher debt interest payments will result in an opportunity cost for government spending, which would limit the government's ability to invest in long-term economic growth (1) - high government borrowing requirements can absorb a large portion of the available savings in the financial system, which could lead to "crowding out"(1), where the government's demand for funds drives up interest rates, making it more expensive for private businesses to borrow for investment and expansion (1), which will reduce the economy's long-term productive capacity (1). Many economists say that the UK economy is in a current 'doom loop' due to this situation (1) - the increased danger of future austerity measures which could exacerbate inequality (1) - high government borrowing may force the government to increase income tax which could lead to reduced aggregate demand in the economy (1) - there is the possibility of the tax burden landing on future generations which would lead to intergenerational unfairness (1)	5	Candidates must evaluate at least 2 implications to gain full marks. Award 1 mark for each valid evaluation. Award 1 mark for each valid development. Credit Ricardian Equivalence if evaluated - maximum 1 mark.

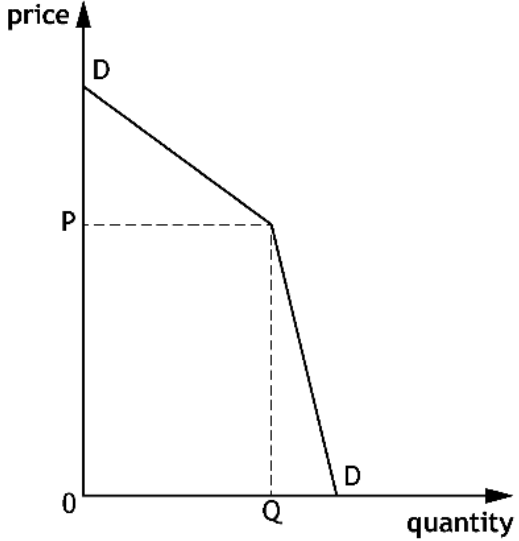
Question			Expected response(s)	Max Mark	Additional guidance
			• there is the possible negative impact on the UK's credit rating, which could lead to increased interest rates on government bonds (1). This increases the risk of a sovereign debt crisis/defaulting on debt repayment (1). The UK would also become more vulnerable to changes in global interest rates (1), and the further possible danger of external ownership of government bonds (1) • a high deficit can weaken the demand for Sterling, making exports more expensive/imports cheaper (1), potentially widening the trade deficit (1) • a persistently high deficit can signal to international investors a lack of fiscal discipline which can lead to a loss of confidence in the UK economy leading to less investment or higher cost of borrowing (1)		

Question			Expected response(s)	Max Mark	Additional guidance
6.			• raises income for the government which can be invested in public services (1) • if SDLT is too high it could cause the tax base to shrink and potentially lead to a net decrease in government revenue (1) • will reduce property transaction volumes as SDLT is a significant upfront cost for home buyers, and an increase can act as a disincentive to move (1) • if demand for new homes falls, developers may delay or cancel projects, leading to a decline in construction output and a potential loss of jobs in the industry (1) making it harder to achieve government housing target (1) • could hinder labour market mobility as moving house becomes more expensive (1) • it could trap older homeowners in homes that are now too large for their needs and reduce the supply of family homes on the market (1) • raising SDLT on additional properties, such as buy-to-let investments can deter landlords and investors which could reduce the supply of rental properties (1), potentially pushing up rents (1) • raising SDLT on second homes deters second home buyers, increasing availability of housing for rental/purchase (1) • changes to SDLT thresholds often lead to a short-term market distortions as buyers rush to complete purchases before the changes take effect (1) • when people move home, they often spend a considerable amount on renovations/new furniture/household goods. A slowdown in the housing market, caused by higher SDLT, can therefore reduce consumer spending in other sectors of the economy (1) • a fall in house prices resulting from a higher SDLT could negatively impact household wealth and subsequent negative wealth effect could reduce consumer confidence (1)	4	Candidates must discuss at least 2 implications to gain full marks. Award 1 mark for each valid discussion point. Award 1 mark for each valid development. Accept LBTT.

Question			Expected response(s)	Max Mark	Additional guidance
7.			- increased government spending will increase aggregate demand causing economic growth (1) - taxes (both direct and indirect) may have to go up to pay for funding (1) which may reduce consumer spending (1) - there may be the need for a hypothecated tax aimed at increasing NHS spending (1) - government borrowing may be used to fund the NHS, (thus the government may not achieve a budget surplus) resulting in increased interest payments of debt (1) - increased spending may deliver improved health outcomes/more productive workforce by reducing sickness absence (1) - an increased NHS workforce could have a direct benefit on the local economy through a boost to employment/spending/tax revenues (1). Research suggests that NHS spending provides a significant return on investment (1) - some economists argue that increased public spending on NHS delivers a more equitable society/reduces inequality in society (1) - increased spending on wages may encourage NHS workers to remain within the NHS which could reduce waiting times/staff shortages (1) - a large increase in public sector wages, without a corresponding increase in productivity, could contribute to inflation across the wider economy (1) - increased spending may lead to increased focus on reform to ensure productivity gains (1) - to increase the NHS workforce the government may have to adopt an 'open door' inward migration policy (1) which may subsequently have a negative impact on developing countries' health services (1) - health inflation is historically higher than broader inflation which leads to increased proportion of government spending (1)	4	Candidates must explain at least 2 implications to gain full marks. Award 1 mark for each valid explanation. Award 1 mark for each valid development.

