IQM3005

LEVEL 3 · CONTROLLED STAFF DOCUMENT

INTO QUALIFICATIONS

Economics

Component 3: Paper 2 written examination

STAFF ONLY · Mark scheme

Duration
2 hours 30 minutes

Total marks
60

Assessment window
To be assigned before issue

Assessment set
Set S of 2026

Audience
Staff only

Release timing
exam release

Exam date
_____

Assessment set ID
2026-S

STAFF ONLY · Use only this assessment-specific scheme and approved standardisation decisions.	
Assessment window To be assigned before issue	**Exam date** _____
Paper Paper 2	**Assessment set** Sample 2026 · ID 2026-S

General marking principles

- Record every awarded mark in the corresponding OCR-readable annotation on the candidate response document.
- Credit equivalent valid answers only where the approved item-specific scheme permits them.
- Do not infer grade boundaries from raw marks; award boundaries are held in programme specifications.
- Section A contains 20 compulsory MCQs; Section B contains four compulsory short-answer questions worth 20 marks in total; Section C requires one selected 20-mark extended response.

Section A: award one mark for each correct option; no negative marking. Where two options remain selected and the intended answer is unclear, award zero. Section B: mark all four compulsory questions using the item-specific allocations below; apply the printed maxima and credit equivalent accurate reasoning only where stated. Section C: read the whole selected response, award AO1, AO2, AO3 and AO4 separately from 0–5, then add the four scores to /20. If more than one Section C alternative is answered, retain all responses and refer to the controlling excess-answer rule or examination lead. Raw totals are out of 60: Section A /20 + Section B /20 + Section C /20.

Section A · Multiple-choice questions

Award 1 mark for each correct answer.

Question	Correct answer
A1	B · 2 units of food Award one mark only for the correct option. No negative marking. The economy forgoes 100/50 = 2 food units per machine. The slope is constant.

Question	Correct answer
A2	D · Many firms, differentiated products and relatively free entry. Award one mark only for the correct option. No negative marking. Monopolistic competition combines many firms, product differentiation and relatively free entry. A describes perfect competition, B oligopoly and C monopoly.
A3	C · Higher price and lower equilibrium quantity Award one mark only for the correct option. No negative marking. A leftward supply shift creates excess demand at the old price; price rises and equilibrium quantity falls.
A4	A · It rises by 5.6%. Award one mark only for the correct option. No negative marking. Revenue is multiplied by 1.10 × 0.96 = 1.056. Adding percentage changes gives an inexact result.
A5	B · Non-rivalry and non-excludability Award one mark only for the correct option. No negative marking. Ownership and price do not define whether a good is public.
A6	C · Marginal social cost exceeds marginal private cost. Award one mark only for the correct option. No negative marking. Marginal external cost is added to marginal private cost to obtain marginal social cost.
A7	D · successive units of a variable input eventually add less output while at least one input is fixed. Award one mark only for the correct option. No negative marking. Falling marginal product does not require negative marginal product or falling total output.

Question	Correct answer
A8	C · 3 units Award one mark only for the correct option. No negative marking. Profits are −£2, £1, £2 and −£1. Three units yields the largest profit among the listed outputs.
A9	D · earn normal profit and produce at minimum average cost. Award one mark only for the correct option. No negative marking. Free entry/exit removes abnormal profit in the standard model; price equals marginal cost and minimum average cost.
A10	A · interdependence in an oligopoly. Award one mark only for the correct option. No negative marking. Anticipating rivals' reactions is interdependence. It does not itself establish a collusive agreement.
A11	C · 5 Award one mark only for the correct option. No negative marking. The multiplier is 1/(1 − 0.8) = 5 under the stated model assumptions.
A12	B · A manufacturer buying a newly produced machine Award one mark only for the correct option. No negative marking. Purchases of newly produced capital goods are investment; transfers of existing financial assets are not current production.
A13	D · 0% Award one mark only for the correct option. No negative marking. Real GDP in the second year is 110/110 × 100 = £100 billion at base-year prices.

