



Rewarding Learning

ADVANCED
General Certificate of Education
January 2014

Economics

Assessment Unit A2 2

assessing

The Global Economy

[AE221]

MONDAY 27 JANUARY, MORNING

**MARK
SCHEME**

General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are marked consistently and fairly. The mark schemes provide examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 18-year-olds, which is the age at which the majority of candidates sit their A2 examinations.

Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners:

Threshold performance: Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Making calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

Level 3 (High Standard): The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

Level 4 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.

- 1 (a) There are a number of points of comparison:
- For the entirety of this period the UK had a current account deficit
 - For the entirety of this period Germany had a current account surplus
 - The UK's largest deficit was in 2007 when it was 3.4 per cent of GDP
 - Germany's largest surplus was in 2008 when it was 7.4 per cent of GDP
 - The UK's smallest deficit was in 2009 when it was 1.4 per cent of GDP
 - Germany's smallest surplus was in 2004 when it was 1.9 per cent of GDP
 - Germany's surplus has been much less volatile than the UK's deficit
- [1] for each point made up to a maximum of [5] [5]

- (b) A number of factors have contributed to the UK running a persistent balance of payments deficit. These include:
- Deindustrialisation. The UK has become a largely service based economy. Services are much less likely to be exported than manufactured goods
 - Adverse movement in the trade-off between unemployment and a balance of payments surplus. A balance of payments surplus would now require much more unemployment than it would previously
 - Low productivity. The fall in UK productivity relative to the rest of the world has increased our production costs and made our products uncompetitive.
 - The eurozone crisis. This has reduced demand for our exports in recent years
 - The rise of low cost, mostly Asian, economies
 - The strength of sterling
 - Impact of globalisation
 - Explanation of balance of payments deficit on current account

Level 1 ([1]–[3])

Candidate provides little explanation for the UK's persistent balance of payments deficit. There may be vague references to some of the points in the passage but these will not be explained or developed. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some explanation for the UK's persistent balance of payments deficit. There will be references to some of the points in the passage with a degree of development. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation for the UK's persistent balance of payments deficit. The points in the passage are extensively developed and there may be some additional points. Quality of written communication is of a high standard. [10]

- (c) A number of factors have contributed to the USA having a higher level of productivity than the UK. These include:
- The USA is a much larger economy, making it easier for firms to enjoy economies of scale
 - The USA has much less regulation for business
 - The USA has much stricter anti-monopoly legislation. This helps to reduce x-inefficiency
 - The USA has a greater endowment of natural resources
 - The power and influence of trade unions is much less in the USA
 - Welfare benefits are lower and often time-related in the USA. This increases work incentives.

Level 1 ([1]–[3])

Candidate provides very little examination of the reasons for the USA having higher productivity than the UK. There will typically be a vague anecdotal approach but no significant economic analysis and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some examination of the reasons for the USA having higher productivity than the UK. There will be a degree of economic analysis of relevant issues and quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive examination of the reasons for the USA having higher productivity than the UK. There will be accurate economic analysis of relevant issues and some degree of evaluation.

Quality of written communication is of a high standard. [10]

- (d) Whether or not a current account deficit is economically significant will depend on a number of factors.

These include:

- The absolute size of the deficit
- Its size in relation to GDP
- The duration of the deficit
- The composition of the deficit
- The ease with which it can be financed by the capital and financial accounts

A long term deficit, constituting a high percentage of GDP could well indicate a lack of competitiveness, perhaps caused by low productivity or an over-valued exchange rate

Issues for analysis and evaluation include:

- Impact on employment
- Impact on aggregate demand
- Impact on the circular flow of income
- Impact on the exchange rate
- Impact on inflation
- Impact on growth
- Ease with which deficit could be corrected by currency depreciation

Level 1 ([1]–[5])

Candidate provides little evaluation of the view that a current account deficit is of no economic significance. Key issues are not explored and there is no significant economic analysis. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some evaluation of the view that a current account deficit is of no economic significance though this may lack detail or be one-sided. There is a degree of economic analysis and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a significant evaluation and judgement of the view that a current account deficit is of no economic significance. Key issues are explored in some depth and there is widespread use of economic analysis.

