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A-LEVEL

# Economics

ECON4 The National and International Economy  
Mark scheme

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2140  
June 2017

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Version: 1.0 Final

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Mark schemes are prepared by the Lead Assessment Writer 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 associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' 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.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

**AQA ADVANCED LEVEL (A2) ECONOMICS  
LEVELS OF RESPONSE MARK SCHEME  
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

<b>A2 LEVELS OF RESPONSE</b>	<b>AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology</b>	<b>AO2 APPLICATION of theories, concepts and terminology</b>	<b>AO3 ANALYSIS of economic problems and issues</b>	<b>AO4 EVALUATION of economic arguments and evidence, making informed judgements</b>
<b>Level 5</b> 22-25 marks (mid-point 24)  <b>Good analysis and good evaluation</b>	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
<b>Level 4</b> 17-21 marks (mid-point 19)  <b>Good analysis <u>but</u> limited evaluation</b>  <b>OR</b> <b>Reasonable analysis <u>and</u> reasonable evaluation</b>	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
<b>Level 3</b> 10-16 marks (mid-point 13)  <b>Reasonable, including some correct analysis but very limited evaluation</b>	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)
<b>Level 2</b> 4-9 marks (mid-point 7)  <b>Weak with some understanding</b>	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
<b>Level 1</b> 0-3 marks (mid-point 2)  <b>Very weak</b>	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

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**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**

- 0 1** Using the data in **Extract A**, calculate in £bn, the value of the UK's exports to Taiwan in 2014, if the total value of the UK's exports to the world in that year was £500bn **and** identify **one** other significant feature of UK trade with the selected south east Asian economies in 2014.

**[5 marks]****The calculation £500bn x 0.004 = £2bn**

For the correct answer <b>£2bn</b> The 'units', (£,bn) <b>must</b> be shown.	<b>3 marks</b>
For the correct answer <b>without</b> a unit shown	<b>2 marks</b>
For showing the correct method but arriving at a wrong number, eg £500 x 0.004 = incorrect answer	<b>1 mark</b>

**Identifying one significant feature**

For identifying a significant feature ( <b>1 mark</b> ) and providing relevant and accurate supporting data ( <b>1 mark</b> ) with units ( <b>1 mark</b> ).	<b>Up to 3 marks</b>
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	<b>0 marks</b>

**Examples of significant features include:**

- The largest percentage share of UK exports to the selected economies is to Singapore at 1.2%
- The largest percentage share of UK imports from the selected economies is from Taiwan at 0.9%
- The largest difference between the percentage share of imports and exports is Taiwan where exports from the UK are at 0.4% and imports to the UK are at 0.9%.
- The UK does the least amount of trade with Indonesia, in terms of exports 0.2% and imports 0.3%

**MAXIMUM FOR PART 01: 5 MARKS**

**0 2** **Extract B** (lines 15-18) states: ‘The impact of the TPP will depend on whether or not its membership grows. If more countries do join, they will be able to develop industries in which they hold a comparative advantage, leading to ever-increasing globalisation.’

Explain the term ‘comparative advantage’ **and** analyse **two** causes of increased globalisation in the world.

**[10 marks]**

**Explanation**

For a relevant explanation of comparative advantage:

- A relevant definition of comparative advantage
- The difference between acquired and natural comparative advantage
- The difference between absolute advantage and comparative advantage
- A numerical example/diagram.

**2 marks per point, up to a maximum of 4 marks**

**Maximum of 4 marks for the explanation**

**Analysis**

**Award 1 mark for each step in a logical chain of reasoning**

**For example:** Improved communication (**1 mark**) through developments in technology (**1 mark**), such as the internet (**1 mark**) has allowed individuals to order goods across international borders (**1 mark**). Further to this, international pay sites (**1 mark**) such as PayPal (**1 mark for examples**) facilitate the easy exchange of currency (**1 mark**) with minimal transaction costs (**1 mark**) which has increased the volume of goods and services traded abroad (**1 mark**).

Other issues include: the work of the WTO, removal of protectionism, creation of trading blocs, economies of scale, the role of MNC’s, financial liberalisation, containerisation, and reduced transport costs.

**Up to 8 marks**

Use of appropriate diagrams, eg SRAS shifting right, micro diagrams demonstrating falling costs, removal of tariffs/quotas.