Question	Correct answer
A14	A · structural unemployment. Award one mark only for the correct option. No negative marking. The stated skills mismatch identifies structural unemployment; the question gives no general fall in demand.
A15	B · higher inflation and lower unemployment. Award one mark only for the correct option. No negative marking. Demand expansion raises employment and inflation along a given short-run curve; it does not alone lower the natural rate permanently.
A16	C · a £10 billion deficit. Award one mark only for the correct option. No negative marking. Spending exceeds tax revenue by £10 billion. This is a flow deficit, not a measure of accumulated debt.
A17	A · Most mortgage borrowers have fixed rates that will not reset for several years. Award one mark only for the correct option. No negative marking. Delayed mortgage repricing weakens or postpones this specified transmission channel. Other channels may still operate.
A18	B · X in wheat and Y in cloth Award one mark only for the correct option. No negative marking. The opportunity cost of wheat is 0.5 cloth in X and 1 cloth in Y. The opportunity cost of cloth is 2 wheat in X and 1 wheat in Y.
A19	D · 100 units Award one mark only for the correct option. No negative marking. The domestic currency has depreciated. The new price is 80 × 1.25 = 100 domestic-currency units.

Question	Correct answer
A20	C · Protection may support component producers but weaken exporters, so its overall employment effect is uncertain. Award one mark only for the correct option. No negative marking. C weighs gains to protected producers against higher imported-input costs for exporters. The evidence does not establish the net employment effect. A assumes relative job numbers, B assumes successful re-employment and D infers the national effect from one sector. The question samples recognition of an evidence-supported judgement, not a constructed evaluative argument.

Section B short-answer and Section C extended-response mark schemes

Item ID	Question / requirement	Solution and allocation	Alternatives / notes	Max
B1	A firm raises its price by 8% and quantity demanded falls by 12%. (a) Calculate the price elasticity of demand (PED). Show your working. [2] (b) Explain the likely effect of the price rise on the firm’s total revenue. [2]	(a) 1 mark for PED formula/valid method; 1 mark for −12% ÷ 8% = −1.5. Accept magnitude 1.5 if the sign convention is stated. (b) 1 mark for identifying elastic demand; 1 mark for explaining that the price rise causes total revenue to fall because quantity falls proportionately more.	Award method credit for a correctly formed ratio after one arithmetic error. Do not require the minus sign where magnitude convention is used consistently.	4

Item ID	Question / requirement	Solution and allocation	Alternatives / notes	Max
B2	A factory has a marginal private cost of £8 per unit and creates an estimated marginal external cost of £3 per unit. (a) Calculate marginal social cost. [1] (b) Explain why an unregulated market may overproduce this good. [3] (c) Explain one limitation of using a £3 per-unit tax to correct the market failure. [2]	(a) 1 mark: MSC = MPC + MEC = £8 + £3 = £11. (b) Up to 3 marks: firms/consumers base decisions on private cost; the £3 external cost is omitted; therefore market output is above the socially efficient output where social cost is considered. (c) Up to 2 marks for one explained limitation, such as uncertainty in the £3 estimate, an external cost that varies by unit or context, administrative or enforcement cost, or avoidance or evasion. Tax incidence, incomplete pass-through or low demand elasticity alone is not a limitation unless a separate relevant consequence is explained.	Credit equivalent accurate reasoning. For (c), one mark identifies a relevant limitation and one develops its effect on correction/effectiveness.	6
B3	In a closed-economy model, the marginal propensity to consume is 0.75 and planned investment rises by £20 million. (a) Calculate the theoretical total change in national income. Show your working. [2] (b) Explain why imports may make the actual change smaller and judge whether the £80 million estimate is likely to be achieved. [3]	(a) 1 mark: multiplier = 1/(1 − 0.75) = 4; 1 mark: £20m × 4 = £80m. (b) Up to 3 marks: imports are a leakage; this lowers the domestic multiplier; therefore the closed-economy £80m estimate is unlikely unless import leakage is negligible, with a supported conditional judgement.	Award method credit for a valid multiplier process after one arithmetic error. Credit other leakages only when imports remain explicitly addressed.	5