Quality of written communication is of a high standard. [15]

- 2 (a) Globalisation can be defined as the ever increasing integration of the world's local, regional and national economies into a single international market.
(A. Anderton)

There are a number of features of globalisation. These include:

- The free movement of goods and services between countries.
- The free movement of labour between countries.
- The free movement of capital between countries. This refers to both direct and portfolio investment.
- The free movement of technology between countries.
- Global brands.

Level 1 ([1]–[5])

Candidate shows little knowledge or understanding of globalisation as a concept nor of its main features. There is no significant explanation and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some knowledge and understanding of the main features of globalisation. There is a degree of explanation of these though this may be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows extensive and clear knowledge and understanding of globalisation as a concept. There is a detailed explanation of its various features and quality of written communication is of a high standard. [15]

- (b) Globalisation has impacted upon virtually every single aspect of the UK economy. Everything from the availability of goods and services to the closer integration of world financial markets and its role in the spread of the credit-crunch has been affected. There have also been deep social implications as result of inward migration.

Issues for analysis and evaluation include:

- Nature of globalisation
- Impact on UK consumers.
- Impact on FDI into UK
- Impact on UK firms
- Impact on UK balance of payments
- Impact of migration
- Risks associated with closer financial integration between economies
- Impact on labour market and living standards
- Impact on productivity
- Net impact of globalisation

Level 1 ([1]–[7])

Candidate provides little explanation of the various ways in which globalisation has affected the UK economy. There is no attempt at evaluation and quality of written communication is limited.

Level 2 ([8]–[13])

Candidate shows some understanding of the various ways in which globalisation has affected the UK economy. There is a degree of evaluation of the overall impact and quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate shows a clear understanding of the various ways in which globalisation has affected the UK economy. This is supported by accurate economic analysis and there is significant evaluation of the overall impact. Quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate shows a clear and comprehensive understanding of the various ways in which globalisation has affected the UK economy. This is supported by accurate economic analysis and there is in-depth evaluation of the overall impact. Quality of written communication is excellent. [25]

AVAILABLE
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40

- 3 (a) Economic development is a very broad indicator but one which has no precise definition: *John Sloman says, "Development is a normative concept. Its definition will depend on the goals that the economist assumes societies want to achieve."*

However most measures of development will include variables such as income per head, literacy rates, infant mortality, healthcare provision, inequality of income and wealth, environmental considerations, the role of women and quite often political freedom.

Measures of economic development include:

- Real per capita GDP. This is a useful starting point but clearly a very inadequate measure of overall development
- Human Development Index (HDI)
- Human Poverty Indices (relative and absolute)
- Various social indicators, e.g. doctors per head of the population
- Index of Sustainable Economic Welfare (ISEW)

Level 1 ([1]–[5])

Candidate provides little explanation of economic development or how it can be measured. Response is likely to be limited to GDP. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of economic development and of how it can be measured. The shortcomings of GDP-based figures will be explained and there will be some reference to other measures. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of economic development and of how it can be measured. There will be a detailed explanation of at least two measures and quality of written communication is of a high standard. [15]

- (b) The trade versus aid debate has become more intense in recent years. Free market economists argue that reducing import barriers would do far more to promote development in LDCs than any amount of foreign aid. This view is challenged by a number of development economists who argue that the terms of trade are so biased against LDCs that free trade would be of little benefit. It would seem that free trade though important would not be sufficient to promote significant economic development in LDCs and that foreign aid programmes, however flawed, should remain in place.

Issues for analysis and evaluation include:

- The potential benefits from trade liberalisation far exceed the aid programmes of the donor states
- Theory of comparative advantage
- Some aid, especially that channelled through non-governmental organisations, funds beneficial projects
- Possibility that trade would not benefit the poorest African countries who might lack a comparative advantage in agriculture
- Infant industry considerations
- Ineffectiveness of aid. Africa has received over \$500 billion dollars of aid but many nations remain mired in poverty.
- Much aid is siphoned off by corrupt governments and officials. Much of this money finds its way back to Western bank accounts or is spent on exported luxury goods from the west.
- Aid gives power to the donor countries who use it to promote economic policies which may not be appropriate for each country. It supports paternalistic attitudes.
- Much aid ends up in the pockets of highly paid “development consultants” from the donor states.
- Much aid is wasted on ill-researched projects which were dreamt up by the donor states and which often gave lucrative contracts to engineering companies from these states.
- Aid played little or no part in the development of countries like China, Thailand and India.
- Much aid is tied to security considerations
- Aid has helped to increase agricultural productivity through training.
- Not all African governments are corrupt.