**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 given in addition to analysis marks.**

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Reference to the UK or other economies.	<b>1 mark per reference up to a maximum of 2 marks included as part of, but not in addition to, the analysis.</b>
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A candidate should only be awarded a maximum of **8 marks in total** if only **one** cause of globalisation is analysed.

**MAXIMUM FOR PART 02: 10 MARKS**

**0 3** **Extract C** (lines 21-22) states: ‘Any kind of deal between the EU and ASEAN economies is still a long way off, and the UK must wait to see how new trade deals affect its macroeconomic performance.’

Using the data and your knowledge of economics, evaluate the extent to which international agreements to increase free trade are likely to be beneficial to the UK’s macroeconomic performance.

**[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**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Macroeconomic performance</li> <li>• Trade</li> <li>• Free trade or trading blocs</li> </ul>
<b>Developing the response to the question (Application)</b>	<ul style="list-style-type: none"> <li>• Focussing on improving trade in services (<b>Extract B</b>)</li> <li>• Sharing technology (<b>Extract B</b>)</li> <li>• Boosting exports, competition and investment (<b>Extract B</b>)</li> <li>• Improving international relations (<b>Extract B</b>)</li> <li>• Growth of Asian economies in comparison to slow EU growth (<b>Extract C</b>)</li> <li>• Problems for trade unions and environmental issues (<b>Extract C</b>)</li> <li>• Regional inequality (<b>Extract C</b>)</li> <li>• Unfair competition from state subsidised industry (<b>Extract C</b>)</li> <li>• Increasing power of MNCs in comparison to elected government (<b>Extract C</b>)</li> </ul>



<b>Analysis</b>	<p><b>Arguments why free trade agreements may benefit the UK:</b></p> <ul style="list-style-type: none"> <li>• Effects of increased export opportunities on output and employment</li> <li>• Effects of increased inward investment on output and employment</li> <li>• Impacts on the price of imports/semi-manufactures</li> <li>• Economies of scale and the effects on price level</li> <li>• Boosts to productivity and output</li> <li>• Benefits of competitive markets and sharing of technologies</li> <li>• Boosts to international relations</li> <li>• Improved choice/quality</li> <li>• Comparative advantage and the gains from trade.</li> </ul> <p><b>Arguments why free trade agreements may damage the UK:</b></p> <ul style="list-style-type: none"> <li>• The UK is unable to use protectionist policies such as quotas, tariffs, export subsidies</li> <li>• Possibly open to more external shocks</li> <li>• Sunrise/sunset industry arguments</li> <li>• May be subject to increased price fluctuations/instability</li> <li>• Loss of potential tariff revenue (although this is not directly received in the EU)</li> <li>• Cultural and strategic industry arguments</li> <li>• May be unable to protect against “dumping”</li> <li>• Environmental issues with increased transportation</li> <li>• Unclear growth and employment effects</li> <li>• Problems for small business in comparison to MNCs</li> <li>• May give an impetus to further deregulation/privatisation.</li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• The UK being unable to negotiate their own deals due to EU membership at the moment, however after we leave the EU it can conduct its own negotiations.</li> <li>• The EU currently not having deals in place in comparison to other economies</li> <li>• Benefits and costs depending on the various stakeholders points of view and short-term benefits, such as lower prices, may have long-term costs such as increased structural unemployment</li> <li>• Regions of the UK may experience different impacts</li> <li>• Trade deals may be done which don't directly involve the UK but could benefit it or could potentially damage it such as the TPP</li> <li>• References to UK's current situation affecting trade</li> </ul> <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>
<b>Also give credit for:</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 DETAILED LEVELS MARK SCHEME ON PAGES 3 & 4  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 03: 25 MARKS****2 THE EUROPEAN UNION CONTEXT****Total for this Context: 40 marks**

**0 4** Using the data in **Extract D**, calculate to one decimal place, how much greater in percentage terms German output was per hour compared to Italian output per hour in 2014, **and** identify **one** other significant point of comparison between the productivity of EU nations.