Item ID	Question / requirement	Solution and allocation	Alternatives / notes	Max
B4	A central bank raises interest rates. Most household mortgages are fixed for three years, while firms rely heavily on variable-rate loans. Explain one channel through which higher interest rates may reduce inflation, and assess how the information affects the speed and effectiveness of the policy. [5]	Award up to 5 marks: 1 for a correct interest-rate transmission channel; 1 for applying fixed household mortgage rates and/or variable-rate business loans; 1 for a developed causal chain to lower aggregate demand or inflationary pressure; 1 for assessing the speed/effectiveness using the contrasting repricing information; 1 for a supported conditional judgement. Household mortgage effects are delayed, while business borrowing/investment effects may operate sooner; the overall result depends on the strength of other channels and cost pass-through.	Credit a consumption, investment, exchange-rate or expectations channel when explained accurately and applied. Do not award unsupported claims that all effects are immediate.	5

Item ID	Question / requirement	Solution and allocation	Alternatives / notes	Max
C1	Constructed context: Economy R has weak consumer spending, unused factory capacity and rising unemployment. The government proposes extra infrastructure spending financed by borrowing. Imports account for a substantial share of household purchases, and some construction projects may take several years to begin. Evaluate the effectiveness of this fiscal policy in reducing unemployment in Economy R. Use relevant economic theory. A labelled and explained diagram is optional and may support your reasoning; no diagram is required for full marks.	Award AO1, AO2, AO3 and AO4 separately from 0–5 using the common rubric, then total /20. The indicative content is not a required checklist. Credit other valid economic routes and justified conclusions. Do not count a diagram twice for the same feature: its contextual accuracy supports AO2; reasoning explaining its mechanism supports AO3. AO1 (0–5): Expansionary fiscal policy, aggregate demand, cyclical versus structural unemployment and the multiplier. Borrowing finances a budget deficit; the deficit is distinct from the stock of public debt. AO2 (0–5): Apply the policy to weak spending and unused capacity in R. Use import leakage and construction delays to explain likely multiplier size and timing. AO3 (0–5): Extra government spending raises AD directly; higher output increases derived demand for labour and can reduce cyclical unemployment. Further rounds of spending may amplify the initial injection, while imports and other leakages reduce domestic effects. Infrastructure may later raise productive capacity, but an immediate demand effect and a long-run supply effect should be distinguished. AO4 (0–5): Time lags, import leakage, possible skill shortages and whether unemployment is demand-deficient. Possible inflation, borrowing costs, crowding out or public-debt constraints; explain why spare capacity or monetary conditions affect their importance. Compare with a relevant alternative or complement and reach a judgement about the scale and timing of unemployment reduction under the given conditions.	A labelled AD–AS diagram should show an initial equilibrium and a rightward AD shift, with the implied output and price-level effects explained. A later LRAS shift is acceptable if its distinct mechanism and timing are explained. Credit application and reasoning shown in words or diagrams. Do not impose an automatic mark cap for a missing diagram. Do not penalise the same error repeatedly. No particular policy position is required.	20
C2	Constructed context: Economy S has a persistent current-account deficit. Its currency depreciates under a floating exchange rate. Exporters report spare capacity, but many manufacturers rely on	Award AO1, AO2, AO3 and AO4 separately from 0–5 using the common rubric, then total /20. The indicative content is not a required checklist. Credit other valid economic routes and justified conclusions. Do not count a diagram twice for the same feature: its contextual accuracy supports AO2; reasoning explaining its mechanism supports AO3. AO1 (0–5): Depreciation, a floating exchange rate and the current	Accept an explained export/import demand-and-supply diagram, a labelled foreign-exchange diagram linked to depreciation, or AD –AS showing justified net-	20 Add the four AO score

