



**General Certificate of Education (A-level)
June 2012**

Economics

ECON4

(Specification 2140)

Unit 4: The National and International Economy

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Advanced Level Economics Unit 4

June 2012

ECON4

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

- (i) **An issue-based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data-response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.
- (ii) **A levels approach.** This approach is used for parts **03** and **06** of the data-response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

AQA ADVANCED LEVEL (A2) ECONOMICS

**LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) Good analysis and good evaluation	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) Good analysis but limited evaluation OR Reasonable analysis and reasonable evaluation	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) Reasonable, including some correct analysis but very limited evaluation	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) Weak with some understanding	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) Very weak	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- An** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

1 THE GLOBAL CONTEXT

Total for this Context: 40 marks

01 Using **Extract A**, calculate to one decimal place the % change in the average unemployment forecast in February 2010 compared to December 2010 **and** identify **one** significant point of comparison between the forecasts for unemployment and GDP growth over the period shown. *(5 marks)*

The calculation:

Value: Feb 10 = 1.74m unemployed

Dec 10 = 1.59m unemployed, giving a change of $(0.15/1.74 \times 100)$

= -8.6%

Allow answers in the range -8.4% to -8.8%. For example, assuming a forecast decline in unemployment from 1.73m to 1.58m, the figure arrived at would be -8.7%. Also reward answers which take December as the base month $(0.15/1.59 \times 100)$ 9.4%. Here the acceptable range is 9.2% to 9.6%. Credit answers within the ranges which go to more than one decimal place.

For the correct answer (working need not be shown) with negative sign shown and to at least one decimal place	3 marks
For the correct answer without including the negative sign (or without stating that it is a decrease in the forecast for unemployment) and to at least one decimal place.	2 marks
For showing the correct method but arriving at the wrong answer.	1 mark

Identifying one significant comparison:

For identifying one significant comparison and providing supporting data with units shown as appropriate.	3 marks (1 + 2)
For identifying one significant comparison but using data without units shown as appropriate.	2 marks
For referring to GDP rather than growth of GDP, or not making at least one mention in the answer of the fact that the figures are forecasts (i.e. forecasts made in 2010 for 2011).	2 marks
For identifying one significant comparison without supporting data.	1 mark
For simply providing one item of data (with or without the unit) which is therefore not a significant comparison.	0

Examples of significant comparisons include:

- both sets of forecasts show a decline over the period, unemployment falling from 1.74m to 1.59m and the rate of growth of GDP falling from 2.1% to 1.9%
- the forecasts made for GDP growth for 2011 between September 2010 and December 2010 are stable at 1.9% but less so for unemployment, eg November 1.63m, December 1.59m
- the forecasts made in April and May 2010 for GDP growth in 2011 show a rise from 2.1% to 2.2% whereas unemployment forecasts made in these months predict unemployment continuing to decline 1.73% to 1.7%
- forecasts made in June, July, August predict both unemployment and GDP growth falling in 2011, for example, the prediction is that unemployment in 2011 will fall from 1.7m to 1.6m.

When figures are quoted to support a comparison, allow a discrepancy of 0.02m for unemployment, 0.02% for GDP growth either way (unless, as with GDP growth forecasts at times, there is no doubt as to what the graph is indicating, eg June 2010, 2.2%).

MAXIMUM FOR PART 01: 5 MARKS

02 **Extract B** (lines 13-15) refers to the possible benefit to the UK and other economies if countries hosting major sports competitions become more open to investment in the long term.

Explain the term 'investment' **and** analyse **two** possible economic benefits for the UK when it is investing overseas. (10 marks)

Explanation

Award 1 mark for each logical link in the chain of reasoning

For defining investment, for example, that which is spent on capital equipment which can be used to create output and/or improve efficiency.	Up to 2 marks per point (ensuring that the definition is not also credited as part of the analysis)
Investment and its linkage with aggregate demand	Up to 2 marks
Investment as an injection into the circular flow	Up to 2 marks
Investment and human capital	Up to 2 marks
Overseas investment, such as FDI, portfolio investment or investment by multinational companies.	Up to 2 marks
Examples of investment.	1 mark per example to a maximum of 2 marks
Use of technical terms, eg gross/net investment; private/social capital; physical/financial capital.	Up to 2 marks per term explained to a maximum of 2 marks
For use of a relevant diagram, eg circular flow	Up to 2 marks but not additional to the maximum 4 marks for the explanation if this maximum has been awarded Diagram: 1 mark for labelling, 1 mark for correct information shown

