Quick Answers

Question 1

Analyse how a central bank might reduce household borrowing.

Coherent analysis which might include:

- It might increase the rate of interest (1) this would increase the cost of borrowing (1) this may discourage households from buying items/encourage saving (1) that would require them to take out a loan (1)
- It might impose restrictions on the amount that banks can lend (1) these may limit the size of a loan a household can get (1) or increase the conditions that have to be met before a loan is given (1)
- It might reduce the money supply (1) which may reduce spending (1) and so may reduce demand for loans (1)

Question 2

Analyse how a cut in the interest rate could reduce poverty.

Coherent analysis which might include:

- Cost of borrowing will fall / reward from saving will decline (1) increase borrowing / demand for loans (1) consumer spending will increase (1) firms may invest more (1) output may rise (1) unemployed gain jobs / employment may increase (1) incomes may rise / reduction in absolute poverty (1)
- The poor who have borrowed in the past (1) will have more money to spend on basic necessities (1) spend on education (1) improve skills (1) get better paid jobs (1) reducing relative poverty (1)
- Housing may be cheaper (1) making shelter more accessible (1)
- May enable some of the poor to borrow to start up small businesses (1) and earn a higher income (1)
- Cheaper for government to borrow (1) enabling it to spend more on education/healthcare (1)

Question 3

Define monetary policy

- Policy to control the supply of money / demand-side policy (1) by changing interest rates / influencing the price of money (1) exchange rates / Quantitative Easing (1)

Question 4

Analyse how firms may be affected by a rise in the rate of interest.

- It will increase the cost of borrowing (1) this may discourage firms from investing (1) reducing their growth (1) may put up their prices (1).
- Firms may decide to save more (1) as the return will increase (1) the opportunity cost of investment will rise (1).
- It may increase the cost of past loans (1) reducing firms' profits (1).
- Demand for consumer goods may fall (1) as consumers will be discouraged from borrowing (1) be encouraged to save (1) so lower demand will reduce firms' revenue (1).

Question 5

Discuss whether or not a fall in interest rates will benefit an economy.

Up to 5 marks for why it might:

- Cost of borrowing decreases / borrowing increases (1) may cause increase in consumption (1) investment (1) decrease in savings (1) total (aggregate) demand increases (1) economic growth (1) reduces unemployment (1)
- May increase spending on research and development (1) increase productivity (1) increase potential growth (1)

- Value of currency will fall (1) decrease price of exports (1) increase price of imports (1) net exports increases (1)

Up to 5 marks for why it might not:

- May cause inflation (1) due to increased levels of borrowing / consumption / demand (1)
- Returns from savings decreases (1) those who rely on savings will suffer (1) e.g. pensioners (1)
- Value of currency will fall, increasing price of imports (1) decreases choice / reduce purchasing power (1) decrease standards of living (1) cost-push inflation (1)
- Could result in firms/individuals borrowing who would not be able to repay if the interest rate rises (1) unsustainable economic growth (1)

Question 6

Identify one way in which monetary policy differs from fiscal policy

- Fiscal policy includes taxes / government spending (1) monetary policy includes interest rates / money supply / exchange rate (1)
- Fiscal policy is conducted by the government of the country (1) while monetary policy is conducted by the central bank of the country (1)

Guidance

- Maximum 1 mark for reference to only monetary OR fiscal