Examiners' Report
June 2013

GCE Economics 6EC04 01

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Introduction

This was the fourth examination paper for the 2008 syllabus.

Candidates were required to answer one essay (from a choice of three) and one data response question (from a choice of two).

The demands of this paper appeared to be very similar to those of this paper in 2012.

In Section A (essays), question 3 was the most popular question followed by question 2 with question 1 being least popular.

In Section B (data response), question 4 was slightly more popular than question 5.

This paper proved to be accessible for the vast majority of candidates and produced a wide range of responses. High marks were achieved by answers which were characterised by well-informed, coherent, relevant and rigorous analysis. However, less impressive answers contained superficial and/or inaccurate analysis and frequently demonstrated little understanding of current economic issues.

Further, there was evidence of misreading and/or misinterpretation of the questions and the information provided in many answers. In such cases it seemed that candidates preferred to write pre-rehearsed answers rather than addressing the exact question set. A key skill in GCE Economics is the ability to interpret data correctly and to apply concepts appropriately to the material. These skills need to be nurtured throughout the course so that candidates can demonstrate them under examination conditions.

A serious concern, which was raised last year, is that of poor handwriting. Responses which are illegible may not achieve the marks which the content may merit if it is impossible for the examiner to decipher what has been written.

Nevertheless, it is evident that many students have been well-prepared, motivated to read widely and were able to demonstrate outstanding skills in the examination. These candidates are both a credit to themselves and to their teachers.

Question 1

Although this was the least popular of the essay questions, candidate performance on it was quite impressive.

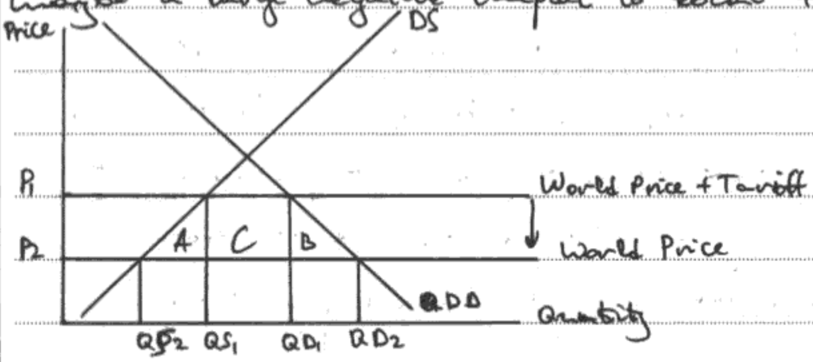
In part (a), the main weakness was that few candidates discussed both developing and developed countries. Instead their answers focused on either why developing countries were growing quite rapidly or why growth in developed countries was relatively slow.

There were some very sound responses to part (b) which included a discussion of aspects of monetary policy together with consideration of fiscal policy and supply side policies related to the UK or another developed economy. Crucially, these answers also considered how these policies could stimulate economic growth, part of the question ignored by some candidates. Some weaker responses ignored the requirement to make a comparison between monetary policy and alternative polices. Further, some answers related their discussions to a developing country rather than to a developed economy.

1 a) Developing economies are countries like China which have not yet developed but have outpaced many of the developed economies.

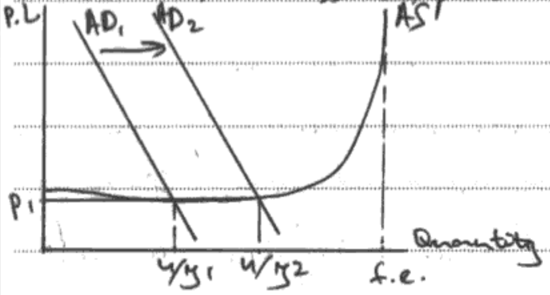
The reduction of Protectionism policies can be an important reason why they have experienced quicker and higher growth rate. The reduction of tariffs is going to lead to higher levels of trade liberalisation and will attract FDI and TNC moving in. This is going to increase trade as the trading partners would not need to pay the tariff or quota to trade.

However there is a problem as this is going to increase exploitation of resources, a possible job loss in the LEDC and maybe a large negative impact to local farmers.



There is also going to be an impact on the Balance of Payments as imports will rise from QS QD1 to QS2 QD2. There is going to be a loss of government revenue of C.

LEDCs or developing economies may introduce tax breaks which is going to cause an influx of TNCs moving in to benefit from ~~the~~ no tax, therefore low costs of production. This togeteer with low labour costs and cheap land will make high profits to TNCs, but is going to reselt in quicer economic growth for the LEDC as ~~...~~ it is export-led.

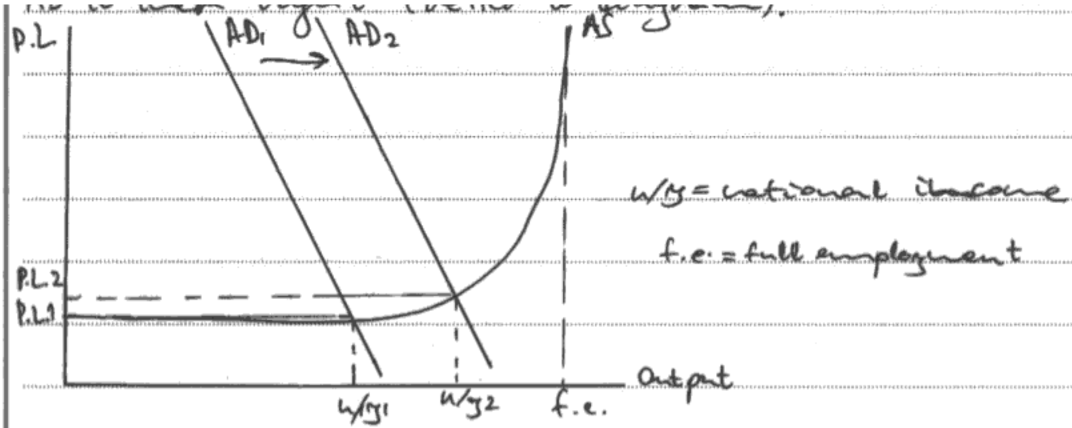


This is going to raise AD resulting in higher annual growth rate of 4.5%, compared to the developed economies.

However this may not happen as a tax break is going to cause the 'hit and run' feature. This is when the TNC establishes manufacturing only for as long as the tax break last, to make quick profits and leave. Therefore they might bring own labour and their profits can repatriated. Hence not developing the LEDC and not raising employment, and therefore a low insignificant effect on economic growth.

b) Monetary Policy is a Demand-side Policy which ~~...~~ can be contractionary or expansionary. It is controled by the manipulation of the interest rate

Stimulating economic growth is going to be an expansionary monetary policy which will reduce the interest rates. This is very effective as it is going to increase investment and therefore shift AD to the right (reffer to diagram).



The shift of AD_1 to AD_2 is going to raise the national income to N/Y2 suggesting an increase in consumption too as well as higher employment leading to economic growth.

However the monetary policy's effects are hard to distinguish. It also takes too much time for it to work from 18 to 24 months (time lag). It can also lead to higher inflationary pressure which may decrease the purchasing power of the nation's higher disposable incomes. Therefore may not be very effective.

If there is a recession then the monetary policy could be very effective for promoting economic growth, ~~as it~~ ~~can~~ but this can be said for the UK and not Italy or Greece. This is because the UK is not in the euro zone unlike Italy and Greece, which could not promote economic growth as they cannot change/manipulate interest rates as they have to accept the EMU figure as they are in EU.

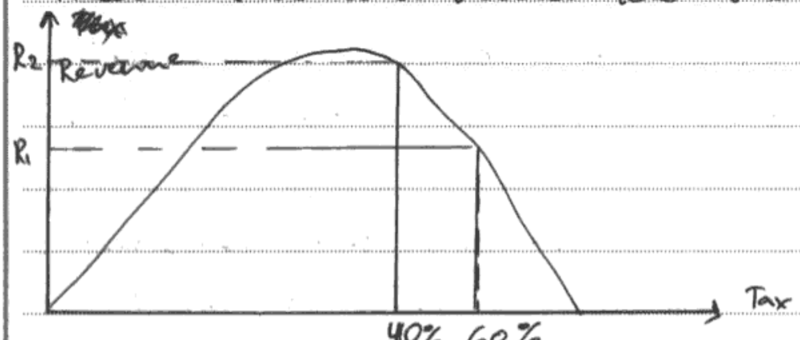
Fiscal policy may be a more effective ~~[illegible]~~ way to encourage economic growth. This may be from ~~(...)~~ increasing government spending on merit goods like education or healthcare, but also infrastructure. If the government spend on ~~the~~ merit goods it is going to raise AD and hence encourage economic growth. However there is ~~a~~ has very long run effect and it ~~is~~ has limited success for MEDCs like the UK which are already developed.

