Assessment Schedule – 2009

Economics: Describe inflation and its causes and effects using economic models (90794)

Evidence Statement

Q	Evidence	Code	Achievement	Merit	Excellence
ONE (a)	Deflation	**A**	Correct answer.		
(b)	• Increase in price of packaged holidays is a price increase in **one market only**. • For inflation to occur, there must be an **increase in the general price level**.	**A or M**	ONE point correct.	BOTH points correct.	
(c)	• AS curve shifted to the left with new curve labelled. • New PL and Y correctly labelled. (See **Appendix One**.)	**A or M**	FIRST point correct.	BOTH points correct.	
(d)	• An increase in the price of fuel will increase **transport costs for firms**. • Hence, there will be a general increase in the **costs of production** and • thus **AS curve shifts to the left / declines**, resulting in **cost push inflation** • PL increases as firms **raise prices to maintain their profit margins** OR AS shifts left as production is **less profitable** so PL increases.	**A or M or E**	ONE point correct.	TWO points correct, including a link to AS decreasing or cost push inflation.	THREE points correct, including some reference to profit.

Q	Evidence	Code	Achievement	Merit	Excellence
TWO (a)	A decline in the inflation rate	**A**	Correct answer.		
(b)	(i) Recession / downswing / contraction / depression stage (ii) because consumption / spending / investment decrease **and** AD / economic activity will be declining OR economy will have excess capacity / idle resources **due to** AD / economic activity declining.	**A** **or** **M**	FIRST point correct.	BOTH points correct.	
(c)	• AD curve shifted to the right and labelled • plus higher PL and Y correctly labelled (See **Appendix Two**.)	**A** **or** **M**	FIRST point correct.	BOTH points correct.	
(d)	• Lower interest rates will increase **consumption / spending** as households will have **lower mortgage payments** or people will be **borrowing more** because the **cost of borrowing has decreased**. • People will be **saving less** because the **return on saving has fallen**. • Lower interest rates will increase **investment** as it is **cheaper for firms to borrow** and invest. • Exchange Rate depreciates, and this will increase Net Exports. • AD will increase / shift to the right, **resulting in demand pull inflation**.	**A** **or** **M** **or** **E**	ONE point correct.	TWO points correct including link to AD increasing.	THREE points correct, including reference to demand pull inflation.

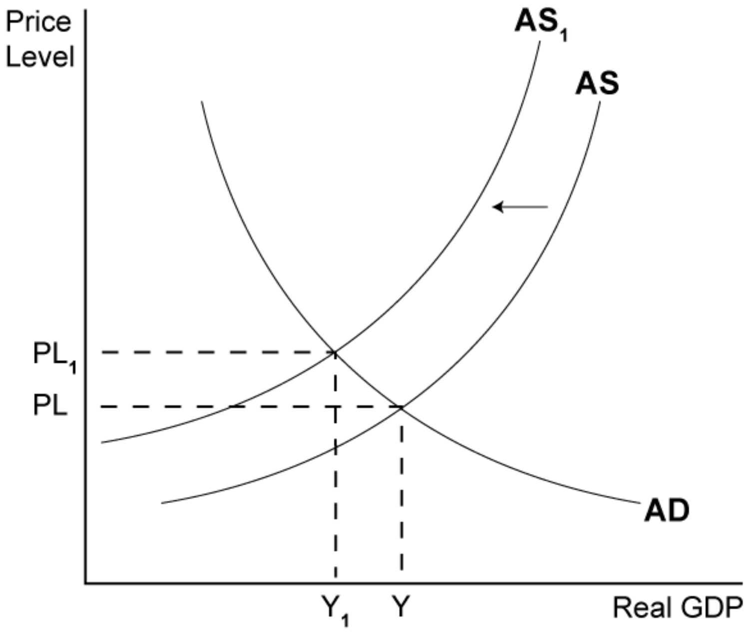
Q	Evidence	Code	Achievement	Merit	Excellence
THREE (a)	• Tania's **real** income, or purchasing power of income, would decline. OR • Her income could increase if she could negotiate a higher salary because of inflation.	**A**	Correct answer.		
(b)	• The **real value / purchasing power** of Tania's savings will decline • **because** she can purchase less in the future with her savings as inflation rises. OR • Tania's ability to save will **decrease** • **because** to maintain current consumption, she will need to spend more of her income.	**A** **or** **M**	ONE point correct.	BOTH points correct.	
(c)	• An increase in inflation may increase the **capital gain** on Tania's house • because of house prices increasing. OR • Increasing inflation will reduce the **real value** of her fixed rate mortgage • because the interest rate will not increase to match inflation.	**A** **or** **M**	ONE point correct.	BOTH points correct.	
(d)	An increase in inflation would most likely have a **negative** impact on Leroy's business because • his cost of materials and labour may increase (as workers negotiate higher wages) so **cost of production would increase** • his exports would be less competitive, so would result in a **drop in revenue** • consumers may reduce spending on luxuries such as jewellery, also reducing revenue • so **profits would decline as costs rise and revenue drops**. OR An increase in inflation might have a positive effect as consumer inflationary expectations could enable Leroy to increase his prices / revenue more than is necessary to cover costs so his profit could be **increased**.	**A** **or** **M** **or** **E**	ONE point correct.	TWO points correct.	THREE points correct, including the correct reference to profit.

Judgement Statement

Achievement	Achievement with Merit	Achievement with Excellence
6 **A**	4 **M** 6 **A**	1 **E** 4 **M** 6 **A**

Appendix One – for Question One (c)

Aggregate Supply and Demand Model



Appendix Two – for Question Two (c)

Aggregate Supply and Demand