**[5 marks]****Calculation  $23/110 \times 100 = 20.90 = 20.9\%$** 

For the correct answer <b>20.9%</b> . The 'unit' (%) has <b>to</b> be shown.	<b>3 marks</b>
For the correct answer <b>without</b> a unit shown	<b>2 marks</b>
For showing the correct method but arriving at a wrong number, eg $(23/110) \times 100 =$ incorrect answer	<b>1 mark</b>

**Identify one significant comparison**

For identifying a significant comparison ( <b>1 mark</b> ) and providing relevant and accurate supporting data ( <b>1 mark</b> ) with units ( <b>1 mark</b> ).	<b>Up to 3 marks</b>
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	<b>0 marks</b>

**Examples of significant comparisons include:**

- Germany has the highest productivity in both years. Germany's index figures were 128 in 2013 and 133 in 2014.
- The UK has the lowest productivity in both years as they have the base figures of 100 in both 2013 and 2014.
- France and Germany both recorded the biggest percentage point increase in productivity in comparison to the UK, France rose from 127 in 2013 to 132 in 2014 and Germany 128 in 2013 to 133 in 2014 compared to the UK's base figures of 100.
- Italy recorded the smallest increase against the UK in productivity over the period. Italy increased from 9% higher than the UK (109 in 2013) to 10% higher than the UK (110 in 2014).
- France closed their productivity gap with the most productive EU nation (Germany) the most. France's was 0.78% behind Germany in 2013 and 0.76% behind in 2014.
- The UK's productivity did not change over the period. All other EU countries productivity did e.g. France rose from 127 to 132.

**MAXIMUM FOR PART 04: 5 MARKS**

**0 5** **Extract E** (lines 6-8) states: ‘The UK Chancellor, George Osborne, has pledged to take steps to encourage more foreign direct investment and improvements to infrastructure to boost productivity.’

Explain the term ‘foreign direct investment’ **and** analyse how foreign direct investment **and** improvements to infrastructure may boost productivity.

**[10 marks]**

**Explanation**

<p>For a relevant explanation of foreign direct investment</p> <ul style="list-style-type: none"> <li>• Definition of investment</li> <li>• Explaining this in terms of a business entity in one country gaining ownership in another</li> <li>• Explaining the difference between FDI and portfolio investment</li> </ul>	<p><b>2 marks per point, up to a maximum of 4 marks</b></p>
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**Maximum of 4 marks for the explanation**

**Analysis**

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

<p><b>For example:</b> Increased foreign direct investment (FDI) by possibly bringing new technology <b>(1 mark)</b> or production processes <b>(1 mark)</b> into an existing firm which may reduce the need for labour <b>(1 mark)</b> in order to gain the same output <b>(1 mark)</b> and therefore boosts labour productivity <b>(1 mark for identifying a measure of productivity)</b>. Improvements to infrastructure carried out by government capital spending <b>(1 mark)</b> such as improvements to motorways <b>(1 mark for examples)</b> may allow transport costs to fall <b>(1 mark)</b> allowing the company to produce the same output for lower cost <b>(1 mark)</b> and boosts to efficiency and productivity.</p> <p>Other examples include research and development and increased competition due to FDI, and different forms of transport and communication links for infrastructure.</p>	<p><b>Up to 8 marks</b></p>
<p>Use of appropriate diagrams, eg LRAS shifting right, SRAS shifting right, PPF’s or AC curves.</p>	<p><b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks.</b></p> <p><b>These marks can be in addition to analysis marks</b></p>

Reference to the UK or other economies.

**1 mark per reference up to a maximum of 2 marks included as part of, but not in addition to, the analysis.**

A candidate should only be awarded a maximum of **8 marks in total** if only **either** foreign direct investment **or** infrastructure is analysed.

**MAXIMUM FOR PART 05: 10 MARKS**

**0 6** **Extract F** (line 21) asks: ‘Why are productivity rates in other economies important for the UK?’

Using the data and your knowledge of economics, evaluate the significance of productivity improvements in the UK **and** in other EU economies for the performance of the UK economy.

**[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**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Productivity improvements</li> <li>• The EU economy</li> <li>• Macroeconomic performance</li> </ul>
<b>Developing the response to the question (Application)</b>	<ul style="list-style-type: none"> <li>• Improvements to infrastructure &amp; investment (<b>Extract E</b>)</li> <li>• Difficult to improve productivity in some jobs (<b>Extract E</b>)</li> <li>• Links to living standards (<b>Extract E</b>)</li> <li>• Links to wages (<b>Extract E</b>)</li> <li>• Improvements in skills (<b>Extract E</b>)</li> <li>• Improvements to competitiveness (<b>Extract F</b>)</li> <li>• Solutions to unemployment problems (<b>Extract F</b>)</li> <li>• Boosts to welfare and lower prices (<b>Extract F</b>)</li> <li>• Product and process innovation (<b>Extract F</b>)</li> <li>• Structural weakness and lack of investment (<b>Extract F</b>)</li> </ul>