Maximum of 4 marks for the explanation

Analysis of benefit

Award 1 mark for each logical link in the chain of reasoning. Examples include:

Overseas investment spearheading trade links boosting the export sector. Overseas investment can spearhead trade links (1 mark) thus helping to boost the UK export sector (1 mark) . This in turn can be the growth inducing factor for the economy (1 mark) , especially by generating an export multiplier (1 mark) leading to an economic stimulus of the sector (1 mark) .	Up to 5 marks Award one mark for each link in a logical chain of reasoning
Stronger international linkages benefiting the balance of payments on current account.	Up to 5 marks
The potential benefits to domestic employment.	Up to 5 marks
Profit, interest, dividends (PID) from overseas investment and uses to which these might be put.	Up to 5 marks
Any other valid analysis.	Up to 5 marks per issue
Use of appropriate diagrams, eg AD/AS.	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks These marks can be in addition to analysis marks
References to the UK economy in the analysis.	1 mark per reference up to a maximum of 2 marks

A candidate can be awarded a maximum of **6 marks** if only the analysis is attempted.
(If only the explanation is attempted, candidates are restricted to 4 marks)

Award a maximum of **8 marks** if a candidate analyses only one benefit.

Where a candidate analyses more than two benefits, award marks to the best two.

MAXIMUM FOR PART 02: 10 MARKS

03	<p>Extract B (lines 29-30) states that ‘the UK needs to have a strong economy to be able to respond successfully to all types of global event...’.</p> <p>Using the data and your economic knowledge, assess the significance to UK macroeconomic performance of major global events such as sports competitions, natural disasters and economic downturns. (25 marks)</p>
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In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> evaluation	17-21 marks (mid-point 19)
Level 3	A reasonable answer including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

Introduction	<ul style="list-style-type: none"> • macroeconomic performance • the possible nature of major global events such as sports competitions, natural disasters and economic downturns.
Developing the response to the question Application	<ul style="list-style-type: none"> • the stimulus to countries hosting major events benefiting other countries (lines 5-8) • the distinction between predictable and unpredictable events (lines 16-19) • the importance of such events forging stronger economic ties between countries (lines 13-15) • the need for a strong economy in order to take advantage of opportunities (lines 29-30) • US financial crisis (line 19) • the Japanese earthquake and tsunami in 2011 (line 23). • use of AD/AS analysis • the multiplier • economic cycle
Developing the response to the question Analysis	<ul style="list-style-type: none"> • economic growth • stability of prices • employment/unemployment • the balance of payments on current and capital accounts • creating a strong economy in order to be able to respond to the stimuli of global events

	<ul style="list-style-type: none"> • the possibility of global events having a negative impact and the ability of an economy to respond • analysis of fundamental factors such as productivity, quality of resources, flexibility • references to the UK and/or other economies • use of diagrams.
Evaluation	<ul style="list-style-type: none"> • what we might regard as “significant” • what we decide to be the key measure(s) of “significance” • the likelihood of major global events not being good news, eg disruption to oil supplies • how we might be perceived to be economically weak by other countries because of our possible inability to play a key role as an event unfolds • is the impact of any major global event nothing more than transitory? • with so many potential “players” internationally any one country can’t always expect to have a significant role to play • the short term impact of an “event” in contrast to long term sustaining of, and benefits from, trade and investment links • possible contrasting abilities to respond to positive events as opposed to negative ones or vv • a final judgement on the overall significance. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 03: 25 MARKS

2 THE EUROPEAN UNION CONTEXT

Total for this Context: 40 marks

04 Using **Extract C**, calculate to one decimal place the % change in Turkey's GDP at current prices between 2008 and 2009 **and** identify **one other** significant feature of the data. *(5 marks)*

The calculation:

Value:

GDP @ current prices in 2008 = \$730bn

GDP @ current prices in 2009 = \$614bn

= % change of -15.9% (or -15.890411)

For the correct answer (working need not be shown) with negative sign shown and to at least one decimal place or for answers which state that 2008 was 18.9% higher than 2009.	3 marks
For the correct answer without the negative sign (or without stating that it is a decrease in GDP) and to at least one decimal place.	2 marks
For showing the correct method but arriving at the wrong answer.	1 mark