Spending on infrastructure may increase AS as it is going to raise productivity and efficiency and hence lead to more competitive exports due to their lower price (i.e. $(X-M)>0$). However can lead to unemployment.

The other fiscal policy introduced could be a reduction of income and corporate tax which is going to have an significant effect on AD shifting it right as people would have a disposable income.

This may be more effective measure as it acts quickly without significant time lag i.e. in short run.

However this will reduce the tax revenue



Laffer curve

The diagram shows that there might actually be a rise in revenue shown on the Laffer curve as the previous tax was too high at 60% and then rich people left or there was more tax avoidance

But at 40% there is higher revenue
Therefor the monetary policy has limited
Success which cannot always be seen.
Therefore to a fairly large extent it is not
effective as the effect cannot be measured.
However it is effective in a recession for
the UK or other countries not in the Euro zone

ResultsPlus
Examiner Comments

(a) This answer considered two linked points: trade liberalisation and foreign direct investment which were explained briefly but did include evaluation. However, the first point was not linked closely to explaining the higher growth rates in developing countries. Further, there was no explanation of the reasons why growth was much slower in developed economies.

This answer scored 13/20.

(b) The impact of a lowering of interest rates on growth was explained with some evaluation. This was followed by a discussion of two aspects of fiscal policy: increasing government expenditure and lowering taxes. While the first of these was linked quite well to economic growth, the analysis on tax cuts was brief and not related well to stimulating growth.

Overall, this answer scored a level 3 mark: 18/30.

ResultsPlus
Examiner Tip

(a) To improve, the response should have included some analysis of why economic growth had been so much slower in developed economies than in developing economies.

(b) Since the question relates to economic growth, all policies identified should include analysis of how they impact on growth. The response could have been improved further by consideration of supply side policies.

a) One reason is the financial crisis in the ~~developing~~ developed world. Many countries had problems occurring in their banks. ~~They~~ Businesses were unable to borrow funds and reinvest and grow. Consumers had already previously borrowed a lot and therefore consumer spending was weak. The economies of developed countries as a result did not grow due to a lack of exports. Companies had few profits to reinvest due to low consumer spending. $AD\downarrow = \downarrow C + \downarrow I + G + (x-m)$
These 3 factors significantly reduced growth in the developed world. In addition in recent years many countries, especially in the Eurozone have adopted austerity measures. The UK wants to reduce its fiscal deficit ~~to~~ to 2.2% of GDP by 2017 / 2018. Therefore there has been a significant reduction in government spending and an increase in taxes which has made the problem of growth even worse. $AD\downarrow = C + I + \downarrow G + (x-m)$
Increasing taxes means consumers have less disposable income and spend less in the economy. There may be higher unemployment rates and businesses close down. Therefore developed economies have struggled to grow. Developing banks have their own banks which are not dependent on ~~funds of~~ funds from the developed world and as a result they were still able to lend and developing economies continued to grow.

This is a significant reason why the developed world has struggled to grow compared with the developing world. The financial crisis was very severe and the fiscal austerity measures adopted by governments such as Greece and Italy were very strict. At a time of global slowdown these actions severely impacted growth.

Another reason is the rise in commodity prices. There has been an increase in the population which has increased demand for commodities. Africa has half of the worlds 'gold deposits' and '10% of oil reserves.' Therefore there has been an increase in price and Africa has made more profit and been able to reinvest it into development and further growth. Another factor is the reduction in supply of these commodities. As the supply decreases there has been further ~~[illegible]~~ increases in the price. Industrialisation in India and China has increased the price of commodities. As populations are ~~increased~~ increasing demand for income-elastic products such as cars which need oil therefore increasing the price further. Developed economies do not export natural resources as much, so have not benefitted from this growth.

The impact of commodities rising is very significant. Oil has risen from \$30 per barrell in 2003 to \$130 per barrell in 2013. Therefore Africa has ~~a~~

Significantly more ~~[illegible]~~ money to invest in its development. The population in the world has risen from 6.1 bn in 2000 to 7.0+ bn in 2012 and consequently growth in the commodity market has increased a lot.

Another reason is the growth in developing countries. Their growth is in moving from the agricultural sector to manufacturing. There is much more potential for growth here than in MEDCS. The UK has already developed its service sector and therefore cannot grow much more. Whereas Africa ~~[illegible]~~ are starting from a much lower base and can therefore grow much faster. The Lewis Dual sector model shows how ~~[illegible]~~ an economy moves from agriculture to manufacturing, because there is little opportunity costs of moving workers and so businesses expand they demand more labour. Wages increase and so workers are attracted to work in manufacturing and there are more profits to be made in manufacturing. As a result ~~[illegible]~~ more taxes can be collected in LEDCs and increase growth. In contrast to MEDCS where deindustrialisation is occurring. Therefore LEDCS have been growing at an average of 4.5% higher than LEDCS.

There is lots of growth potential in LEDCS due to them only just starting to ~~[illegible]~~ ~~[illegible]~~

more into agriculture and industrialise. Angola is growing at a rate of 11.1% due to moving ~~...~~ into other sectors therefore it has significant impacts on economic growth compared to ~~...~~ MEDCs.

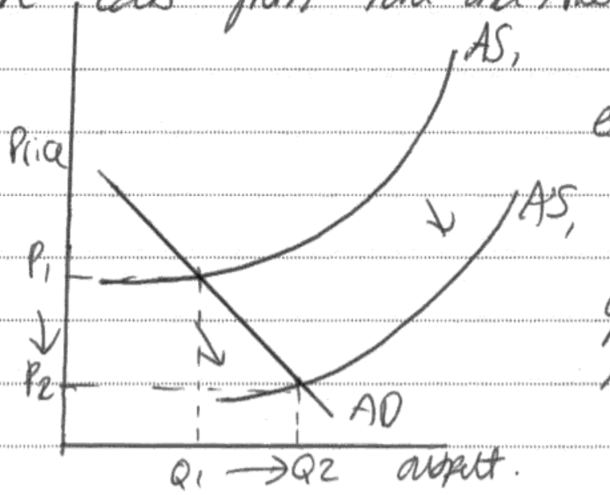
b) Monetary policy is the manipulation of interest rates to manipulate demand. Monetary policy can be used to stimulate demand. By ~~increasing~~ reducing interest rates the government can adopt a loosening policy and increase AD. An reduction of interest rates reduces the money consumers have to pay back on loans such as mortgages and car payments. This leads to a positive wealth effect and money may be spent in the economy instead of it going into paying their mortgages. Therefore AD may increase which increases growth in a country. Consumers have more discretionary income. In addition businesses may have to pay less on loans and have lower interest on new loans. ~~If~~ consumers are spending more they may be more willing to invest and borrow money from banks, especially at lower interest rates. Therefore investment may increase and create a positive multiplier effect and increase AD further. Therefore it is a very effective way of increasing AD.

However, interest rates are already as low as 0.5% in the UK. Therefore there ~~...~~ is a limit on how much the UK government can use them to increase growth. A different policy may be more effective. In a country where interest rates are high it may be a more effective way of increasing growth.

Another effective way may be fiscal policy. The government could increase government spending or reduce taxes. If the government increased spending it may increase jobs in the public sector and may create a positive multiplier effect and increase indirect jobs. AD↑ = C + I + ↑G + (x − m). An increase in jobs may increase real incomes and as a result more consumer spending may occur. Since this is 60% of AD it would have a significant impact. By cutting taxes it may allow businesses to keep more retained profit if corporation taxes are cut resulting in more business investment. The UK would become a more attractive place for FDI due to lower tax rates. There may be an increase in exports and therefore an improvement of the current account. Fiscal policy can be used to achieve other economic objectives too.

In evaluation of this it may be more effective ~~may~~ not be a suitable policy. Fiscal policy cannot be altered and can only be changed once a year in the budget in April. Therefore monetary policy may be a more suitable option. In times of economic downturn and fiscal austerity measures it is not suitable for the UK because the it wants to reduce the fiscal deficit to 2.2% of GDP by 2017/2018.

Another policy which may be used to promote economic growth is a supply side policy. One method which may be used is investing in training and education. The UK government would provide grants for engineering companies and increase the training provided. This would improve the quality of the workforce in the UK and improve the UK's competitiveness. Therefore we may export more cars from Ford and Nissan.



The price of our exports would decrease and output would increase. If more training is offered they may be more productive and reduce costs for firms.

There will be more people in the workforce which may increase the output of workers. As a result wages may reduce due to a higher supply of workers which will reduce unit costs for businesses and also make the UK more competitive.

However, the supply of workers may increase, but the UK is current having very slow growth occurring and there is slow growth in the Eurozone and as a result the exports may not increase. There is demand-deficient unemployment occurring in the UK, not structural. The eurozone ~~accounts~~ accounts for ~~~~ 45% of UK exports. Therefore AD may not increase significantly and monetary policy may be more effective.