<p><b>Analysis</b></p>	<p><b>Arguments why productivity improvements may benefit the UK</b></p> <ul style="list-style-type: none"> <li>• Improvements in efficiency</li> <li>• Lower unit costs for firms and potential for increased profits</li> <li>• Improved competitiveness and the impact on the current account of the balance of payments</li> <li>• If UK productivity improvements can be achieved it may attract FDI and improve the capital account of the balance of payments</li> <li>• Higher wages</li> <li>• Economic growth</li> <li>• Possible boosts to tax revenue</li> </ul> <p><b>Arguments why productivity improvements may not benefit the UK</b></p> <ul style="list-style-type: none"> <li>• Productivity improvements may not require as many workers and impact on unemployment</li> <li>• Other countries may become more competitive at the UK's expense</li> <li>• If other countries are more competitive then it may divert FDI</li> <li>• Productivity improvements don't necessarily improve living standards</li> <li>• Other issues such as exchange rates may distort productivity gains</li> <li>• Opportunity cost of supply-side policies</li> <li>• Difficulties in measuring the impact of supply-side policies</li> </ul>
<p><b>Evaluation</b></p>	<ul style="list-style-type: none"> <li>• Potential conflicts between macroeconomic goals are traditionally reduced through productivity improvements. However, due to globalisation this may not always be the case</li> <li>• The UK's membership of the EU allows productivity improvements to be shared easily due to the free movement of workers and capital although this doesn't appear to have helped the UK's current membership</li> <li>• Knowledge transfer and process innovation have improved between economies however, the UK has still remained behind</li> <li>• Competitiveness relies on many other factors which are not covered by productivity</li> <li>• Consideration of UK's decision to leave the EU</li> </ul> <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>
<p><b>Also give credit for</b></p>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 DETAILED LEVELS MARK SCHEME ON PAGES 3 & 4 FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 06: 25 MARKS**

**SECTION B**

**Essay 1**

**Total for this essay: 40 marks**

In January 2009, £1 could buy approximately 1.04 euros on the foreign exchange market. By July 2015, £1 could buy approximately 1.44 euros.

<b>07</b> Explain the factors that may lead to a rise in the exchange rate of a currency. <span style="float: right;"><b>[15 marks]</b></span>
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<p><b>For defining/explaining</b></p> <ul style="list-style-type: none"> <li>• Exchange rates</li> <li>• Appreciation</li> <li>• Different exchange rate systems</li> </ul>	<p><b>Up to 2 marks per definition or explanation to a maximum of 4 marks</b></p>
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**Award 1 mark for each step in a logical chain of reasoning**

<p><b>For example:</b> A free floating exchange rate is determined by the supply and demand of currency on FOREX <b>(1 mark)</b>. Speculative activity <b>(1 mark)</b> may occur if it is thought there will be a rise in the interest rate <b>(1 mark)</b> of a particular economy which will increase the demand of that currency <b>(1 mark)</b> as the returns to saving rise <b>(1 mark)</b> if money is placed in an economy's financial institutions <b>(1 mark)</b>. As the flow of 'hot money' increases <b>(1 mark)</b> this may lead to an appreciation <b>(1 mark but not to be awarded in addition to definition marks)</b> such as £1 = \$1.46 goes to £1 = \$1.50 <b>(1 mark for examples but not use of the example in the preamble)</b>.</p> <p>Other examples include: trade flows, productivity rates, inward investment, other speculative activities and government intervention.</p>	<p><b>Up to 15 marks</b></p>
<p>Use of diagrams to help support explanations, currency diagrams, trade cycles and AD/AS diagrams</p>	<p><b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.</b></p>
<p>Reference to the UK and/or other economies.</p>	<p><b>1 mark per reference to a maximum of 2 marks</b></p>

**MAXIMUM FOR PART 07: 15 MARKS**

**0 8** Evaluate the impact on the UK's macroeconomic performance of a sustained rise in the value of the pound sterling against the euro.