Identifying one significant feature:

For identifying a significant feature and providing one piece of supporting data with the unit (\$bn or %) shown.	3 marks (1+2)
For identifying a significant feature but using data without the appropriate unit shown.	2 marks
For identifying a significant feature without supporting data.	1 mark
For simply providing one item of data with or without the unit shown.	0

The main features include:

- GDP at current prices does not show consistent growth over the period. GDP in 2008 of \$730bn becomes \$614bn in 2009 but begins to grow again afterwards
- inflation falls over the period as a whole from 10% in 2008 to a forecast of 6% in 2012
- inflation does not fall consistently over the period. It rises from 6% in 2009 to 9% in 2010 before being forecast to fall again in 2011/2012
- unemployment as a % of the labour force remains fairly stable over the period at 10-11% but does show a rise in 2009 to 14%
- the balance of payments on current account is in deficit throughout the period in a range from -\$14bn (2009) to a forecast -\$48bn (2012).

MAXIMUM FOR PART 04: 5 MARKS

05 **Extract D** (lines 14-15) states: ‘Between 2002 and 2007, Turkey’s annual average economic growth of 7% was far greater than that of the UK’.

Explain the term ‘economic growth’ **and** analyse **two** possible causes of economic growth. (10 marks)

Explanation

Award 1 mark for each logical link in the chain of reasoning

For defining economic growth in terms of the additions to productive capacity and/or in terms of increases in real GDP; actual/underlying growth.	Up to 2 marks per point (ensuring that any definition is not also credited as part of the analysis)
Production possibility frontier.	Up to 2 marks
Output gaps.	Up to 2 marks
Economic growth and economic cycles.	Up to 2 marks
Use of relevant diagrams, eg PPF	Up to 2 marks but not additional to the maximum 4 marks if this maximum has been awarded Diagram: 1 mark for labelling, 1 mark for correct information shown

Maximum of 4 marks for the explanation

Analysis of a cause of economic growth

Award 1 mark for each logical link in the chain of reasoning

Investment (1 mark) is an injection into the circular flow of income (1 mark) and will create productive capacity (1 mark). This increases the ability to create final output as measured by GDP (1 mark). It is also a component of AD (1 mark) and so as investment rises, all other things being equal, AD will rise (1 mark).	Up to 5 marks Award one mark for each link in a logical chain of reasoning
Quantity of resources available.	Up to 5 marks
Quality of resources.	Up to 5 marks
Increases in AS	Up to 5 marks
Increases in AD	Up to 5 marks
Government policy impacting on AS and/or AD.	Up to 5 marks
Technology/Research or Development	Up to 5 marks
Productivity	Up to 5 marks

Labour	Up to 5 marks
Education and Training	Up to 5 marks
Expanding export markets	Up to 5 marks
Any other valid analysis	Up to 5 marks per issue
Use of appropriate diagrams, eg AD/AS, MEC (note – not on specification)	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks These can be in addition to the analysis marks.
Reference to the UK economy in the analysis	1 mark per reference Up to a maximum of 2 marks

A candidate can be awarded a maximum of **6 marks** if only the analysis is attempted. (If only the explanation is attempted, candidate are restricted to 4 marks only)

Award a maximum of **8 marks** if a candidate analyses only one cause.

Where a candidate analyses more than two causes, award marks to the best **two**.

MAXIMUM FOR PART 05: 10 MARKS

06 **Extract D** (lines 33-34) argues that the ‘UK must not be blind to the potential problems of Turkey’s possible membership of the EU and must also be in a position to grasp the opportunities which are sure to appear’.

Using the data and your economic knowledge, assess the potential economic consequences for the UK if Turkey joined the EU. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	Good analysis and good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

Introduction	<ul style="list-style-type: none"> • criteria for measuring economic consequences • nature of potential problems • nature of potential opportunities • the EU • the issue of enlargement of the EU.
Developing the response to the question Application	<ul style="list-style-type: none"> • Turkey’s geographical position (line 3) • an expected population in Turkey of 100m by 2020 (line 10) • Turkey’s vast economic potential (line 11) • Turkey’s impressive growth for at least 5 years, 2002 – 2007 = 7% (lines 14 – 15), 2010 first quarter = 11% (lines 13 – 14) • Turkey’s reputation for economic instability (line 20) • high inflation in some recent years in Turkey (lines 20-21) • an attractive centre for investment (line 24) • migration and the impact on UK PPF • consequences for UK AD as the EU expands • export-led multiplier.