Monetary policy has many benefits. It can be changed monthly and therefore there is less risk of over or undershooting the target. Interest rates have a faster effect on the economy than other policies. Government spending can only be changed ~~~~ each year in April and supply side policies take a long time to take effect. e.g. the government increasing spending on education takes ~~years~~ years for the full effects to filter through the economy. Interest rates

are appropriate for the UK because there is a large proportion of mortgage holders and lots of private sector borrowing. Therefore ~~~~ a lowering of interest rates would significantly ~~~~ reduce the

However, interest rates cannot guarantee an increase in AD. The spending does not necessarily hit the economy. For example ~~~~ the UK has low growth and low confidence in jobs therefore the money may be saved rather than spent and may not generate an increase in AD. Government spending e.g. on healthcare goes into the economy and creates positive multiplier effects.

amount paid to banks and ~~[illegible]~~ they therefore generate much more spending in the economy and therefore stimulate economic growth significantly.

ResultsPlus
Examiner Comments

Part (a): There was a discussion of three causes including the impact of the financial crisis on developed economies; the rise in commodity prices; and industrialisation in developing countries. There was some evaluation of the first two factors although this was relatively brief. This answer was awarded 17/20, just reaching the level 5 criteria.

Part (b): This answer considered lowering of interest rates; two aspects of fiscal policy (increasing government expenditure and reducing taxes); and training and education as a supply side policy. However, the first two policies could have been linked to growth more closely. There was good evaluation of supply side policies and of a cut in interest rates on the last page. This answer was, therefore awarded a top level 4 mark: 25/30.

ResultsPlus
Examiner Tip

In part (a), it would have been useful to include more examples of countries eg some African countries which have benefited from the rise in commodity prices. Further, the evaluation could have been developed, for example, by considering the differential impact of rising commodity prices on different developing countries.

Question 2

(a) Most responses considered both the balance of payments current account surplus in Germany and the current account deficits in UK and USA. However, some of the reasons given showed little knowledge or understanding about current economic issues.

(b) Most candidates interpreted this question as one requiring policies to reduce current account deficits. The main weakness was an absence of context. For example, discussions of protectionism would not be relevant between two members of a trading bloc. Similarly, discussions of depreciation frequently ignored consideration about how this could be achieved. The best responses considered how both trade surpluses and trade deficits might be reduced and included a realistic assessment of the factors which might explain the difference in trade in goods balances.

2a) A surplus in the trade of goods is when a country exports more than it imports leading to a surplus ~~on the balance~~ in the trade of goods.

Germanys surplus could be due to a number of reasons and so could the USA & the UKs deficit. Germany may have greater effeciency gains ~~to be had~~ compared to the UK and the USA; therefore can produce goods with lower input costs and higher out put, making ~~goo~~ Germany's export cheaper and more competitive then the UK and US. This would also suggest that Germany has a comparative advantage in some markets such as the car industry over the UK and US. However there could be greater X- ineffeciency in the UK and US markets making costs higher and lowering of competitivness.

One of Germany's main exports are cars, which tend to have high added value on them. Due to the ~~r~~ rapid growth of some developing countries such as China and India, there has been a large Surge in demand for these goods, boosting Germany's exports.

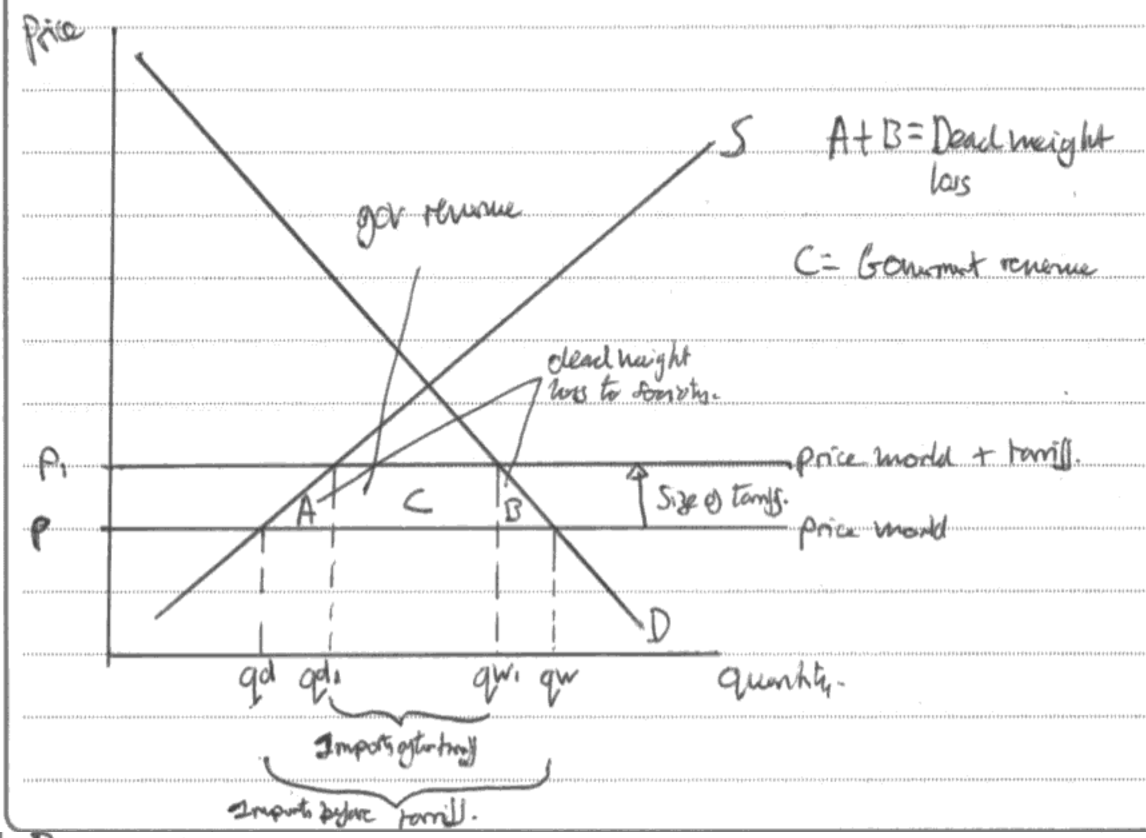
Also economies such as the US and UK where densely hit by the recession in 2008. This Stoped some countries from importing UK and US goods as there price increased, therefore causing US & UK exports to decrease while imports remained the same. Also domestic consumers of these countries, who with less ~~[illegible]~~ disposable income, would have importen more cheap goods rather than buy from domestic producers causing an ~~[illegible]~~ imbalance of trade of goods and a deficit.

In 2011, there may have been a Strong ~~[illegible]~~ pound and weak euro. This would lead to the UK's exports being ~~[illegible]~~ more expensive to other ~~[illegible]~~ european countries as they would have to convert more euros to pounds ~~[illegible]~~ for the same quantity of good. A Strong pound also makes imports look cheaper as a pound buys more euros, this would lead to an increase in imports and a decrease to exports as cost is higher so it reduces competitiveness on international market, ~~however~~ However this depends on how elastic demand for UK goods are and the marginal perpensity of import for the UK.

2b) ~~The~~ ~~trade~~

Trade imbalances could be corrected in a number of ways.

Protectionism is one way in which a trade balance can be corrected. Tarrifs, quotas, trade embargos are all examples of protectionism ~~me~~ measures that could be used. Tarrifs could be used as a "tax" on top of the price of the imported good. This increases the import overall prices, reducing its competitiveness to domestic goods look cheaper.



Before the tarrif price was at P and domestic

The tariff leads to some government revenue (area C) and leads to dead weight loss of areas A and B. This ~~a~~ also reduces consumer welfare and increase producer welfare. Size of tariff can be seen by the difference in price. However a tariff does ~~not~~ not always lead to a ~~reduc~~ reduction in trade imbalances. This could be due to the country who the tariff has been imposed on ~~retalia~~ retaliating and imposing ~~tariffs on~~ protectionist barriers on the other country. Also consumers face higher prices and a loss in consumer welfare. Protectionist barriers such as tariffs ~~as~~ can also distort comparative advantages of other countries leading to a fall in global output. The WTO also see this ~~as~~ as a barrier to free trade and globalisation.

Another way of reducing trade imbalances is to manipulate exchange rates and ~~devalue~~ devalue its currency. A country may do this by decreasing interest rates, printing money, all in which ~~artiff~~ artificially devalue ~~the~~ the currency of a country. By devaluing its currency a country's exports become cheaper as foreign currency now buys more of the country's money. This increases its competitiveness of ~~[illegible]~~ as its exports appear cheaper, therefore increasing its exports. Also imports become more expensive and people import less. However this depends on marginal propensity of imports and how elastic they are.