Item ID	Question / requirement	Solution and allocation	Alternatives / notes	Max
	imported fuel and components. Overseas demand is growing slowly, and existing trade contracts fix some prices for several months. Evaluate whether currency depreciation is likely to improve the current-account balance of Economy S. Use relevant economic theory. A labelled and explained diagram is optional and may support your reasoning; no diagram is required for full marks.	account, including trade in goods and services. Price responsiveness of exports and imports; distinguish a current-account improvement from an automatic surplus. AO2 (0–5): Apply spare export capacity, imported inputs, weak overseas demand and contract lags to S. Explain changes in prices in the relevant currencies rather than assuming every firm changes its invoice price immediately. AO3 (0–5): Depreciation can reduce foreign-currency export prices and raise domestic-currency import prices, changing quantities demanded. If export receipts rise and import expenditure falls sufficiently, the trade balance and hence the current account may improve, other components equal. Imported cost increases may shift SRAS left and constrain competitiveness; import spending may initially rise where quantities and contracts adjust slowly. AO4 (0–5): Elasticities and adjustment lags condition the outcome; credit a correctly explained Marshall–Lerner condition or J-curve, but neither term is required for full marks. Weigh spare capacity against weak external demand and dependence on imported inputs; consider the extent of price pass-through. Reach a contextual short-run and longer-run judgement, recognising that non-trade current-account components can also change.	export or imported-cost effects. Do not award full application for an unrelated diagram. Advanced elasticity algebra is not required. Credit application and reasoning shown in words or diagrams. Do not impose an automatic mark cap for a missing diagram. Do not penalise the same error repeatedly. No particular policy position is required.	s to give the raw total / 20, then use the overall level descriptor as a holistic standardisation check on that total. The overall level is not an additional

Item ID	Question / requirement	Solution and allocation	Alternatives / notes	Max
				score and does not replace the AO arithmetic. Diagrams are optional; absence of a diagram does not cap the mark.

AO1 essay marking scale

Mark	Descriptor
0	No relevant accurate knowledge.
1	An isolated relevant concept with substantial gaps.
2	Some relevant concepts, with imprecision or incomplete explanation.
3	Broadly accurate relevant concepts and models, with some gaps.
4	Secure, relevant knowledge; only minor omissions or errors.
5	Precise, well-selected and consistently accurate concepts and models used throughout.

AO2 essay marking scale

Mark	Descriptor
0	No relevant application.
1	A generic example or copied context without an economic link.
2	Some relevant contextual links, mostly undeveloped.
3	Clear application to several features of the given context.
4	Specific contextual evidence effectively supports the argument through clear economic links.
5	Precise and sustained application integrates relevant contextual evidence with the economic argument.

AO3 essay marking scale

Mark	Descriptor
0	No credible causal reasoning.
1	A relevant effect is asserted.
2	A basic cause-and-effect link is explained.
3	At least one developed chain explains a mechanism and its consequences.
4	Several connected analytical steps explain relevant effects with sound economic logic.
5	Sustained, coherent analysis explains the important mechanisms and consequences, including how stated assumptions affect the result.

AO4 essay marking scale

Mark	Descriptor
0	No relevant evaluation.
1	An unsupported judgement or a relevant limitation is identified.
2	A limitation or alternative is explained but little weighing occurs.
3	Relevant arguments or conditions are weighed and a partially supported judgement is given.
4	Developed evaluation weighs alternatives or conditions and supports a clear contextual judgement.
5	Sustained, well-supported evaluation uses explicit relevant criteria, weighs the main competing arguments and reaches a justified conditional judgement.

Section C · overall 20-mark level descriptors

Level and mark range	Overall descriptor
Level 5 · 17–20	Well structured and coherent answer; accurate knowledge, effective application, clear analytical chains of reasoning, sustained evaluation and a justified judgement. Where diagrams are used, they are accurate and fully integrated into the analysis.
Level 4 · 13–16	Clear answer with good knowledge and application, sound analysis, some evaluation and a judgement that may be less developed or less consistently supported.
Level 3 · 9–12	Reasonable knowledge and application with some analysis. Evaluation is limited or implicit. Diagrams may be present but are not fully explained.
Level 2 · 5–8	Basic knowledge with limited application and analysis. Evaluation is weak or absent. Diagrams, if used, may be inaccurate or poorly explained.
Level 1 · 1–4	Very limited understanding with little relevant economic content.
Level 0 · 0	No creditworthy economic content.