<p>Developing the response to the question</p> <p>Analysis</p>	<ul style="list-style-type: none"> • the diverse nature of member countries of the EU • the UK approach to the EU and to enlargement in particular • demands upon the EU budget and hence upon individual members • Turkey as part of the SEM and the likely flow of cheap imports to UK • cheap migrant labour impacting on the UK labour market and social and economic infrastructure • Turkey as an additional market for the UK • investment opportunities • investment income coming back to the UK • the benefits of its established links with Asia • UK economic growth • UK unemployment • UK balance of payments • UK inflation/deflation • reference to other economies • use of diagrams.
<p>Evaluation</p>	<ul style="list-style-type: none"> • Turkish membership may be seen as the “straw which breaks the camel’s back” as EU enlargement gathers pace • short term v long term considerations • the ability of the UK to take up opportunities successfully • the UK’s possible inability to take up opportunities in the context of having to shoulder some of the problems which Turkey’s membership may give rise to in the EU • the possibility that the UK macroeconomic indicators do not all head in the same direction (for example, Turkey as a stimulus to economic growth but migrant labour causing an unemployment problem) • the difficulty of giving “values” to pros and cons pre-membership and therefore being unable to take up a decisive stance with confidence • the impact could change over time as circumstances change • continuing enlargement, including Turkey, potentially providing ammunition to the Euro-sceptics in government and beyond causing the UK to remain by choice on the sidelines of the EU. An assessment of the significance of this issue for the UK • a final judgement on the overall impact on the UK economy. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 06: 25 MARKS

SECTION B

Essay 1

Total for this Essay: 40 marks

07	Explain four features of a recession.	<i>(15 marks)</i>
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For: <ul style="list-style-type: none"> • defining a recession • placing a recession into the context of the economic cycle 	Up to 2 marks per definition or explanation to a maximum of 4 marks
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For explaining four features of a recession:

Award 1 mark for each logical link in the chain of reasoning

Higher unemployment (1 mark) much of which will be cyclical unemployment (1 mark). As incomes fall in a recession (1 mark) there is less spending taking place (1 mark) which may mean less revenue and profits for firms (1 mark). This will cause firms to begin to consider redundancies (1 mark) and those affected may find it difficult to find new jobs so unemployment rises (1 mark).	Up to 6 marks Award one mark for each link in a logical chain of reasoning
A falling rate of inflation, or deflation.	Up to 6 marks
Negative GDP growth.	Up to 6 marks
Lower investment.	Up to 6 marks
Deteriorating fiscal position.	Up to 6 marks
Looser monetary policy.	Up to 6 marks
Looser fiscal policy.	Up to 6 marks
A squeeze on profits.	Up to 6 marks
The impact on wages and firms' wage bills.	Up to 6 marks
Declining business and consumer confidence.	Up to 6 marks
An improvement on the current account of the balance of payments.	Up to 6 marks
Impact on individual markets, eg housing.	Up to 6 marks
Output gap	Up to 6 marks
Any other valid feature.	Up to 6 marks per feature explained
Use of diagrams to help support explanations, eg the standard AD/AS diagram.	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.
References to the UK and/or other economies.	1 mark per reference to a maximum of 2 marks

Award a maximum of **10 marks** if four features are not considered.

If more than 4 features are considered, reward the best four.

Award a maximum of **10 marks** for an answer which ignores the need to clearly distinguish and explain four features and writes a general account of recession which includes a range of features, none which is given emphasis.

MAXIMUM FOR PART 07: 15 MARKS

08 Discuss the importance of low interest rates in bringing about a recovery from recession in an economy such as the UK. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

Introduction	<ul style="list-style-type: none"> • the economic cycle • the nature of a recovery • interest rates and the role of the MPC • brief reference to other policy options.
Developing the response to the question Analysis and Application	<ul style="list-style-type: none"> • the relevance of interest rates to bringing about a recovery • consumer credit • investment • housing costs • aggregate demand • economic growth • unemployment • the limitations of interest rate policy • the function of other aspects of monetary policy, eg quantitative easing • the potential role of fiscal policy • the importance of a sound supply-side to underpin a recovery • the significance of business and consumer confidence • the potential significance of overseas markets • interest rate changes influencing “hot-money flows” , bringing instability which may impede a recovery but also of potential benefit • ‘hot-money flows’ and the exchange rate • aspects of an economy which may not directly benefit from low interest rates, eg structural unemployment • use of diagrams • reference to the UK and/or other economies.