It also depends on by how ~~far~~ much they devalue the currency by and ~~the~~ whether ~~or~~ not other countries put up protectionist barriers in retaliation of this.

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Examiner Comments

(a) This was not a very impressive answer. Although a couple of relevant points were made, some of the analysis was dubious and there was little effective evaluation.

There was merit in the argument developed in the second paragraph which suggested that Germany was more efficient and had a comparative advantage in some markets. The next paragraph developed this slightly by considering the significance of the car industry in Germany.

The analysis in the middle of the second page relating to the 2008 recession was unconvincing and not worthy of credit. However, some credit was allowed for ascertaining that a strong pound and weak euro could be part of the explanation for Germany's current account surplus and the current account deficits experienced by the USA and UK.

This answer was awarded a Level 2 mark: 10/20.

(b) Two policies were explained: protectionism and depreciation. In the case of protectionism, no context was provided so weakening the argument because there was no recognition that this might not be a realistic policy for many countries. However, there was some good evaluation of this policy.

In relation to depreciation, there was an outline of how this could be achieved through a lowering of interest rates and a brief summary of the likely effects. However, the evaluation at the end of the answer was ineffective.

This response scored 13/30

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Examiner Tip

(a) A good line of argument could have been in relation to relative productivity rates in Germany as compared with the USA and UK. Linked to this could be a discussion of relative unit labour costs.

The point about the value of the pound in relation to the euro was significant up to 2008 and could have contributed to deindustrialisation which meant that the UK is now more dependent on imports of manufactured goods.

(b) To improve performance policies such as protectionism should be discussed in a context. For example, some candidates discussed the imposition of tariffs on Chinese solar panels after it had been accused of dumping.

2a answer ~~#~~:

~~One~~ One possible reason for the causes of trade imbalances between the UK and Germany could be ~~is~~ Germany's economy is ~~more~~ net exporter of goods from the EU with large ~~industries~~ focus on manufactoring products, whereas the UK's ~~is~~ economy is more focused on services, the largest of which being ~~the~~ sectors such as the banking industry and the advertising/media industry. This means that as Germany is focused on manufacturing it has developed a comparative advantage which allows it to be globaly competitive against economic forces ~~Such~~ Such as China and Brazil. Also, as ~~at~~ the ~~recession~~ banking Chrisis hit the world Germany was less effected as it was able to respond and stimulate growth in their economy which is why they current experiance positive growth in comparison to countries such as the UK who had fears of a triple dip recession early in 2013.

However, one issue with Germany's export based growth which lead to the trade surplus in 2011 is that this may indicate a low standard of living for the country as there is a lack of demand domestically. This means ~~they~~ ~~they~~ Germans are not consuming domestically produced goods as it is ~~at~~ mostly being provided to foreign markets.

However on further evaluation ~~the~~ we may conclude this is not the case as countries such as Japan who also have a ~~current~~ surplus in the trade in goods have an extremely high standard of living.

Another possible cause for the UK's recorded deficit may be lack of demand in export markets. ~~On~~ ~~#~~ Post the banking Crisis in 2008, many economies (including the UK) have been 'on their ~~Bo~~ knees' with the ability to ~~gen~~ stimulate spending becoming increasingly difficult as job security and consumer confidence rank at an all-time low.

The ~~UK ske~~ EU ~~is~~ accounts for 60% of trade in goods ~~for~~ for the UK, with conditions in the EU being as they were in 2011, with countries such as ~~of~~ Greece facing harsh austerity ~~and~~ measures, demand both for imports + exports has contracted. This has ~~meant~~ resulted in the decrease of demand for British made goods which may be a key driver to the recorded deficit in trade of goods in 2011 (£99.7bn). ~~This may also be true for the US~~

Whereas ~~cont~~ Germany has benefited from the prosperous growth in China as demonstrated by the large demand for German made cars such as Audi and BMW.

However, Germanys key target market for exports is also the EU and this may be more so than the UK as Germany benefit from price transparency and less uncertainty when traded with other Eurozone countries as they share a single Currency. This means that despite the diminished demand in the EU, Germany has still been able to ~~to~~ record a trade in goods surplus.

Another key factor as to the difference in trade balances between Germany and the UK is the UK has in recent years cut down on capital investment for long term projects.

~~As~~ The majority of funding ~~from~~ for investment in the UK is provided

through ~~(are)~~ shareholders. ~~whom require~~ ~~a~~ This means that the incentive to make profit is largely short-term.
~~But~~ As investing in supply side policies such as infrastructure ~~and~~ ~~Educa~~ and capital accumulation have long term returns, british firms are less likely to persue these forms of investment.
~~Whereas~~ ~~Whereas in G~~ Also, with the UK's fiscal austerity measures these investments are also not made by the Government.
Whereas in Germany, ~~banl~~ banks provide loans to corporations which means long term plans can be agreed and German firms have the ability to invest in large scale projects which increase the productive capacity of the economy and lead to increased competitiveness and ultimately a trade in goods surplus.

However, as this is a long term measure it may be difficult to accredit the UK's trade in goods deficit to this as the fiscal austerity is only of recent years (since the formation of the coalition government) ~~which means~~ and prior to this government spending in the UK was high. This means that there lack of long-term investment would have not been ~~too~~ such a contributing factor.

In conclusion, ~~I belive~~ I believe that the most significant factor contributing to the UK's ~~current~~ deficit in trade of goods compared to Germany's surplus is Germany specialisation and long-term comparable advantage in manufacturing coupled with their long-standing reputation internationally for a premium quality product. However lack of investment in the UK ~~will~~ may worsen this as the government continues to persue fiscal austerity and Germany continues to invest.

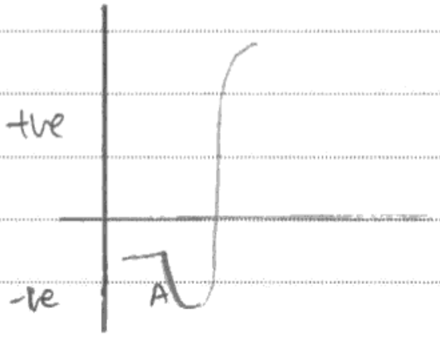
2b) plan = deflation
devaluation
Supply-side
Protectionism

2b answer)

One of the most effective ways to correct a trade imbalance could be through devaluing the currency.
~~By doing this, the the~~ By increasing the supply of pounds in the market, the value of the currency would fall.
The decreased value of the currency would mean that UK produced goods now appear cheaper to its main target market (the EU), as the euro would be relatively strong to the pound. This would mean that EU consumers are more likely to consume british made products as they appear cheaper. This is a means to increase the competitiveness of the UK and increase demand for imports.

Also, a weaker pound would also mean that foreign goods appear to be more expensive to UK consumers. This would result in a contraction of demand for imports.
However, the Marshall Lerner condition states that this will only occur if the combined elasticities of demand are greater than 1. If this condition is not fulfilled this would not occur.

Also, the J-curve effects suggests that in the short-term the current account deficit for goods may deteriorate as shown in the diagram below.



As shown in the J-curve above, in the short run demand for imports is inelastic. This means that ~~the~~ UK consumers will continue to consume imports at the same rate, however as the goods are now more expensive the current account deteriorates (as labelled A on the diagram). However, in the long term, demand becomes more elastic and the current account becomes more favourable.

Another method to which ~~the~~ the trade imbalance could be corrected is through ~~the~~ deflationary policy.
By increasing interest rates, ~~the~~ UK consumers will be ~~less~~ less likely to consume imports as there will be more of an incentive to ~~take~~ save (due to the higher return of savings) and less likely to obtain credit as there is an increased repayment. This means less income will be spent which ~~means~~ ~~to~~ provides a means for the correction of a trade in goods deficit.
Also, by increasing taxes, consumers will have less disposable income to spend and this would lead to a contraction in spending on imports.

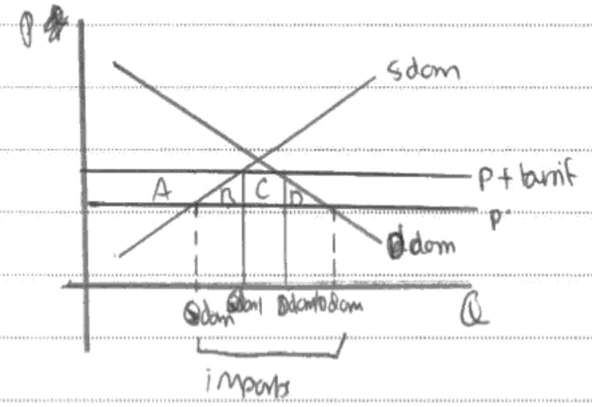
However, this method of correcting a trade imbalance may have more damaging consequences than benefits, also it may prove completely ineffective.