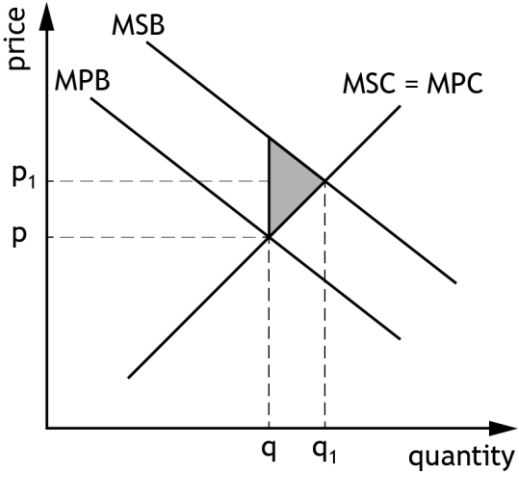
Question			Expected response(s)	Max Mark	Additional guidance
8.			• aims to achieve international financial stability (1) • provides technical assistance and training (1) • aims to stabilise exchange rates (1) • provides loans to countries in need (1) • encourages expansion of trade (1) • aims to promote international monetary cooperation (1) • helps deal with balance of payments adjustment (1) • conducts 'economic surveillance' - producing reports on member countries' economies and suggests areas of strengths/weaknesses (1) • credit mention of Structural Adjustment Program (SAP) and/or 'conditionalities' (1) • credit mention of criticisms of agency - 'Washington Consensus' and how some argue free trade principles hinder economic development of developing economies (1)	3	Award 1 mark for each valid description. Award 1 mark for each valid development.

Section 2

Question			Expected response(s)	Max Mark	Additional guidance
9.	(a)		 Diagram - clearly showing the demand curve as elastic above the kink and inelastic below the market price (1) - clearly showing sticky price (P) and corresponding quantity (Q) at the market price on the demand curve (1)	7	Award a maximum of 2 marks for a diagram. Award a maximum of 6 marks for an explanation. Award 1 mark for each valid description. Award 1 mark for each valid development.

Question			Expected response(s)	Max Mark	Additional guidance
			Interdependence theory - oligopoly is a market structure dominated by a few large firms, because there are only a few major competitors, each firm's actions will directly affect rivals (1). This is because the oligopolist faces a kinked demand curve, which is price elastic above the market price (1) and price inelastic below the market price (1) - interdependence means that firms will need to consider how other firms will react when they make pricing decisions (1). For example, if a firm raises its price above the market price, then other rivals will not follow (1) leading to a more than proportionate decrease in quantity demanded (1) this will lower revenue for the firm (1). If the firm lowers its price below the market price then rivals will follow leading to a price war (1), lowering the revenue for all firms in the market (1). Because of this high degree of price interdependence firms must find other non-price forms of competition (1) Collusive theory - firms have a strong incentive to collude together to agree on price and/or output (1). This enables them to act together as a monopoly/earn monopoly profit (1). Groups which collude are called cartels, which are illegal in the UK (1) Game theory - game theory considers the potential reaction from other firms to a change in price by one firm (1). This explains why prices tend to not change as the most likely outcome of a game is that prices stay the same to avoid the possible reactions of the other firms (1)		

Question		Expected response(s)	Max Mark	Additional guidance
	(b)	Firms - revenue will fall for all firms in the market (1) reducing profits (1). Lower profits could lead to less funding for R&D (1). This could lead to lower levels of innovation and quality may fall (1) - firms may not make enough revenue to remain in the market/may be forced to close (1). Smaller firms are more likely to fail/larger firms are more likely to survive leading to higher market concentration (1) - some firms may benefit from competitors being forced out of the market (1) and see an increase in market share (1). They may eventually be able to raise prices making higher profit (1) - firms may be referred to the CMA if there is suspicion that they have been taking part in anti-competitive practices (1) which may lead to fines/negative publicity (1) Consumers - in the short run consumers will benefit from lower prices (1) which may lead to higher standard of living (1) - in the long run, firms may leave the market leading to less choice for consumers (1) - if there are fewer firms in the market/lower profits, quality may reduce over time (1) - eventually prices may rise due to a lack of competition (1)	5	Candidates must describe at least 2 consequences to gain full marks. Candidates must describe the consequences for both firms and consumers to gain full marks. Award 1 mark for each valid description. Award 1 mark for each valid development.

Question			Expected response(s)	Max Mark	Additional guidance
	(c)	(i)	 Diagram • correctly labelled diagram (price, quantity, p, p_1, q, q_1, MPB, MSB, $MPC=MSC$) (1) • MSB above MPB as shown (1) • original and new equilibrium point shown (1) • potential welfare gain shaded/indicated/labelled (1)	7	Award a maximum of 4 marks for the diagram. Award a maximum of 4 marks for the explanation. Award 1 mark for each valid explanation. Award 1 mark for each valid development.