Evaluation	<ul style="list-style-type: none">• the extent to which interest rates are allowed to fall• over what period of time low interest rates are tolerated• the support given, if at all, by other aspects of monetary policy• the limitations if, simultaneously, a tight fiscal policy is followed by government• the limitations if business and consumer confidence are very low• low interest rates used to bring about a recovery in an internationally hostile context• business and consumer concern over how long such a policy will be maintained• microeconomic policies may show themselves to be more effective• low interest rates as a cause of inflation which may impede the recovery• a final judgement made on the policy. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 08: 25 MARKS

09 Explain **three** protectionist policies that a government could introduce to reduce a deficit on the current account of the balance of payments. (15 marks)

For:

- defining protectionism or protectionist policies and/or deficit on the current account of the balance of payments
- classical/strategic trade theory
- explaining in broad terms the nature of protectionist policies and the distinctions which may be drawn between them
- placing protectionism into the context of progress towards free trade
- reference to the WTO.

Up to 2 marks per definition or explanation to a maximum of 4 marks

For explaining three possible protectionist policies:

Award 1 mark for each logical link in the chain of reasoning

Tariffs on imports (1 mark) may be introduced to make imports more expensive than domestic output (1 mark) because they are duties or taxes imposed on the price of imports (1 mark). Demand for these imports may be reduced (1 mark) but this will depend very much on elasticity conditions (1 mark). If the demand for these imports is elastic (1 mark), the import bill will fall (ceteris paribus) and so help the current account (1 mark).	Up to 7 marks Award one mark for each link in logical chain of reasoning.
Quotas/voluntary export restraints (VERs).	Up to 7 marks
Export subsidies	Up to 7 marks
Exchange rate policy	Up to 7 marks
Exchange controls/Limits on currency conversion.	Up to 7 marks
Non-tariff barriers to inhibit trade, eg cumbersome health and safety regulations that create costs to exporters regarded as unreasonable.	Up to 7 marks
Domestic government's favouritism towards home producers when awarding contracts which cannot necessarily be economically justified (public procurement policy).	Up to 7 marks
Any other valid argument	Up to 7 marks per argument explained
Use of diagrams to help support an explanation, eg the standard tariff diagram.	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a total of 4 marks.

References to the UK and/or other economies.	1 mark per reference to a maximum of 2 marks
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Award a maximum of **10 marks** if three policies are **not** considered.

If more than three policies are considered, reward the best three.

MAXIMUM FOR PART 09: 15 MARKS

10 Assess the view that the progress made towards free trade has brought significant economic benefits **both** to the UK **and** to the rest of the world. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded more than **15 marks**.

Award a maximum of **21 marks** to an answer which gives a general account with no distinction being drawn between the UK and the rest of the world.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

Introduction	<ul style="list-style-type: none"> the world economy and economic diversity within it free trade progress towards a free-trade world – the role of GATT and latterly the WTO the dangers of increased protectionism how ‘benefit’ might be measured.
Developing the response to the question Application and Analysis	<ul style="list-style-type: none"> trade spearheading globalisation and the benefits this can bring the principle of comparative advantage specialisation economies of scale efficiency the impetus to improving competitiveness in price and non-price ways the pace of innovation the benefits of greater choice prospects for economic growth trade in preference to aid to help development employment prospects the drive for greater competitiveness forcing down prices and hence helping to achieve low inflation implications for the balance of payments the impact on less successful economies of a free-trade world use of diagrams reference to the UK and/or other economies.

