2.7 Aggregate Demand: Components and Determinants: 30-minute Pack

AQA 7136 · Calculators not allowed · about 30 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Write full sentences for extended responses and the essay question. Time guidance: 30 minutes.

1 AD curve shift diagram: international scenario where several of the UK's main trading partners experience faster growth and higher incomes. Identify the AD component affected, the direction of the AD shift for the UK, and explain the chain of causation. Draw an AD diagram labelling axes, initial and new equilibrium and the shift.



(Total for Question 1 is 6 marks)

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2 Investment determinants: explain how a rise in business confidence or animal spirits affects firms' investment decisions in the UK economy.

(Total for Question 2 is 3 marks)

3 Government spending determinants in the UK: distinguish between cyclical changes in government spending and discretionary fiscal policy and give one example of each.

(Total for Question 3 is 3 marks)

4 Net exports determinants: explain how a depreciation of the pound sterling is likely to affect UK net exports, assuming no immediate change in elasticities.

(Total for Question 4 is 3 marks)

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Mark scheme · 2.7 Aggregate Demand: Components and Determinants: 30-minute Pack

Question 1

identifies the component affected as exports (X), and hence net exports (X - M)	**B1**
states the AD curve shifts right (AD1 -> AD2), increasing real GDP and the price level	**B1**
explains mechanism: higher incomes abroad raise demand for UK exports, increasing X and improving net exports, which directly raises AD	**M1**
developed point: notes effect size depends on price competitiveness, exchange rate and elasticity of demand for UK exports	**A1**
diagram credit: correctly labelled axes and AD curves with rightward shift arrow	**M1**
diagram credit: initial and new equilibria labelled with PL and Y changes indicated	**A1**

Answer: Component affected: exports (X), so (X - M) rises and AD shifts right. Mechanism: richer trading partners buy more UK exports; diagram shows AD1 to AD2 rightward shift, labelled axes, E1 and E2 and PL/Y changes.

Question 2

higher business confidence raises expected future profitability of projects, making firms more willing to invest	**M1**
developed: this increases planned capital spending even at the same interest rate because the expected return on investment is judged higher	**A1**
may mention accelerator effect or that confidence affects perceptions of demand and thus firms' capacity plans	**A1**

Answer: Rising business confidence increases expected returns and perceived demand, so firms raise investment spending even without a change in interest rates.

Question 3

cyclical government spending changes occur automatically with the economic cycle, e.g. higher unemployment benefits and lower tax receipts in a recession	**M1**
discretionary fiscal policy is an active policy choice to change G, e.g. a government chooses to increase infrastructure spending to stimulate demand	**A1**
example for each provided as required	**A1**

Answer: Cyclical: automatic rise in unemployment benefits in a recession. Discretionary: a planned increase in infrastructure spending to boost AD.

Question 4

a depreciation makes UK exports cheaper to foreign buyers, so export volumes tend to rise	**M1**
imports become more expensive to UK buyers, so import volumes tend to fall	**M1**
together these changes tend to improve net exports (X - M), increasing AD, although the overall effect depends on price elasticities of demand and any pass through to prices	**A1**

Answer: A depreciation makes exports cheaper and imports more expensive, so export volumes rise and import volumes fall, improving net exports and raising AD, subject to elasticities.

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