Question			Expected response(s)	Max Mark	Additional guidance
			Explanation - positive externalities occur when the consumption of vaccines leads to positive impacts on the third parties (1). This is because the marginal social benefit is higher than the marginal private benefit (1). The positive externalities are ignored and as a result, vaccinations are under consumed (1) leading to a loss of social welfare (1). The socially optimum allocation of resources occurs when $MSB = MSC$ (1). In the diagram the free market equilibrium is at p_q, whereas the social optimum occurs at p_1q_1 (1) - the benefits of increased uptake of vaccinations would be reduction in medical expenditure treating individuals who catch potentially life-threatening illnesses (1), reduced absenteeism and long-term sick leave (1), reductions in lost revenue and productivity for firms/economy (1)		

Question			Expected response(s)	Max Mark	Additional guidance
		(ii)	Subsidies/free vaccinations - removes the financial barrier for consumers, increasing uptake (1) - will be costly for the government to implement leading to reduced spending elsewhere in the economy (1), however, it could potentially save future healthcare burden as fewer individuals will need treatment for serious illnesses (1) Introduce legislation making it compulsory for individuals to be vaccinated - individuals could be penalised for not getting vaccinated which would act as a deterrent, increasing uptake (1). Such a penalty could be withdrawal of medical treatment for unvaccinated individuals (1). This could be viewed as unethical and extreme and may face resistance (1). Such measures may face enforcement costs and a high administrative burden (1) Provision of information - education/provision of information about the benefits of receiving vaccinations to increase uptake (1). The effectiveness of public campaigns is dependent on trust and the quality of information (1) Other measures - increase access to clinics/vaccinations in schools to avoid barriers to uptake such as transport issues and general apathy (1) - provide incentives to encourage uptake such as vouchers or cash rewards (1) - an opt-out policy for vaccinations would still lead to a higher vaccination take-up (1)	6	Candidates must discuss at least 2 measures to gain full marks. Award a maximum of 1 mark for costs to the government Award 1 mark for each valid discussion point. Award 1 mark for each valid development.

Section 3

Question			Expected response(s)	Max Mark	Additional guidance
10.	(a)		Individual - unemployed people tend to experience lower income/have lower standards of living (1). This could lead to a rapid depletion of savings/an accumulation of debt (1) - longer term unemployment might lead to loss of skills (1) leading to the unemployed being less employable in the future (1) especially at the time of rapid technological change in the workplace (1) - loss of status/lower self-esteem resulting from longer term unemployment (1) - if unemployment occurs at the early stages of a career, it can become exceptionally difficult for that individual to gain future employment (1) leading to a long term negative effect on earning capacity (1) UK government - lower output/GDP/aggregate demand as economy is not using its full potential workforce (1) - government may need to pay higher amounts on the unemployment element of Universal Credit/housing benefit payments (1) - lower income/VAT tax revenues (1) - combination of higher spending and lower revenue can lead to a larger government budget deficit/increased national debt (1) - falling aggregate demand and lower rates of economic growth (1) leading to a negative multiplier effect (1) - government will need to allocate more resources for retraining/Job Centres etc (1) - rise in inequality/poverty (1)	8	Candidates must describe at least one cost to the individual and one cost to the UK government to gain full marks. Award 1 mark for each valid description. Award 1 mark for each valid development. Award up to 2 marks for use of accurate statistics for Question 10.

Question			Expected response(s)	Max Mark	Additional guidance
			• long-term unemployment can cause a phenomenon called hysteresis, where the natural rate of unemployment increases (1) • leads to a 'lost generation' - leading to a permanent loss of human capital and reducing the country's productive capacity in the long run (1) • mental and physical health issues leading to higher NHS cost (1) • high unemployment can signify a market failure where the labour market is inefficient. This could be due to a mismatch between the skills of the unemployed and the skills required by available jobs (structural unemployment) (1)		

Question			Expected response(s)	Max Mark	Additional guidance
	(b)		Advantages • some workers may have flexibility to choose to work at hours that suit them (1), often attractive for those workers who are trying to work around family schedules (1) • some workers may have the flexibility to work from a remote office or from home (1) • some companies pay gig workers more due to not having to pay employee benefits in addition to salary (1) • students may benefit as they can obtain a higher education while working, as both studying and the gig economy are flexible (1) • labour flexibility allows small firms to save costs (1), who may not have to pay for certain up-front costs such as staff uniforms (1) and shaving off the costs of 'dead time' (1) • labour flexibility allows small firms to quickly scale their company (1), which can help meet market demand (1) • gig economy workers are often various ages and skill level which allows firms to utilise workers for different projects (1) • labour market flexibility can attract FDI into the UK (1), which could help deliver productivity gains (1) • lower unemployment as new jobs are created (1) • the gig model can also lower the barrier to entry for many professions, allowing people to monetise their skills without the need for a traditional employer (1)	8	Candidates must discuss at least one advantage and one disadvantage to gain full marks. Award 1 mark for each valid discussion point. Award 1 mark for each valid development.