Evaluation	<ul style="list-style-type: none">• a consideration of who might be the major beneficiaries• the possibility of structural unemployment as comparative advantage changes between countries• economic shocks in one part of the world are more likely to affect other parts• the difficulty of drawing conclusions which are too generalised as to be virtually meaningless• on-going protectionism even by countries involved in WTO talks such as Doha which might limit benefits• a consideration of ‘significant’ economic benefits• the possible problems of measuring economic benefits• how the ‘losers’ might be helped, if at all, and if there is a willingness to do so• if free trade is so beneficial why does an underlying protectionism persist?• benefits for some sectors of an economy, damage to others• trade blocs (free trade for members v protectionism towards non-members)• the need for WTO talks to make much more progress before benefits can be cited without significant qualification• a final judgement on the perceived benefits of progress towards free trade. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 10: 25 MARKS

11	Explain how budget deficits in an economy might help to influence the rate of inflation in that economy.	<i>(15 marks)</i>
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<p>For</p> <ul style="list-style-type: none"> • defining budget or budget deficit or inflation • placing the deficit into the context of budgetary positions/fiscal policy • referring to types of inflation 	<p>Up to 2 marks per definition or explanation or explained to a maximum of 4 marks</p>
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For explaining how budget deficits might help determine the rate of inflation in an economy

Award 1 mark for each logical link in the chain of reasoning

The influence of a budget deficit on AD (1 mark) . A deficit can create a multiplier effect (1 mark) , with government spending greater than tax revenue (1 mark) . As consumer incomes rise so too will spending (1 mark) . Firms might also be motivated by the fiscal expansion (1 mark) . This could generate more investment (1 mark) . Both higher consumer spending and investment will create pressure on prices and raise the rate of inflation (1 mark) .	<p>Up to 7 marks Award one mark for each link in a logical chain of reasoning</p>
Deficits causing interest rates to rise as UK creditors demand higher rewards. Interest rates as a potential cost to firms causing prices to rise.	<p>Up to 7 marks</p>
Real-resource ‘crowding out’, by making resources for private sector expansion more expensive, costs and prices may rise.	<p>Up to 7 marks</p>
The deficit spearheading expansion of public and private sector employment; a consequent fall in unemployment creates pressure on wages.	<p>Up to 7 marks</p>
The dangers to inflation of financing deficits through the printing of money.	<p>Up to 7 marks</p>
A deficit allowing extra spending on supply-side reforms which may help reduce the rate of inflation.	<p>Up to 7 marks</p>
Deficits used to expand the welfare state and encourage welfare-dependency, creating spending power not accompanied by output creation.	<p>Up to 7 marks</p>
Any other valid explanation	<p>Up to 7 marks per issue</p>
Use of diagrams, eg the Phillips Curve; AD/AS	<p>Up to 2 marks per diagram (1 mark for labelling, 1 mark for the correct information shown) to a total of 4 marks</p>

References to the UK and/or other economies	1 mark per reference to a maximum of 2 marks
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Where a candidate does little more than briefly list a number of possible linkages between deficits and inflation in the explanation, award a maximum of 7 marks for the answer as a whole.

MAXIMUM FOR PART 11: 15 MARKS

12 Evaluate the view that, in the long run, conflict between the major macroeconomic objectives can be avoided. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded more than **15 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

Introduction	<ul style="list-style-type: none"> • macroeconomics • macroeconomic objectives • brief reference to relevant policies • the notion of 'conflict'.
Developing the response to the question Application and Analysis	<ul style="list-style-type: none"> • long run v short run • potential conflict between economic growth and stable prices • potential conflict between economic growth and a healthy balance of payments on current account • inflation beginning to impede growth • inflation damaging employment prospects • inflation and the balance of payments on current account • attempts to correct a balance of payments on current account harming employment and growth, at least in the short term • attempts to stabilise prices causing harm to employment • attempts to achieve full employment causing inflation to rise (Phillips Curve analysis) • economic growth and the environment • economic growth and income distribution • the significance of the supply side in reducing or avoiding conflict • the possible need for compromise • use of diagrams • references to the UK and/or other economies.

Evaluation	<ul style="list-style-type: none">• the idea that avoidance might be utopian in a complex modern economy• the acceptability of compromise between objectives – control rather than complete avoidance• the intensity of any problems arising from conflict• the degree of persistence of conflict or a short-term phenomenon• the importance of supply-side reforms and the time taken for them to become effective in the context of conflict• a particular objective may have key importance in an economy's economic strategy in a certain period of time and will be pursued for this reason irrespective of conflict and without any attempt made at avoidance• given any set of macroeconomic policies what is the net impact of them and is this acceptable? For example, limited environmental controls in the context of needing to secure economic growth• a final judgement on the idea of conflict avoidance. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 12: 25 MARKS