**[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**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Balance of payments</li> <li>• Current account and capital account</li> <li>• Exchange rates</li> <li>• Macroeconomic performance indicators</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<p><b>Arguments why an appreciation of the pound against the Euro may be beneficial to the UK's macroeconomic performance</b></p> <ul style="list-style-type: none"> <li>• The effects of cheaper raw materials from Europe on inflation</li> <li>• The effects on competitiveness with the rest of the world if costs are lower</li> <li>• Impacts on UK manufacturing employment of cheaper European raw materials</li> <li>• Potential improvements to productivity in response to more expensive exports</li> <li>• Impacts of non-price competitiveness in response to more expensive exports</li> <li>• Could reduce inflationary pressure if the economy is in a boom</li> <li>• May act as a stabiliser to UK growth</li> </ul> <p><b>Arguments why an appreciation of the pound against the Euro may be detrimental to the UK's macroeconomic performance</b></p> <ul style="list-style-type: none"> <li>• The effects of cheaper raw materials from Europe on unemployment</li> <li>• Outsourcing to Europe affecting employment and growth</li> <li>• The loss of export competitiveness against Europe</li> <li>• Potential falls in FDI from Europe due to increased costs and its effects on growth</li> </ul>



<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• Depends upon the duration of the change, self-correction may occur</li> <li>• Other issues other than exchange rate may have greater potential impacts on the economy such as domestic fiscal and monetary policy</li> <li>• The Marshall-Lerner condition (not in specification) and the effects of changing exchange rates upon the current account of the balance of payments</li> <li>• Changes to the patterns of trade and the importance of the exchange rate multilaterally rather than bilaterally.</li> </ul> <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>
<b>Also give credit for:</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 DETAILED LEVELS MARK SCHEME ON PAGES 3 & 4  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 08: 25 MARKS**

**Essay 2****Total for this Essay: 40 marks**

The Office for Budget Responsibility (OBR) forecast that government spending would account for 36% of GDP by 2020 compared to 45% of GDP in 2010.

**09** Explain the economic reasons for government spending.

**[15 marks]**

<p><b>For defining/explaining:</b></p> <ul style="list-style-type: none"> <li>• Government spending by area</li> <li>• Current/capital/transfers</li> <li>• The budget or fiscal policy.</li> </ul>	<p><b>Up to 2 marks per definition or explanation to a maximum of 4 marks</b></p>
<p><b>Award 1 mark for each step in a logical chain of reasoning:</b></p>	
<p><b>For example:</b> As a method of redistributing income <b>(1 mark)</b> where taxation has been raised <b>(allow 1 mark for taxation as a source for spending)</b> enabling government to spend on means-tested <b>(1 mark)</b> such as housing benefit <b>(1 mark for examples)</b> or universal <b>(1 mark)</b> benefits such as the winter-fuel allowance <b>(1 mark)</b> which will reduce inequality <b>(1 mark)</b> by increasing the incomes of the poorest in society <b>(1 mark)</b> and correcting a potential market failure <b>(1 mark)</b>.</p> <p>Other examples include: boosting AD, Keynesian multipliers, supply-side policy, influencing the pattern of economic activity through subsidies, provision of merit goods, public goods and correcting other market failures.</p>	<p><b>Up to 15 marks</b></p>
<p>Use of diagrams to help support explanations, eg AD increasing, LRAS increasing, trade cycle, correcting market failures (such as positive externalities in consumption) or subsidy.</p>	<p><b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.</b></p>
<p>Reference to the UK and/or other economies</p>	<p><b>1 mark per reference to a maximum of 2 marks</b></p>

**MAXIMUM FOR PART 09: 15 MARKS**

**1 0** To what extent do you regard a contraction of the public sector to be beneficial for the UK economy? Justify your answer.

**[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**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>Public sector</li> <li>The UK economy</li> <li>Macroeconomic performance/living standards</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<p><b>Arguments why a smaller public sector may benefit the UK economy:</b></p> <ul style="list-style-type: none"> <li>Crowding-out arguments (both physical and financial)</li> <li>The role of potentially lower taxes in affecting growth</li> <li>The role of potentially lower taxes in supply-side policy</li> <li>The role of potentially lower taxes on private sector employment and the willingness to work</li> <li>The role of potentially lower taxes on FDI</li> <li>Deficit reduction and debt repayment</li> <li>Potential boosts to the private sector of reduced red-tape and effects on recruitment.</li> </ul> <p><b>Arguments why a smaller public sector may be damaging to the UK economy:</b></p> <ul style="list-style-type: none"> <li>An absence of the “crowding in” effect</li> <li>A lack of public sector employment and negative multiplier effects</li> <li>Regional effects especially in places reliant upon high levels of public expenditure</li> <li>The possibility that some unemployment could be structural in nature due to the nature of some public sector jobs</li> <li>A lack of provision of public services</li> <li>A lack of correction of market failures</li> <li>Possible rising inequality.</li> </ul>