Question			Expected response(s)	Max Mark	Additional guidance
			Disadvantages • gig economy workers may not receive additional benefits, such as paid holidays, pensions and sickness pay (1) • long-term uncertainty can cause anxiety for some workers (1). Professor Guy Standing argues that this can lead to a new classification of worker called ‘the precariat’ (1) • the gig economy is often accused of exploitation of workers (1) • the highly competitive nature of gig platforms can drive down wages (1) • the lack of collective bargaining power for a fragmented gig workforce can also erode labour rights (1) • gig workers may have to track and pay their own taxes (1). This can be particularly complex for those in the gig economy because they may be working a multitude of different jobs across various sectors (1) • evidence suggests that a lot of gig workers would like more hours of work, so the gig economy could be increasing underemployment in the UK (1) • it could further inequality in the UK, as gig workers may struggle to prove they have a regular steady income when applying for a mortgage, etc (1) • it may further gender inequality, as evidence suggests female gig workers are paid less than male gig workers (1) • the gig economy is unproductive - gig workers often have dead time between jobs/Deliveroo workers are not paid for the time between deliveries (1) • gig workers can have unregulated and long working hours in order to make sufficient income (1)		

Question			Expected response(s)	Max Mark	Additional guidance
	(c)		• increase public investment in transport infrastructure projects to reduce commuting/delivery times (1) and digital infrastructure to deliver better connectivity to allow businesses to operate more efficiently (1) • introduce tax incentives such as enhanced capital allowances or investment tax credits to encourage businesses to invest in new machinery/equipment/technology (1). This helps to promote ‘capital deepening’ which is increasing the capital stock per worker (1) • encourage FDI which could bring new/improved production techniques (1) and more efficient management styles (1). Foreign firms may, however, be less attracted to the UK post-Brexit as their access to the EU market could be hindered (1) • improve education and training which may lead to a more highly skilled workforce (1). Particularly increasing the investment in early years education, as research suggests these have high long-term economic returns (1). This has been shown by the Heckman equation (1). On the other hand, education and training are expensive (1) and the effect may take years to be seen/may not boost productivity in the short term (1) • invest in the green economy/net-zero transition which could drive technological innovation (1) • government could continue to hand out devolved power to the regions which would focus on growth strategies tailored to local needs (1). This could help address the regional imbalance in productivity levels associated with the North-South divide (1) • increasing public investment in R&D in high-potential sectors like AI/life sciences/advanced manufacturing to further innovation/technology diffusion (1)	9	Candidates must discuss at least 2 measures to gain full marks. Award 1 mark for each valid discussion point. Award 1 mark for each valid development. Credit US tech firms £150bn investment in UK (1 stat).

Question			Expected response(s)	Max Mark	Additional guidance
			• fund enterprise agencies who could provide help and support to SME on how to overcome barriers to technology uptake (1) • design an immigration visa system that efficiently attracts and retains high-skilled international talent in critical sectors such as science/engineering/technology (1) • invest in digitising core public services (NHS, HMRC, etc) to deliver services more efficiently/with less bureaucracy (1) • the government could set clear and measurable productivity targets for all major government departments, underpinned by investment in technology and upskilling public sector staff (1) • subsidise housing to improve labour mobility out of areas of low productivity to areas of higher productivity (1)		

Question			Expected response(s)	Max Mark	Additional guidance
11.	(a)		Arguments in favour of targeting growth - central banks will be able to react quicker to slowdowns in the economy (1). For example, central banks reacted slowly to the 2008-9 crash because they were focusing on the inflation target (1) - central banks should be able to manage supply shock better (1) as the central bank would need to assess both the rise in inflation and the fall in GDP (1). Only targeting inflation could exacerbate the fall in GDP (1) and could lead to stagflation (1) - governments need growth to bring in tax revenue (1). Currently many governments have very high debt to GDP ratios, so not targeting growth could result in future debt ratios rising (1) - it could be argued that it is better for an economy to have 4% inflation and 2% growth, rather than 2% inflation and zero growth (1), as the latter could have a great impact on unemployment (1) - some economists argue that the social and economic costs of high unemployment outweigh the costs of slightly higher, but stable, inflation (1). They therefore suggest that the central bank's policy should prioritise maximising employment and output (1) However - GDP may be a more difficult concept for the public to understand than inflation (1). Nominal GDP could be confused with real GDP (1). Also, a low nominal GDP growth target could be seen as being anti-growth, even though its intended objective is price stability (1) - there is a wide range of forecasts over what the level of potential GDP there is in a country (1), and there is a high degree of uncertainty in forecasting (1) - data on prices is reported more frequently and up to date than GDP (1), and GDP data is also subject to considerable revision once new data comes in (1) - Government would have to change the Bank of England's mandate, which currently states it must maintain price stability (1)	4	Candidates must discuss both targeting growth and targeting inflation to gain full marks. Award 1 mark for each valid discussion point. Award 1 mark for each valid development. Award up to 2 marks for use of accurate statistics for Question 11.