Generally, imported goods are low value, low tech goods from countries such as China and ~~Brazil~~ India, for example clothes. As desposable income decreases as a result of deflationary policies, consumers may actually import a larger amount as they can no longer afford higher cost alternatives from domestic firms. This would lead to a deterioation in the ~~trad~~ current account and the increased trade imbalance.

Also, by increasing taxes, this could be a regressive measure and prove as a disincentive to work which would provide a clash between other macroeconomic policies (eg full employment)

Another method ~~to~~ of correcting the trade imbalance could be through a series of protectionist measures.

By implementing protectionist measures such as a tarrif, the demand for imports will decrease as shown in the diagram below.



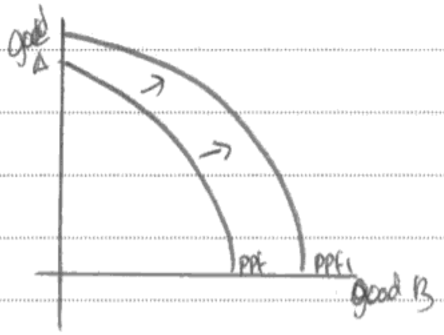
Initially, the UK produces at Sdom however the UK demands Ddom. This leads to ~~a~~ the gap being filled by imports. However with a tarrif, supply increases from Sdom to Sdom1 and demand for imports contracts from ddom $\xrightarrow{to}$ ddom1

This leads to a deadweight loss of B + D, a loss of consumer surplus of A+B+C+D ~~and~~ ~~an~~ an increase in revenue of C and an increase in producer surplus of A.

As shown above, by implementing a form of protectionism (tariff) imports contract which could correct some of the trade imbalance.

However, protectionism is an incredibly unfavourable strategy as this leads to a loss in consumer welfare (A+B+C+D) and also ∴ it can lead to ineffeciencies. As domestic firms are protected through trade walls, there is an increase in ~~ineffeciency~~ x-ineffeciency and an increase in price. This is due to a lack of competition.

The final method is through supply side policies. By sustained investment in education, training and infrastructure the ~~ppf~~ productive capacity of the economy could shift as shown below.



As shown above, increasing investment could increase the productive capacity of the economy. ~~This~~ This would lead to an increase in skills, which leads to an ~~decrease~~ increase in efficiency and thus the UK is more internationally

competitive as it can produce a cheaper, higher quality good.
This would lead to an increase in demand for ~~britain~~ british made goods and a correction of trade imbalance as ~~exports~~ exports increase.
However, this is a long term policy which may not lead to a ~~a~~ ~~corr~~ correction of the trade deficit for many years as there is a large time lag.

In conclusion ~~I~~ believe a combination of policies should be pursued for long and short term correction of the imbalance, however protectionism should be considered a 'last resort' as it has the most downfall with the least upfall.

ResultsPlus
Examiner Comments

(a) This was an effective answer which covered three causes of the differences in trade in goods balances including Germany's comparative advantage in manufacturing; the impact of the recession on the USA and UK; and differences in capital investment between the 3 countries. However, the material at the end of the first page and top half of the second page was irrelevant.

There was some effective evaluation of the second and third points together with a concluding paragraph which highlighted the key reason for the differences in trade balances.

This answer was awarded 18/20.

(b) Four policies were analysed and evaluated as means of reducing balance of payments deficits on current account: depreciation of the currency (but the mechanism by which this could be achieved was not really explained); deflationary policy; tariffs (but without any context); and a supply side policy (education and training). The absence of a full explanation of how a government might engineer a depreciation of its country's currency and the explanation of tariffs without any context meant that a mark of 22/30 was awarded.

ResultsPlus
Examiner Tip

(a) This question, as with many of the others demands a knowledge and understanding of recent economic issues. Some responses offered completely unrealistic reasons for the differences in trade in goods balances which limited the credit which could be given.

(b) Discussions of protectionist measures should be considered in a particular context given that WTO agreements and membership of trading blocs might limit a country's ability to unilaterally impose such measures. Similarly, discussions of depreciation/devaluation should include a mechanism by which such a change in the exchange rate could be engineered.

Question 3

3(a) Most answers focused on how globalisation had affected inequality in developing economies rather than on developed economies.

One weakness was that some answers discussed the impact of globalisation on world economy rather than on inequality.

3(b) Most answers included policies such as progressive taxation, state benefits, education and the national minimum wage. Some candidates also referred to reduction in VAT as a regressive tax.

One weakness was that some answers were rather descriptive and failed to demonstrate how the policies would reduce inequality. Further, some responses did not follow the requirement to discuss policies to reduce inequality in a developed country and referred to a developing country. Unfortunately, some of these scored very few marks because the policies selected were applicable only to a developing country.

a Globalisation is the term used ~~&~~ when countries and their markets become integrated.

Multi-national companies (MNC's) have been able to set up in many developing countries such as ~~india~~ India due to ~~a~~ lower costs of production. Call-centres that have opened in India ~~has~~ have created many jobs for the local community allowing them to improve their standard of living. More jobs means unemployment reduces as more people are earning this reduces the inequality in the Indian economy as the jobs created usually tend to be low-skilled, thus helping the less educated equate closer with the educated.

Jobs may be created, however the MNC setting up in the developing country is likely to bring workers from their country as they are more skilled, this could therefore reduce the number of jobs created in the host country, having little ~~a~~ impact on improving the inequality.

On the other hand the jobs created would also represent a transfer of skills which could teach the ~~people of~~ labour force in the developing country new skills, giving them more opportunities.

However most of the managerial level jobs ~~do not~~ aren't available as these positions are taken by those from the domestic, MNC country.

Globalisation leads to an increase in GDP along with an increase in GDP per capita. This shows a rise in ~~potential~~ the country's income, which would lead to a reduction in ~~their~~ its inequality.

However ~~in~~ the increase in incomes may only ~~occur~~ benefit the higher skilled workforce, which would suggest the rich ~~are~~ become richer while the poor remain poor. This would lead to an increase in ~~e~~ inequality.

Globalisation can lead to FDI as MNC's may need to invest in infrastructure before they can set up in the ~~less d~~ developing country. If infrastructure is put in place and the host country becomes ~~mo~~ easier to enter and access, along with reliable electricity supplies, ~~other firms ma~~ it could attract further FDI as it becomes ~~a furth~~ more appealing to other firms and MNC's looking to set up in a less developed country.

However this attraction of FDI can create negative externalities such as deforestation and depletion of natural resources as these would need to take place ~~as~~ if firms began operating from the host country.

~~Although~~ In addition, further FDI can lead to more MNC's entering and setting up in the developing country, which due to their economies of scale would give them monopoly power in that country. This could potentially force domestic, local businesses out of the market as they're unable to compete. This would therefore remove many incomes of those ~~having~~ forced to leave the market which would then increase the inequality in the host country.

Overall globalisation does create jobs and increase GDP of many countries, thus reducing the world economy's inequality however for those countries that are unable to attract FDI or still remain very underdeveloped, they would remain poor and their people in poverty, thus increasing the inequality around the world.

(B) The UK government could use supply-side policies to reduce the inequality within the country.

UK government could improve the education system, ensuring the teaching ~~de~~ quality is good along with ~~the~~ accessibility. If the ~~educatio~~ system impoved, the future labour force would be better educated and potentially have higher skills this would lead to more people meeting employees requirement, decreasing unemployment and therefore decreasing UK's inequality.

However this policy ~~would~~ has a time lag which ~~wouldn't be effective for many years~~ would mean the policy wouldn't be effective for many years. In addition to that, the lack of demand for labour would suggest, although the labour force would ~~have better~~ improve in quality, unemployment would remain high, and thus inequality as the availability of jobs is very low.

The UK government appears to be, ~~a~~ in a way acting against this policy as the new, £9,000 university tuition fees has reduced the number of ~~th~~ ~~ent~~ applicants as the new cost of university education is deterring ~~pe~~ students from going, this could therefore reduce the potential quality of the labour force, not improving inequality.

The government could also improve the geographical ~~immobility of~~ mobility of labour by increasing the supply of affordable homes in ~~the~~ parts of the country such as London as this would enable and encourage workers to move regions in order to ~~get~~ remain employed or even increase their level of occupation, this would also reduce the inequality in the UK.

This however is a very costly, expensive policy for the government to carry out, which could lead to a reduction in government spending in the healthcare sector which could lead to ~~de~~ a reduction in the health and wellbeing of the population, leading to increased sick leave, potentially ~~reducing ine~~ worsening inequality.

The government could ~~ex~~ undergo fiscal ~~policis~~ policy such as increasing government spending within the public sector this would then increase the jobs in the public sector, reducing unemployment and thus reducing inequality.

This policy however would lead to a worsening of the UK's budget deficit.

Government could reduce taxes, such as corporation tax, this would increase the profit available for the firms who could then invest the extra profit, potentially increasing jobs, reducing unemployment and therefore reducing inequality.