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• Effects may differ depending on income group and stakeholder group depending upon the focus of government policy</li> <li>• The global economy may have a much larger effect for example FDI may not be forthcoming due to global uncertainty</li> <li>• Effects may differ depending on the employment sector (some government spending may be “ring-fenced”)</li> <li>• Other factors which may be more important than the size of the public sector</li> <li>• The degree of requirement for the size of the government may vary with the trade cycle (alternatively it could be argued that this should be irrelevant to the trade cycle).</li> </ul> <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>
<b>Also give credit for:</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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 DETAILED LEVELS MARK SCHEME ON PAGES 3 & 4  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 10: 25 MARKS**

**Essay 3****Total for this Essay: 40 marks**

It is now nearly a decade since the financial crisis caused a recession in the UK. In March 2009, the Monetary Policy Committee (MPC) set the UK Bank Rate at 0.5%, which was a record low, in order to stimulate economic growth.

**1 1** Explain the main features of a recession.

**[15 marks]****For defining/explaining:**

- Recession
- Economic growth
- The trade cycle.

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

**Award 1 mark for each step in a logical chain of reasoning.**

**For example:** Higher unemployment (**1 mark**) much of which will be cyclical unemployment (**1 mark**) due to a lack of AD which causes disposable incomes to fall (**1 mark**) which leads to further negative multiplier effects (**1 mark**) which may mean even less revenue and profits for firms (**1 mark**). Firms are also likely to be reluctant to hire new staff due to existing spare capacity (**1 mark**) and may just run down existing stocks (**1 mark**) rather than increase output (**1 mark**) which may exacerbate the unemployment problem and lead to both hysteresis (**1 mark**) and further problems of demotivated “long-term” unemployment (**1 mark**).

Other issues include: Effects on inflation, balance of payments on current account, poverty, and investment.

**Up to 15 marks**

Use of diagrams to help support explanations, eg trade cycle, AD/AS

**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks**

Reference to the UK and/or other economies.

**1 mark per reference to a maximum of 2 marks**

**MAXIMUM FOR PART 11: 15 MARKS**

**1 2** Discuss the importance of low interest rates in bringing about sustained economic growth 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**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Monetary policy</li> <li>• Economic growth (short-run and long-run)</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<p><b>Beneficial effects of low interest rates:</b></p> <ul style="list-style-type: none"> <li>• Effects of low interest rates on savings, increased consumption and increased growth</li> <li>• Effects of low interest rates on tracker mortgages, increased disposable income and consumption increasing growth</li> <li>• Effects of low interest rates on credit, consumption and growth</li> <li>• Effects of low interest rates on firms and investment</li> <li>• Effects of low interest rates and its effects on currency and trade flows</li> <li>• Benefits to both short-run and long-run growth.</li> </ul> <p><b>Negative effects of low interest rates:</b></p> <ul style="list-style-type: none"> <li>• The effect on long-term investment and bank's willingness and ability to lend</li> <li>• The building up of personal debt and future problems</li> <li>• The potential damage that a rise in interest rates may have after such a sustained low rate</li> <li>• The effects on the housing market of inflated volumes of borrowing and other microeconomic arguments</li> <li>• Arguments regarding the long-term damage of sustained low rates.</li> </ul> <p><b>Other causes of economic growth:</b></p> <ul style="list-style-type: none"> <li>• Consideration of the other factors leading to economic growth such as fiscal/other monetary or supply-side policies or exogenous factors.</li> </ul>

<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• The effects are difficult to quantify due to the economy never having experienced such persistent low rates</li> <li>• The fact that the bank rate is very different from lending and borrowing rates and therefore the private sector sets many of these rates</li> <li>• The effect of the credit crunch and confidence in determining the level of consumption and investment</li> <li>• The so called “liquidity-trap” (not in specification) and the ineffectiveness of interest rate as they reach low levels</li> <li>• The importance of other factors rather than interest rates in determining growth</li> <li>• Time-lags</li> <li>• Effectiveness of interest rates</li> </ul> <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>
<b>Also give credit for:</b>	<ul style="list-style-type: none"> <li>• Reference to the UK/other economies</li> <li>• Diagrams</li> <li>• An overall judgement on the issues raised.</li> </ul>

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

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**MAXIMUM FOR PART 12: 25 MARKS**