Question			Expected response(s)	Max Mark	Additional guidance
			Arguments in favour of targeting inflation • there is strong evidence that inflation targeting has worked in countries that have introduced an inflation target (1) • an inflation target of 2% may be sufficient to help an economy avoid deflation (1) • low inflation increases economic growth (1), because if inflation targeting is successful then investment will follow (1) • low inflation tends to reduce inequality (1). Lower-income households spend a larger proportion of their income on necessities like food, energy, and housing and inflation often sees disproportionately high price increases in these essential goods (1), which severely erodes the purchasing power of the poor (1) • inflation targeting builds credibility, which helps to anchor inflation expectations among the public (1). This makes it easier to manage the economy, as people expect temporary price movements to return to the target (1) • monetary policy takes 18-24 months to have full effect, therefore trying to constantly fine-tune economic output as well is difficult and risks overshooting, leading to greater economic instability (1) and the possibility of a return to 'stop-go cycles' (1) However • it is not certain if the fall in global inflation in the 1990s and 2000s was due to new monetary frameworks or the effects of globalisation (1). Many economists speak on the 'China effect' in reducing inflation (1) • if a central bank targets CPI there is a risk that bubbles in asset prices may occur (1). Some economists argue that this led to the boom in house prices that led to the credit crunch in 2008 (1) • a positive supply shock could raise growth and lower inflation. A central bank that only targets inflation could cut rates in this situation and overheat an economy (1)		

Question			Expected response(s)	Max Mark	Additional guidance
	(b)		• real incomes of consumers fall if wages don't rise at the same rate as prices leading to a decline in the overall standard of living (1) • it has a particularly regressive effect on those on low-incomes/fixed incomes because they spend a higher proportion of their earnings on necessities (1). This is known as Engel's Law (1) • to counter rising inflation, the Bank of England may raise the official policy interest rate leading to increased costs for all types of borrowing (1). This could dampen aggregate demand (1) and could trigger a recession if tightening is too aggressive (1) • new government borrowing or refinancing occurring at higher interest rates can increase the nominal cost of servicing the UK national debt (1) • high domestic inflation makes a country's exports relatively more expensive for foreign buyers, which can lead to a fall in exports, worsening the country's current account balance (1). It could also lead to a reduction in business competitiveness (1). When domestic inflation is higher than in other countries, the purchasing power of the currency falls on the international market, often leading to a depreciation of the exchange rate (1) • if the interest rate on a savings account is lower than the inflation rate, the saver loses money in real terms, eroding the real value of savings and investments (1). This could have a significant impact on pensioners, as they are more likely to rely more on their savings in retirement (1) • there would be pressure on the government to increase the value of the state pension and other welfare payments in line with inflation which could have a negative impact on government spending in other departments (1)	9	Candidates must explain at least 2 implications to gain full marks. Award 1 mark for each valid explanation. Award 1 mark for each valid development. Credit any current/recent inflation figure - for example 3.8% August 2025, beef 24.9% September 2025, chocolate 15.4% September 2025 (1 stat each)

Question			Expected response(s)	Max Mark	Additional guidance
			• some workers with strong trade union power may be able to bargain for higher wages, which may increase pay claims across the economy (1) possibly leading to a wage-price spiral (1). Failed negotiations may result in industrial action which reduces productivity/economic output (1) • firms may find it hard to forecast future costs of inputs/revenue/profit margins which could discourage long-term business investment (1) • borrowers may benefit if the real interest rate of loans is negative resulting in additional discretionary income (1) • individuals may benefit if there is a sustained period of asset price inflation increasing their wealth (1) • resources may be diverted into non-productive assets that serve as an inflation hedge (such as real estate/precious metals) rather than productive business ventures reducing levels of enterprise (1)		

Question			Expected response(s)	Max Mark	Additional guidance
	(c)		• r-star (r^*) is the theoretical neutral interest rate (1). It is also referred to as the long-run equilibrium interest rate (1) • in the long-run, it is an interest rate that should not create more inflationary pressures (either increase or decrease) (1), nor increase or decrease the unemployment rate (1) • if the actual real interest rate is below r^* monetary policy is stimulative (expansionary/accommodative) (1). If it is above, monetary policy is restrictive (contractionary) (1) • r-star cannot be directly observed, making it a challenging but essential concept for central banks to estimate and use in their policy decisions (1) • r-star is driven by long-term, structural, non-monetary factors in the economy, making it a slow-moving variable that evolves over decades (1) or r-star is not static but changes over time due to evolving economic conditions, such as demographic shifts, technological advancements, and changes in consumer behaviour (1) • higher long-term productivity and potential GDP growth tend to increase r-star (1) • an aging population tends to save more rather than invest, due to being risk-adverse, putting downward pressure on r-star (1) • a global "savings glut" or an increase in the demand for safe assets (like government bonds) tends to lower r-star (1) • r-star serves as the essential long-run anchor for central bank decisions (1) • after the 2008 financial crash r^* was at a much lower level than current estimations (1)	4	Candidates must describe at least 2 concepts to gain full marks. Award 1 mark for each valid description. Award 1 mark for each valid development. Credit candidates who refer to r-star as the 'goldilocks' rate of interest.