This wouldn't be effective however, if the firms retained the extra profit and didn't invest.

Another way the ~~£~~ government could reduce UK's inequality through taxes is by increasing ~~th~~ direct taxes such as income tax, this would potentially reduce the income inequality gap and therefore the ~~ineq~~ UK's inequality would reduce.
However if the government increased indirect taxes such as VAT, a policy they have recently carried out. The inequality in the UK would worsen as the lower-income people would be paying more of their income on ~~fuel~~ ~~and~~ VAT goods, ~~so~~ thus reducing inequality. This would occur as this would become a regressive tax system, helping the high-income people instead of the low-income people.

Since the 2008 - 2009 recession, ~~many~~ unemployment has been on the rise leading to an increase in inequality. The

UK government would be better to ~~improve and lower the cost of education~~ ~~as~~ alter tax rates, making it a progressive tax system as this is the policy which can be very effective ~~and dt~~ to inequality ~~impo~~ reduction directly with a very ~~small~~ minute time lag.

ResultsPlus

Examiner Comments

(a) The answer begins well with a consideration of how employment created by transnational companies (TNCs) can help to reduce inequality. This is followed by some evaluation. However, much of the material included in the second page and first half of the third page is not related to the question ie the effect of globalisation on inequality.

There is a relevant consideration of the effect of TNCs on domestic firms towards the end of the answer but the last paragraph is merely a repetition of a previous point.

This answer was awarded a level 3 mark: 11/20.

(b) This answer covered five different policies related to the UK but only the first two, improvements in education and measures to increase geographical mobility of labour were considered and evaluated in some detail. Other policies were identified but not explained in any detail.

Despite mentioning several policies, this answer only met the criteria for a level 3 response and was awarded 19/30.

ResultsPlus

Examiner Tip

(a) Answers need to be focused very clearly on the impact of globalisation on inequality. Generalised answers on globalisation are unlikely to be rewarded highly. The points made should be illustrated by relevant examples of countries which have been studied.

(b) Reading the exact wording of the question is very important. The question states clearly that the answer should relate to 'a developed country of your choice'. However, a sizeable number of answers either referred to several countries or to a developing country. In the latter case, the policies discussed would have been irrelevant to a developed country and so scored few marks.

Question 4 (a)

This question was not answered very well with the majority scoring no more than 3 marks out of the 5 available. Very few were able to explain the effect of debt relief on the different components on the balance of payments. Indeed, most did not appear to understand that the balance of payments is a set of accounts which has to balance.

(a) With reference to Figure 1 and the first paragraph of Extract 1, outline the effect of 'external debt relief' (line 8) on a country's balance of payments.

(5)

External debt relief is the cancellation of debt that a country owes another. Figure 1 shows the external debt of African countries like Ghana falling from almost 125% of GDP in 2000 to 30% in 2009. This improves a country's balance of payments in the long run as it releases forex and less of a country's GDP has to be paid to other countries, so more can be spent on infrastructure and reinvested into the economy, thus ~~the~~ the trade balance ~~and~~ in the current account and the capital and financial account should improve, thus improving the balance of payments

ResultsPlus
Examiner Comments

This answer scored 1 mark for the definition of external debt relief in the first line. This was followed by an appropriate reference to the data. There was an imprecise consideration of the second round effect of debt cancellation which was awarded one mark.

Total 4/5.

ResultsPlus
Examiner Tip

Before considering second round effects, the initial effects of debt relief on the balance of payments accounts should be explained.

(a) With reference to Figure 1 and the first paragraph of Extract 1, outline the effect of 'external debt relief' (line 8) on a country's balance of payments.

(5)

Debt relief is when ~~debt~~ + the country that lent ~~the~~ ~~indebted~~ Africa the money, cancels their debt, allowing them to grow and develop, without needing to repay anything.

Ethiopias' debt in 1995, accounted for 125% of its' GDP compared to 30% of its' GDP in 2009.

Debt relief in Africa and the massive increase in borrowing in europe, many European countries are now more indebted than African nations.

ResultsPlus

Examiner Comments

This answer scored 1 mark for explaning the meaning of external debt relief and a further 2 marks for using the data to describe the decline in Ethiopia's external debt.

However, there was no explanation of the impact of this debt relief on Ethiopia's balance of payments accounts. The information in the last paragraph did not answer the question.

Total mark: 3/5.

ResultsPlus

Examiner Tip

Some reference must be made to how the balance of payments accounts are affected. For example, there would be an improvement in the current account balance because interest payments to other countries would fall.

Question 4 (b)

This proved to be a relatively straightforward question and many candidates scored highly although some made insufficient references to the information provided.

A few candidates ignored the requirement to consider only two benefits and listed several points with the result that their analysis was superficial.

(b) With reference to the fifth paragraph of Extract 1 (lines 29-44), analyse **two** benefits of improved technology for Africa.

(8)

According to Extract 1, the growth in technology such as new underground fibre-optic cables and the millions of mobile phone masts have caused Africa to become the world's fastest growing mobile phone market. The fact that the use of mobile phones is growing means that consumers in Africa ~~can~~ can now use technology and mobile phones to carry out the transaction of goods (e.g. 91% of the population now use mobile phones to pay for goods – Extract 1). This will lead to goods being purchased faster and more conveniently in the future, therefore boosting Africa's consumer spending.

Another benefit of improved technology is that new markets will be developed as firms overseas begin to pay interest to the rapidly growing technology in Africa. It is said in Extract 1 that "the real effects of the technological boom are felt beyond the high-tech companies themselves", as the improvements in technology have caused "a consumer society". Foreign firms might finally find Africa worth to be investing in as technology improves and consumers become more closely linked with each other and companies with the use of technology, and so the improved ~~to~~ technology can bring benefits ~~to~~ for Africa such as the increase in foreign investment.

ResultsPlus
Examiner Comments

Three benefits of improved technology were identified in this answer: facilitating transactions; development of new markets and foreign direct investment and appropriate references to the information provided were made. However, there was very little analysis except for the point that the increased use of mobile phones could boost consumer spending.

Therefore, this response scored 5/8 marks with just 1 mark of the marks being awarded for analysis.

ResultsPlus
Examiner Tip

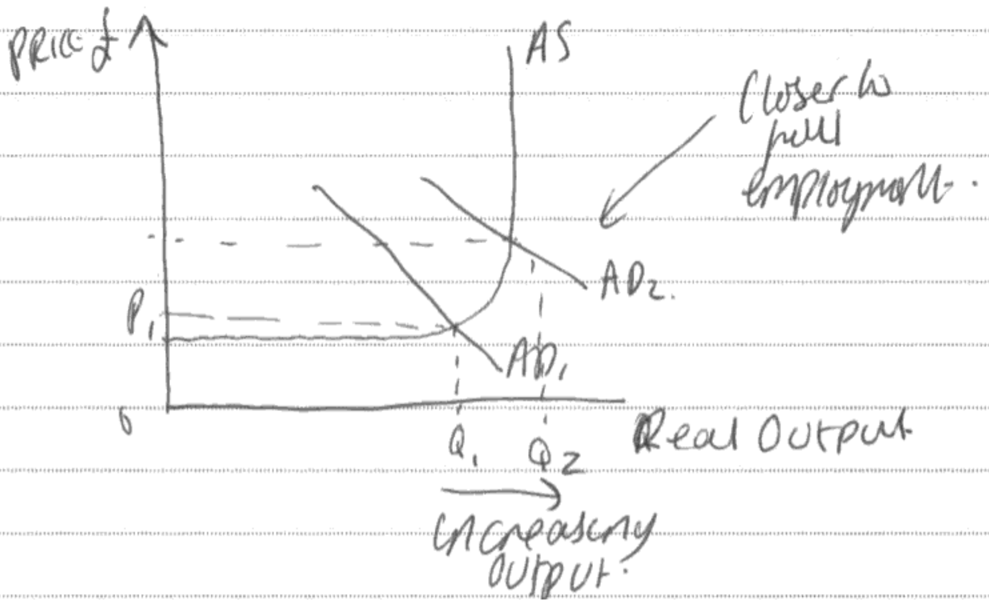
Only two benefits were required so identifying others will not achieve extra marks and may mean that too little time is available for analysing the points raised.

(b) With reference to the fifth paragraph of Extract 1 (lines 29-44), analyse **two** benefits of improved technology for Africa.

(8)

Firstly, improved technology has shown significant "improvements in communication" which is of central importance to globalisation and economic growth. Improvements in ~~technology~~ ~~common~~ communication can increase economic efficiency through ~~· ·~~ as it speeds up processes. for example it has helped Kenya, as they can now "pay for goods by transfering credits" thus speeding up the process and easy payment methods, improving efficiency.

