***AQA AS Economics exam practice answers***

8 Economic performance

**1** Disinflation occurs where there is a fall in the rate of inflation (i.e. prices are still rising but at a lower rate of increase). [3]

**2** One mark can be awarded for the identification of each relevant issue and 1 mark for each accompanying explanation. Three issues are required. Relevant issues may include:

* Inflation is the percentage change in the price level over the period of 1 year.
* It is based on a basket of goods representing typical households’ expenditure.
* The basket of goods is weighted to represent different amounts spent on different goods.
* The basket is uprated each year, with new items added and some items removed when they become less relevant to households.
* The government has a target for inflation based on the CPI basket of 2% per year (+/−1%) [6]

**3** One mark can be awarded for the identification of each relevant issue plus 1–2 additional marks for each accompanying development/explanation. Two issues are required. Relevant points could include:

* lower exchange rate leading to higher import prices
* higher VAT meaning firms mark-up their selling prices to maintain profit margins
* higher commodity prices will mean higher input prices for firms and prices rise to restore profit margins/cover costs [6]

**4** Up to 4 marks can be awarded for a correctly drawn diagram, such as the following:



Up to 6 further marks can be awarded for an explanation of the effects on the economy. Relevant points would include:

* higher costs leading to higher inflation
* lower level of GDP
* higher level of unemployment
* likely policy response to reduce inflation (possibly)
* likely fall in less competitive exports [10]