Question			Expected response(s)	Max Mark	Additional guidance
	(d)		• new technologies such as AI/automation may make many jobs obsolete (1). Andy Haldane, chief economist of the Bank of England, has warned that ‘large swathes’ of people could become ‘technologically unemployed’ (1). A paper prepared by Oxford academics - The Future of Employment - also predicts nearly half of jobs are at risk of automation (1) • some occupations are more susceptible to replacement by AI eg driverless vehicles may destroy jobs in transportation industry (1) • ‘hollowing out’ of the jobs market could result in rising inequality (1) as automation may accelerate the ‘hourglass economy’ - increase in high-skill and low-skill jobs but a decrease in medium-skill jobs (1). Guy Standing has argued that this could result in an ever increasing ‘precariat’ class of worker (1) • there has been a recent sudden drop in graduate entry-level jobs which are being replaced by AI (1). Over the past two and a half years the availability of such positions has dropped by a third (1 stat) • new jobs that help build, maintain or collaborate with new technology could be created (1) • jobs that require team-working, face-to-face interaction, creativity, and empathy are less at risk (1) • workers may need to re-train throughout their working lives - lifelong learning (1) • investment in automation may help boost productivity (1) • significant public and private investment will be needed in digital infrastructure (1) • UK tech sector growth could create a vital source of wealth for the UK economy (1), as the UK is a global leader in emerging technologies like AI/advanced semiconductor design/quantum computing, which will attract significant private investment (1)	8	Award 1 mark for each valid description. Award 1 mark for each valid development.

Question			Expected response(s)	Max Mark	Additional guidance
			• some economists predict mass unemployment in the future (Martin Ford in The Rise of the Robots) (1) • so-called '3D jobs' - dirty, dangerous and demeaning - may be replaced by robots (1) which could improve the health and wellbeing of the workforce (1) • a collaborative robot (cobot) that works alongside a human may help raise productivity (1). Some firms such as Ocado are already adopting this approach (1) • to compensate for the disruption to employment a 'robot tax' may be adopted (1) • global inequalities may increase with digital workers in the developed world making greater gains (1). This could exacerbate the problems highlighted by the 'elephant curve' (1) • some companies such as Uber and Boeing are developing eVTOL (electric vertical and take-off and landing) flying taxis which could revolutionise the way we travel to work/socialise (1) • drones are being developed to assist with deliveries, which will speed up the transportation of small goods around the economy (1) • increasing use of automation may result in people adopting a 4-day working week which would increase leisure time (1) • digital technology may allow some workers to travel and work at the same time, increasing labour mobility (1) • there are concerns that some tech firms may acquire monopoly power which may be detrimental to consumers (1) • 5G mobile networks could revolutionise logistics as it will offer real-time monitoring of supply-chains (1) • cryptocurrencies such as Bitcoin are posing challenges to efforts to combat money laundering and other illicit activities (1). However, others argue that the underlying technology behind these currencies (blockchain) will likely revolutionise finance by making transactions faster and more secure (1)		

Question			Expected response(s)	Max Mark	Additional guidance
			- quantum computing offers the opportunity of much more complex computer modelling which could be used to develop new products (1) and further breakthroughs in medical science/climate prediction (1) - some economists argue based on Schumpeter's Creative Destruction theory that this is just a natural consequence of technological development, and is no different from steam/oil/electricity-based advances (1)		

Question			Expected response(s)	Max Mark	Additional guidance
12.	(a)		- the primary role of the Office for Budget Responsibility (OBR) is to provide independent/authoritative analysis of the UK's public finances (1) - it acts as the UK's official economic and fiscal watchdog, aiming to increase transparency and credibility in government financial policy by preventing the government from "marking its own homework" (1) The OBR's work revolves around five core functions: Economic and fiscal forecasting - it produces detailed five-year forecasts for the economy and the public finances (1). These forecasts are published twice a year, accompanying the Budget Statement and the Spring Statement (1). They incorporate the impact of any tax and spending measures announced in those statements (1) Evaluating performance against targets - it assesses the extent to which the government is on track to meet its own self-imposed fiscal rules or targets (1) eg reducing debt as a share of GDP, or balancing the current budget (1) Sustainability and balance sheet analysis - it assesses the long-term sustainability of the public finances (1), examining the impact of demographic change, climate change, and other long-run trends on government debt (1) Evaluation of fiscal risks - it publishes reports detailing potential fiscal risks to the public finances from the economy and financial system (1)	7	Award 1 mark for each valid description. Award 1 mark for each valid development. Award up to 2 marks for use of accurate statistics for Question 12.

Question			Expected response(s)	Max Mark	Additional guidance
			Scrutinising tax and welfare policy costing • it scrutinises the government’s costing of individual tax and welfare spending measures at each Budget (1). The OBR gives its endorsement (or not) to the central estimates for how much a new policy will raise or cost (1) and assigns an uncertainty rating to these costings (1). It produces a welfare trends report, at least once a year, to examine the drivers of welfare spending (1) • it produces forecasts for taxes and spending that have been devolved to the Scottish and Welsh Governments (1) • the OBR was established by the Budget Responsibility and National Audit Act 2011 as a non-departmental public body to ensure its independence from political influence (1). It is accountable to Parliament for its analysis and appears before the Treasury Select Committee to explain its forecasts and judgements (1)		

Question			Expected response(s)	Max Mark	Additional guidance
	(b)		Arguments for • Heathrow is the UK's only true hub airport, which is essential for linking the country to major and emerging long-haul markets (1) • Heathrow is the UK's largest port by value, supporting almost £200 billion in cargo each year (1 stat)/21% of UK trade in goods by value (1 stat). Another runway would boost the UK economy (1) • Heathrow is already close to full capacity and is unable to cope without a third runway (1). The airport is at 99.2% capacity (1 stat) • thousands of jobs would be created in construction (short term) and tourism (long term) (1) • lack of expansion could threaten London's position as a major financial trading city (1) • adoption of new technology such as hydrogen fuelled planes will address pollution concerns (1) • international flights would go elsewhere, so overall emissions would not be reduced globally (1) • an additional runway could lead to cheaper fares/greater choice for passengers (1) • predominantly funded by private investment, therefore limited impact on the public purse (1)	8	Candidates must discuss at least one argument for and one against to gain full marks. Award 1 mark for each valid point of discussion. Award 1 mark for each valid development.