Level 1 ([1]–[7])

Candidate provides little critical examination of this view. There may be vague references to some issues but these are not explained or developed. Quality of written communication is limited.

Level 2 ([8]–[13])

Candidate provides some critical examination of this view, however key issues will be missed or there will be errors. Quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate provides a significant critical examination of this view. Key issues are explained in some depth and quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate provides an extensive in-depth, critical examination and judgement of this view. Quality of written communication is excellent. [25]

- 4 (a) The European Central Bank is the central bank for the member states of the eurozone. It was established by the treaty of Amsterdam in 1998 and is independent of any national government, though the Central banks of member states are represented on its board.

The main function of the ECB is to control monetary policy with a view to achieving a rate of inflation of around 2 per cent. Its main instrument for this purpose is the rate of interest.

It is also responsible for managing the reserves of the eurozone and conducting foreign exchange operations to manage the value of the euro. This role was particularly important during the recent currency crisis which threatened the very existence of the euro.

During this crisis it managed the transfer of funds to countries such as Ireland and Greece which faced the possibility of leaving the eurozone because of high levels of debt. During 2012 it embarked on a massive programme of quantitative easing by buying up the bonds of highly indebted nations in order to cap their borrowing costs.

There has been an evolution in the functions of the ECB since its foundation in 1998 and it is now a much more important institution.

Level 1 ([1]–[5])

Candidates provide little explanation of the role of the ECB. There may be vague references to issues like interest rates but no significant analysis. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidates provide some explanation of the role of the ECB. There will be a degree of analysis of major themes like control of interest rates but this will be incomplete or lack depth. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidates provide a clear and comprehensive explanation of the role of the ECB. There will be accurate analysis of all its major functions and quality of written communication is of a high standard.

[15]

- (b) The historical record of currency unions such as the eurozone is not promising. The only ones which survived were those which had a high degree of political integration and a commitment by richer members to subsidise the poorer ones. The eurozone in its current (November 2012) 17-member format faces a number of challenges. These include:
- Significant differences in productivity between its member states. Normally a low productivity nation such as Greece would compete with a high productivity nation such as Germany by devaluing its currency. Within the eurozone this is not possible, meaning that Greece is likely to be consigned to a permanent trading deficit with more efficient northern European economies. One solution to this would be for Greece to leave the euro and trade with a greatly devalued drachma.
 - The unsuitability of a common interest rate for all its member states.

- The eurozone does not fulfil the conditions for an optimal currency area. The most obvious example of this is the lack of labour mobility between member states.
- The political difficulties in persuading voters in richer northern European states to subsidise poorer nations such as Greece.
- The eurozone can only retain all its existing members if there are substantial fiscal transfers from its richer members to its poorer ones.
- There is a significant political will to ensure Euro survival.
- The ECB has embarked on a significant programme of bond repurchases which so far (2014) appears to be successful. Indeed the Eurozone has expanded to include Latvia.

Level 1 ([1]–[7])

Candidate provides little explanation or evaluation of this view. There are likely to be vague references to issues like debt but no significant analysis of the problems facing the eurozone. Quality of written communication is limited.

Level 2 ([8]–[13])

Candidate provides some explanation and evaluation of this view. There will be a degree of analysis of the problems facing the eurozone but this is likely to be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate provides a clear explanation and evaluation of this view. There will be extensive analysis of the problems facing the eurozone and also of the factors which might ensure its survival. Quality of written communication is of high standard.

Level 4 ([20]–[25])

Candidate provides a clear and comprehensive explanation, evaluation and judgement of this view. There will be accurate in-depth analysis of the problems facing the eurozone and also of the factors which might ensure its survival. Quality of written communication is excellent. [25]

Total

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80