Assessment Schedule – 2008

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

Evidence Statement

Code	Question	Evidence	Achievement	Merit	Excellence
A	**One** (a)	**M**: the money supply **V**: the velocity of circulation **P**: the price level **Q**: the real output	Identifies THREE.		
A^c or M^c	(b)	An increase in the money supply leads to an increase in price level, which is inflation if V and Q remain relatively constant.	Identifies increase in price level and therefore inflation.	Explains increase in inflation. Includes reference to V and Q.	
A	(c)	**Dec**: deflation **Mar**: inflation **Jun**: inflation **Sep**: disinflation	Identifies THREE.		
A	(d)	A fall in the general price level / negative inflation.	Includes correct description.		
A^c or M^c	(e)	An increase in the price of oil is more likely to cause inflation than an increase in the price of butter because oil is used to transport a large number of other goods and services. The flow-on effect will be to increase prices of many other goods and services. Inflation occurs when there is a general increase in prices. Butter is only one good, so an increase in the price of butter may contribute to but will not cause inflation.	Includes brief description or definition of inflation – increase in the general price level, not just the increase in price of one good.	Explains that oil causes general price increase but butter will not.	
A^c	**Two** (a)	• demand-pull • cost-push • demand-pull • cost-push	Identifies THREE.		
A^c or M^c	(b)	See **Appendix Two (b)**.	Correctly labelled: • price level • real GDP • AS • AD.	As for **Achievement** plus AS curve shifted left and labelled AS′ plus changes to PL and Y.	

M[C]	**Three** (a)	See **Appendix Three (a)**.		Correctly labelled: • price level • real GDP • AS • AD • equilibrium PL • Y **plus** Shows AD shifted to right and labelled AD′ with new equilibrium PL′ and Y′.	
M[C]	(b)	Eg Increased incomes for dairy farmers from exports mean that they spend more, so consumption increases and AD increases.		Explains movement.	
A[E] **or M**[E]	(c)	Eg Exporters are receiving a higher price for their products, so they are encouraged to increase their output. Exports are a component of AD and GDP; so if exports increase, so too does GDP; and, therefore, growth increases.	Includes idea that exports increase because the price has increased.	Explains relationship between high export prices and growth AND that Y will shift to Y_1.	
A[E] **or M**[E]	(d)	Eg Inflation will rise as AD increases because high prices for dairy products are passed on to consumers. Inflation increases because dairy farmers receive higher incomes and therefore there is demand-pull inflation due to increased spending by the farmers.	Includes idea that higher export prices are passed on to local consumers OR higher export prices result in demand pull inflation.	Explains relationship between high export prices and inflation and labels the shift from PL to PL_1.	
E					Merit for THREE of 3(a), 3(b), 3(c) and 3(d)

A	**Four** (a)	Real wage increase was 0.7%.	Identifies increase in real wage.		
A **or** **M**	(b)	The difference between nominal wages and real wages is that nominal wages are in current dollars and can be used for comparison within a year. Whereas real wages are in constant dollars / purchasing power / nominal wages less inflation and can be used for comparison over a number of years.	Gives explanation of nominal wage or real wage.	Explains the difference between nominal wage and real wage.	
M^E **or** **E**	(c)	Households will feel less wealthy as the value of the equity in their houses falls. The actual income of the household has not necessarily changed, but the sense or feeling of wealth has decreased as the value of their house has decreased. This will result in less consumption spending by householders. When the value of houses was rising, some consumers borrowed against the value of their house to consume other goods and services. The demand for those goods and services will, therefore, decrease as the value of the house decreases. As consumers spend less, inflationary pressure will ease off, so the rate of inflation may decrease.		Includes partial explanation of the wealth effect and the decrease in inflationary pressure.	Includes a full explanation of the wealth effect. Reference should be made to a decrease in inflationary pressure.
A^E **or** **M^E** **or** **E**	**Five**	The inflation rate is likely to increase in a boom because the demand for goods and services is likely to be greater than the economy's capacity to supply the goods and services. Upward pressure is put on prices because firms bid up the cost of resources. In a downswing of the economy, the demand for goods and services is likely to be less than the economy's capacity to supply, so the inflation rate will decrease because there is less pressure on prices.	Describes how the inflation rate increases in boom and decreases in recession.	Explains the link between inflation and business cycle. Includes the effect of inflation during an upswing or downswing of the business cycle.	Fully explains the link between inflation and the business cycle, including reasons for demand and supply pressures / demand-pull and cost-push pressures in the upswing and downswing of the business cycle.

Judgement Statement

Achievement	Achievement with Merit	Achievement with Excellence
Minimum of: $1 \times A^C$ *and* $1 \times A^E$ *and* 5 other A or M or E	**Minimum of:** $1 \times M^C$ *and* $1 \times M^E$ *and* 8 other A or M or E	**Minimum of:** $1 \times E$ *and* $1 \times M^C$ *and* $1 \times M^E$ *and* 9 other A or M or E

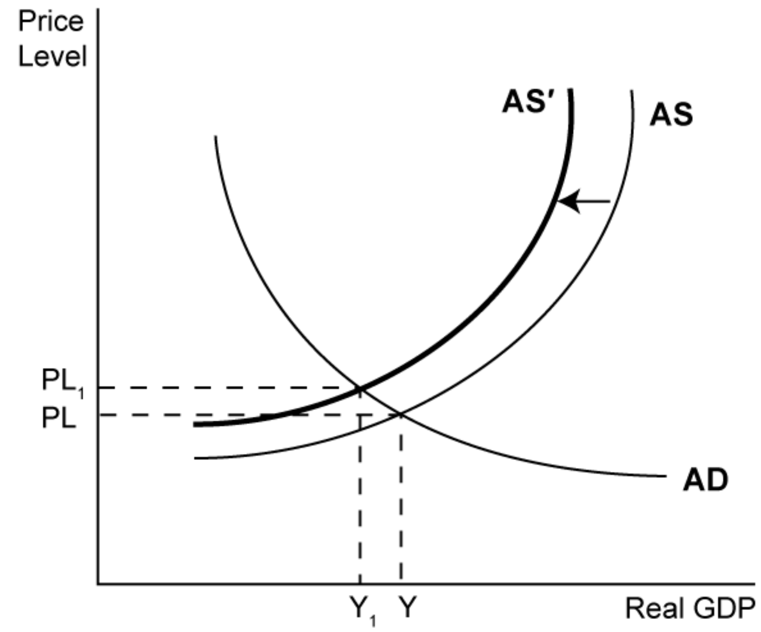
Codes:

The suffix ^{C} in A^C and M^C refers to causes.

The suffix ^{E} in A^E and M^E refers to effects.

Appendices

Two (b)



Three (a)