Secondly, the extract states that "African consumer spending will rise from $869 billion in 2008 to $1.3 trillion by 2020". This suggests that improvements in technology will boost consumption an essential component of Aggregate demand. Thus increasing aggregate demand could improve Africa's Economic growth.



ResultsPlus
Examiner Comments

Two benefits were identified supported with several references to the information provided. The first point relating to improved communications was not developed fully but the second relating to the impact of technology on consumption was analysed well.

Therefore, this answer scored 7/8, with just 1 mark being lost for analysis.

ResultsPlus
Examiner Tip

It is often useful to illustrate answers with appropriate diagrams as in this response. The aggregate demand/aggregate supply diagram was used effectively to illustrate the effect of increased consumption on real output and employment.

Question 4 (c)

The best answers began with a definition of absolute poverty, used the data effectively and considered the impact of economic growth in terms of higher real incomes, higher consumption and increased tax revenues which the government might use on education. These also included effective evaluation, for example, how corruption might limit the impact of growth on poverty.

Unfortunately, it was not uncommon to read response which had misinterpreted the question by considering how poverty had limited economic growth.

(c) Examine the possible impact on poverty of economic growth in Africa.

(10)

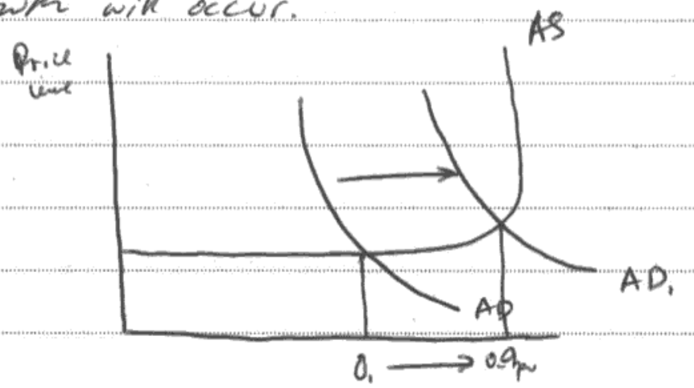
Poverty, absolute and relative, are normative concepts and are hard to give value to. If UN has ~~idea~~ identified absolute poverty as being unable to have absolute minimum to live, relative poverty varies from county to county.

Absolute poverty implies low access to education hence illiteracy, low access to clean water, sanitation and health care. Uneducated, ill people are unable to perform any work that is required for economic growth to occur, - they are unproductive, weak and can't make use of capital equipment.

People in relative poverty in Africa are most probably within 88% who doesn't have internet connection, so they cannot contribute to increased trade in goods in services, they don't accelerate the cycle. They probably also have low paid jobs in ~~low~~ insignificant sectors like agriculture, that don't contribute well to ~~ec~~ economic growth.

However, poverty ~~may~~ means that there's inequality in incomes throughout the continents, and those on the high end of income ladder have enough incentive ~~to create~~ and profits to create new businesses, jobs, more incomes

, hence contribute to economic growth of Africa, like in Nigeria. Also, if poverty persists, government will tend to try to eradicate it. Government spending provided to build schools and hospital will introduce a multiplier effect on AD and economic growth will occur.



ResultsPlus
Examiner Comments

This answer included definitions of absolute and relative poverty but there was no real attempt to answer the question set.

It scored just 1/10

ResultsPlus
Examiner Tip

Answering the question is key to a high mark so taking time to understand what is being demanded by the question can ensure a higher mark than launching straight into an answer which may then be irrelevant.

(c) Examine the possible impact on poverty of economic growth in Africa.

(10)

Absolute poverty is likely to be reduced. From Extract 1, "billionaires and multi millionaires are being created", and "wealth is trickling down". Thus, as economic growth increases the prosperity of individuals, the demand stimulated by the newly affluent is likely to create jobs and employment for those in absolute poverty. low-skilled service sector jobs like drivers or domestic workers may be created to cater for the needs of the newly rich, providing incomes for those who would otherwise have been unemployed. In this manner, absolute poverty will be reduced. Indeed 34% of the population "spend $2.20 a day", a 100%.

rise", suggesting that growth will allow wealth to ~~be~~ reach those in absolute poverty.

To evaluate, ~~that~~ the extent to which ~~that~~ the wealth generated will reach the poorest people in the nation is questionable. Indeed, those in absolute poverty, below the poverty line, are often unskilled and do not own any land. This means that increased demand for goods or services by the affluent will not create any income-making opportunities for these individuals. They will thus not benefit from increased growth since the wealth will not "trickle down" to them in the form of income.

Another impact is ~~that~~ an increase in relative poverty. From the extract, corruption is "a problem common in many ... African countries" (line 50). In effect, this means that ~~the~~ high-ranking government officials or bureaucrats are likely to increase their own incomes and assets as a result of economic growth, but withhold any investment in public welfare. Growth ought to increase the governments budget as tax revenues rise in line ~~with~~ incomes. However, it can be argued that corrupt officials will engage in practices like nepotism, preventing funds from being spent on education or healthcare ~~contraception~~. ~~That~~ These measures would have improved the living standards of the poorest people, reducing the income gap. However, siphoning the funds from growth will widen the gap between the haves and the have nots.

ResultsPlus
Examiner Comments

This is a very good answer which includes relevant analysis of how economic growth can reduce poverty both in terms of increased employment and increased tax revenues. The first point is illustrated by appropriate references to the information provided and both points are evaluated. Although reference is made to both absolute poverty and relative poverty, neither term is defined.

The answer was awarded 9/10. The mark lost was because there was no definition of absolute poverty and/or relative poverty.

ResultsPlus
Examiner Tip

It is always worth defining key terms. In this case a definition of poverty is important in an analysis of the impact of economic growth. Typically the best answers included definitions of both absolute poverty and economic growth with some reference being made to relative poverty in evaluation.

Question 4 (d)

There were some good responses to this question. Typically, factors such as the increased value of commodities, foreign direct investment, lower birth rates and infrastructure improvements were mentioned as factors which had helped many countries in Africa to achieve faster growth rates. However, evaluation was often rather superficial.

Further, some responses considered technology and debt relief even though the question specifically excluded these factors.

A reason why Africa is 'suddenly shaking off decades of decline" is increased commodity prices. Africa has always been primary product dependant and so now that prices are high, Africa is prospering in its sales of gold, oil and 'rare earth' materials. These high prices are kickstarting economic growth much in the same way as it was for the ~~Afric~~ Asian tigers. Not only this but due to Africa being more productive the high prices and lowered cost is having benefical effects.

However the sudden shaking off decades of decline cannot be solely put on higher commodity prices. The J curve effect shows that in the short run the elasticity of commodity goods are inelastic and so Africa could not just increase its output of commodity goods. As such there are other reasons for Africas shaking off of decades of decline.

Another reason could be the investment, especially by China into infrastructure of Africa. Better infrastructure leads to cheaper transport costs and a more efficient system and so in this way goods may have become cheaper and therefore more effective.

However, despite "thousands of miles of roads and railways" Africa is still over crowded and so ~~the~~ if a little more infrastructure has led to more prosperous times, this reason is extremely important as when infrastructure improves more then Africa will become better.

In addition another factor is falling birth rate which helps infrastructure and means there is less of a burden on the government, less people to help develop and therefore development can be more successful leading to the shaking off decades of decline.

ResultsPlus

Examiner Comments

Although this was a relatively long response, the analysis and application were weak. Two relevant reasons were identified: increased commodity prices and foreign direct investment and reference was made to examples of commodities and to China. However, the supporting analysis was very limited with just one mark for the explanation of the significance of foreign direct investment.

Evaluation of both points was attempted but in neither case was it regarded as valid or relevant to the point made.

Overall, this answer was awarded 5/12.

ResultsPlus

Examiner Tip

The significance of points must be explained using economic concepts. Further, the evaluation should be related to those points. For example, the point about increased commodity prices could have been evaluated by considering whether the high prices would be maintained in the long run.

According to extract 1, China has had some contributions made towards the infrastructure of Africa: roads and railways, oil pipe lines in countries like Kenya, Ghana etc. Development of infrastructure has allowed businesses to emerge due to gained ease of using transportation, bulk shipment, economies of scale, therefore giving horizons of cheap production and high profits to African countries. People involved in building and operating these facilities may have found themselves receiving more income, saving more, encouraging investment, improving their standards of living.

However, such investments into infrastructure by BRIC economies may mean that they want to establish very close bonds with African economies and exploit them in the long run, creating trade diversion, living little scope for further development into industries, but leaving them in a state of readily available commodity producers.

According to Extract 1, primary industries are becoming more valuable now. World population is growing - so does the demand for food, demand for phones and 'tablets' is in rush - Africa can supply with its huge surpluses of lithium, platinum and other metals. Prices for commodities rise and African countries are bound to see their surpluses in trade rise. Profits received are good to be taxed by governments, tax revenues spent towards further improvement of infrastructure, education, health.