Question			Expected response(s)	Max Mark	Additional guidance
			Arguments against • air pollution/noise pollution (negative externality) (1). Particular health costs to Londoners (1) • new runway would bring many transit passengers, which would only boost airline profits (1) • future demand for flying is predicted to drop, some economists argue (1) • poor infrastructure around Heathrow would lead to further heavy congestion in the area (1) this could require additional public investment to upgrade infrastructure/move M25 (1) • greenbelt land would have to be utilised to build runway (1) which could result in negative impact for local residents who have their homes compulsorily purchased/demolished (1) • a further runway at Heathrow could contribute to a further North/South economic divide (1) • there is a risk that by drawing in new air routes, it could undermine regional airports, leading to job losses (1) and reduced connectivity elsewhere in the UK (1)		

Question			Expected response(s)	Max Mark	Additional guidance
	(c)		Arguments for - Scotland could re-join the EU, which would give the country access to the single market (1). This could give Scotland access to free movement of labour, goods, services, and capital (1). Having control over its migration policy could allow Scotland to boost its working age population (1) - Scotland could adopt Euro meaning there would be no transaction costs/price transparency with EU member countries (1) - the Scottish government would have full control over its spending and taxation (1). This could result in higher spending on public services etc (1) - Scottish government could create a simpler tax system (1) and scrap the over 1,000 tax exemptions currently part of the UK tax system (1) - independence may give freedom to set a low corporation tax rate and attract business from overseas (1) - if Scotland had its own central bank, it could have full control over monetary policy (1) - Scotland would gain full control over North Sea oil and gas/ renewable energy potential (wind, tidal) (1). Advocates argue that revenue from these resources could be used to fund a significant portion of public spending and investment (1) - advocates often point to small, independent, high-income European countries like Norway and Denmark as models, arguing that Scotland has the fundamental resources and human capital to achieve similar long-term prosperity (1)	10	Candidates must describe at least one argument for and one argument against to gain full marks. Award 1 mark for each valid description. Award 1 mark for each valid development. Answers must be economic not political. Watch for straight flips.

Question			Expected response(s)	Max Mark	Additional guidance
			Arguments against • Scotland re-joining the EU could present difficulties, as England is Scotland's largest trading partner (1) • Scotland may have to adopt the Euro as its currency and would have no control over monetary policy set by the European Central Bank (1). Long timeframe for adopting the Euro could create economic uncertainty (1) • leaving the UK could create result in the introduction of non-tariff barriers (customs, regulation divergence, administrative costs) with the rest of the UK (1) • Scotland may be burdened with an initial high level of public debt (1) as Scotland's public deficit is currently greater than that of the rest of the UK (1). Upon independence, Scotland would immediately need to manage this deficit, which would require either significant tax increases/substantial cuts to public services (1) • calculated under the Barnett formula, the Block Grant for Scotland results in proportionally greater funding per head of population than in England (1). Independence may make it more difficult to maintain this spending (1) • critics argue that 'sterlingisation' without a formal currency union (which the UK government has ruled out) would leave Scotland with no central bank and no lender of last resort, and no ability to set its own interest rates or monetary policy (1), exposing the economy to external shocks (1) • Scotland could lose its access to transnational organisations such as the G7 and G20 (1), which is currently granted through its union with the rest of the UK (1) • a small independent country may be faced with additional pressures during times of financial uncertainty (1). For example, after the credit crisis, the UK government had to bail out the Royal Bank of Scotland and HBOS with close to £70bn (1 stat); Scotland could have struggled to raise this finance (1)		

Question			Expected response(s)	Max Mark	Additional guidance
13.	(a)		Arguments for - tariffs shelter domestic companies (1), which might otherwise struggle against cheaper or more established foreign competition (1), thereby preserving domestic jobs/production capacity (1) - proponents argue that newly established infant industries need protection to grow (1), allowing them to achieve economies of scale/become internationally competitive (1) - tariffs are a predictable and significant source of tax revenue for government (1) - tariffs aim to reduce the volume of imports, which can potentially improve the balance of trade/reduce a trade deficit (1) - tariffs can be justified to ensure a country maintains domestic production of strategic goods (1). For example, steel/aluminium/essential agricultural products would be critical for national security in times of conflict/supply chain disruption (1) - tariffs can be used as a political or economic tool to put pressure on foreign governments to change unfair trade practices (1) or grant concessions in trade negotiations (1) - tariffs can be used to prevent 'dumping'/flooding the market (1)	8	Candidates must describe at least one argument for and one argument against to gain full marks. Award 1 mark for each valid description. Award 1 mark for each valid development. Watch for straight flips. Award up to 2 marks for use of accurate statistics for Question 13.

Question			Expected response(s)	Max Mark	Additional guidance
			Arguments against - tariffs can result in higher consumer prices (1), which may be inflationary (1), and this could result in a lower standard of living (1) - there would be less competition for domestic firms (1), which could reduce the incentive to innovate/become more efficient/adopt new technology (1). Resources may therefore be kept in less productive, protected sectors rather than shifting to more efficient ones, leading to a misallocation of resources (1) and slower long term economic growth (1) - the imposition of a tariff often prompts the targeted trading partner to implement retaliatory tariffs (1). This could escalate into a trade war which could reduce overall global trade (1) - tariffs may cause a country's currency to inadvertently appreciate (1), which makes its exports more expensive and less competitive on the global market (1). Furthermore, exporters who rely on imported components as inputs face higher costs, damaging their competitiveness (1) - tariffs can interrupt global supply chains (1), especially when intermediate goods (parts and components) are affected (1) - tariffs by developed economies can harm exporters in developing economies (1), limiting their economic development and access to global markets (1)		

Question			Expected response(s)	Max Mark	Additional guidance
	(b)		- Germany's key export industries have faced increased foreign competition (1) - Germany has been faced with high energy costs in recent years (1), and it has been argued that Germany has become too dependent on Russian energy companies (1) - consumer spending has remained very low since the pandemic (1) - productivity in Germany has been falling in recent years (1) - there have been criticisms that Germany's car industry has shown an inability to adapt successfully to producing EVs (1), and Germany's main export market for cars is China which is now producing its own EVs (1). VW will close one of its factories for the first time in the company's history (1) - German car industry 'dieselgate' emissions scandal may have turned consumers away from buying German cars (1) - Germany's economy has been kept under control by a debt brake (Schuldenbremse) (1), which under German law has to have a very low debt to GDP ratio (1). Many economists believe that Germany needlessly sacrificed economic growth for fiscal responsibility (1) - many commentators have highlighted Germany's resistance to digital change (1), with more than 80% of German firms still using fax machines (1 stat) - it has been argued that Germany has pursued 'neo-mercantilism', which is a policy of building up large trade surpluses (1). It is argued this has led to hostile trade relationships over time (1) - many commentators point to the high levels of bureaucracy for delivering decision making inertia (1)	8	Candidates must describe at least 2 reasons to gain full marks. Award 1 mark for each valid description. Award 1 mark for each valid development.

Question			Expected response(s)	Max Mark	Additional guidance
			• it has been argued that the closeness between Germany's large established firms and politicians suppresses innovation (1). This is the view held by Wolfgang Münchau in Kaput: The End of the German Miracle (1) • there have been high-profile examples of entrepreneurial 'brain drain' (1). AI pioneers such as Jurgen Schmidhuber, whose work enabled the technology behind ChatGPT has left the country to set up his own company abroad (1) • German patent applications have been falling in recent years (1) • it has been argued that growing wealth inequality has led to social immobility in Germany (1) • Germany's economy contracted by 0.3% in 2023/0.2% in 2024 (1 stat for either)		

Question			Expected response(s)	Max Mark	Additional guidance
	(c)		Economic implications for developed economies • migration, particularly of younger workers, helps to expand the labour force (1) resulting in a small negative impact on wages due to increased competition (1) • migration could also fill labour shortages in specific sectors (1). Migrants often fill low-skilled, '3D' jobs that domestic populations are unwilling to take (1) • migrants tend to be younger and have higher fertility rates (1) which help mitigate demographic decline (1) and relieve pressure on pension systems and healthcare services (1). This can be critical for many developed economies with aging populations (1) • economic studies often find that migrants are typically net contributors to public finances (1). However, there may be an increased pressure on existing public services such as housing, education, and healthcare (1) • inward migration is associated with an increase in GDP per capita/labour productivity (1). Highly skilled migrants contribute to innovation and entrepreneurship (1) • increased AD due to an increase in size of the working population (1) • adds to urbanisation which requires public investment in infrastructure (1)	9	Candidates must analyse at least 2 implications to gain full marks. Award 1 mark for each valid analysis. Award 1 mark for each valid development. Candidates can analyse the impact on just developed economies, or the impact on both developed and developing economies, and the global economic implications.

Question			Expected response(s)	Max Mark	Additional guidance
			Economic implications for developing economies • remittances act as a source of foreign exchange and external financing (1). Remittances also increase household income which could increase access to education and health services (1). These financial flows are often considered less volatile and more stable than other capital flows (1) • outward migration of highly skilled and educated workers will lead to a loss of human capital/brain drain (1) • the "brain gain" effect argues that the prospect of migrating and earning a higher income abroad encourages more people to pursue higher education than they otherwise would (1), potentially leading to an overall increase in the pool of skilled workers in the long run (1) • developing economies could benefit from 'circular migration' which is the return of migrants with enhanced skills/knowledge/savings (1) Global implications • migration acts as a global redistributor of labour, reallocating human resources to where they are most needed (1) and can increase overall global economic efficiency (1) • migration can reduce global income inequality (1)		

[END OF MARKING INSTRUCTIONS]