However, being dependant on trade of commodities makes African market very vulnerable to external shocks, prices for commodities are unstable and may plunge. Also, Prebisch-Singer hypothesis suggests that terms of trade between primary goods and manufactured goods, mostly sold by developed countries, swiftly reduce, so in the long run Africa won't see these profits and will face trade deficits which may be hard to finance.

MNC investing into Africa could have been a good reason to 'shake off' as they bring knowledge and create jobs and incomes that can be taxed and transfer payment directed on development.

However, MNC tend to only exploit cheap African labour and practice tax evasion, so there would be no ~~real~~ fair benefit to the development of African countries this way.

ResultsPlus
Examiner Comments

This was a very effective answer which was worth more than the 12 marks available. Reasons were identified, analysed and evaluated: investment in infrastructure, the increased value of primary products; and the impact of foreign direct investment on employment. Appropriate examples of countries and products were used to illustrate the points made.

Analysis of each of the points identified would have been worth 2 marks each. The evaluation of the second point on primary product dependency was particularly effective and scored 3 marks. This, with the evaluation of the first point were sufficient to secure the 5 marks available for evaluation.

ResultsPlus
Examiner Tip

The question includes a reference to the extract so it is important to use the information provided as was done in this answer. It is also necessary to support the response with appropriate examples as was evident in this answer.

Question 4 (e)

The quality of responses varied widely. In the better ones, many relevant factors were considered such as poor quality of education, corruption and poor infrastructure. Responses scoring low marks were often brief suggesting that insufficient time had been left to answer this question fully. Evaluation was not always developed convincingly with exploitation of resources being the most common point. Further, answers often related to economic growth rather than to economic development as required by the question.

Many African countries have a high primary product dependency. Primary products are subject to large price fluctuations that mean that producers incomes & foreign earnings from exports are uncertain. This creates difficulty with planning investment & output & contributes to the foreign exchange gap. According to the Prebisch-Singer Hypothesis terms of trade for primary products in relation to manufacturing goods deteriorate over time. The income elasticity of demand for primary products is low therefore as the world economy & incomes grow demand for the primary goods will fall.

*some primary products such as diamonds are ~~inelastic~~ have high income elasticity of demand

However, Africa "has a 1/3 of its (the worlds) diamonds." * Botswana have made large economic growth despite a reliance on exporting diamonds as in 2002 its GDP per capita was the highest by 4x on the continent. Moreover, as China & India grow in population size world demand for food will increase thus increasing the price of primary products. Prior to 2008 primary product prices were rising & many manufacturing goods prices were falling.

Many African countries have a savings gap. The countries have low GDP per capita. This means the countries have a low marginal propensity to save. Therefore the countries have low savings, so have low investment & therefore have low capital accumulation necessary for economic growth.
However, economic development is a normative concept based on value judgements of increased standards of living therefore ~~it is~~ ~~difficult~~ economic development may be being made in some countries such as Ghana, experiencing 13% growth. High tax revenues will be spent on education & healthcare thus improving people's standards of living.

Many African countries experience corruption & govt. instability. This limits economic development as money from aid & tax revenue is spent on military expenditure or distributed to govt. officials rather than being used to help those in absolute poverty. This means that standards of living are likely to remain low as money is not spent on education & healthcare. Political instability deters ~~FDI~~ FDI & TNCs, therefore employment is not increased by these ~~or~~ factors. In Kenya in 2008 political instability led to ~~wide~~ unrest &

violence, this damaged the tourism industry which had made up 12% of GDP in 2007. The violence caused demand to fall by 1million tourists.

However, some TNCs may invest despite this as they wish to access resources within the country. This is likely in Africa as it contains "about half of the world's gold deposits". TNCs indirectly improve infrastructure as they build roads & airports for their own use which can be used by the population. This contributes to economic development as there are more assets & facilities available to the African people, this causes an increase in economic devel & the HDI index

ResultsPlus
Examiner Comments

Three factors were identified and explained well: primary product dependency; savings gap; and political instability. The evaluation of the second point was considered to be irrelevant (although it does indicate an understanding of economic development) but the other two reasons were evaluated effectively. Consequently, this response was given maximum marks (15/15).

ResultsPlus
Examiner Tip

As with other questions, evaluative comments are more effective if they are related to the point made. For example, the evaluation of the savings gap could have related to other ways by which it might have been closed such as aid or foreign direct investment.

Extract 1 states that despite advances in technology, 'only 12% of Africans are regular internet users, compared with a world average of 30%'. This means that Africans still have some way to go before they are making the most of what ~~a~~ technology has to offer.
Inequality remains high as GDP growth and tax returns is often retained by corrupt government officials instead of being distributed equally.
Many countries in Africa are land-locked, harming development.

ResultsPlus
Examiner Comments

There is little more than identification of three factors which continue to limit economic development in Africa. Consequently, this response was only awarded 3 marks.

ResultsPlus
Examiner Tip

Always plan time carefully to ensure that the last part of the data response question (worth 15 marks) can be answered fully.

Question 5 (a)

As with question 4(a), the mark being awarded was often 3/5 because a significant minority misinterpretated Figure 1 as referring to GDP rather than to GDP per capita. Further, relatively few candidates were able to deduce the significance of the data for GDP.

Brazil's GDP changed from just less that $ 8000 to Almost ~~oo~~ $10000 in 2011. It is measured in per capita in US dollars.

Privatisations increase the economic efficiency and boost the growth rate, FDI from the US in particular fuel the growth. Also, it's strong performance on the exporting market such as ~~oil~~/ also brings Brazil growth.

ResultsPlus
Examiner Comments

The first sentence is incorrect because the change referred to should explicitly relate to the change in GDP per capita.

Unfortunately, the second paragraph was completely irrelevant.

Consequently, this answer received 0 marks.

ResultsPlus
Examiner Tip

Great care must be taken in reading the titles to the figures to ensure that they are interpreted correctly.

It is also important to ensure that the response addresses the question directly which, in this case, involves using Figures 1 and 2 to deduce the effect on Brazil's GDP.

In Figure 1, it shows that the GDP per capita of Brazil increased from slightly under ~~$8000~~ $8000 to slightly under $12000 ~~in the~~ between 2002 and 2011. While in Figure 2, it shows the number of population increased from 175 m to about 202 m between 2002 and 2011. The percentage increased in GDP (PPP) is about 50%, and the percentage increased in population is about 15%, this indicates that the overall of GDP of Brazil ~~necessarily~~ ~~increased~~ increased dramatically over the decade, and the speed of GDP growth was much faster than the population growth, that's why GDP (PPP) could increased by 50%

ResultsPlus
Examiner Comments

This answer began by using the data accurately and then concluded correctly that GDP per capita could only have risen if GDP had risen more quickly than the growth in population.

ResultsPlus
Examiner Tip

Effective use of the data, as illustrated in this answer, will secure high marks in answering questions of this nature.

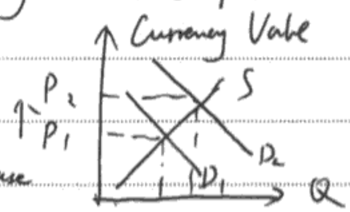
Question 5 (b)

This question was generally answered quite well: candidates were able to identify relevant factors from the extract, for example, high interest rates and foreign direct investment and explain how they affected the value of Brazil's currency. However, some students considered the 'real value of Brazil's currency' even though *'real'* was italicised in the extract. This is another illustration of the need for candidates to take care in the interpretation of data.

(8)

The value of the real has appreciated means that the currency has become more valuable.

Firstly, Brazil is an export giant, especially agriculture and processing of food stuffs, which account for about a quarter of Brazilian GDP and 36% of the exports. As the ~~qt~~ quantity of exports increased, ~~&~~ more foreign importers will need real ~~as~~ to trade, which will cause an increasing demand for the currency. According to the diagram, the ~~value~~ AD curve shifts from D_1 to D_2 and the currency value will increase



from P_1 to P_2.

Secondly, the appreciation could due to the rising income of the country. President Lula da Silva brought in social policies to raise the incomes of the poorest Brazilian citizens. Also, more people joined the club of middle-class. The raising income will make people have a higher demand for imports as well. People will spend money on foreign goods to improve their living standard. As a result, the currency appreciated. So effectively, people would enjoy a higher purchasing power of foreign goods.

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Examiner Comments

This answer began well with an explanation of the significance of Brazil as an 'export giant'. The significance of this for the demand for the *real* was analysed and supported by appropriate data references.

However, the paragraph on the second page was irrelevant and inaccurate. For example, it was incorrectly asserted that a higher demand for imports would lead to an appreciation of the currency.

This answer was awarded 5 marks: 3 for knowledge and analysis and 2 for application.

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Examiner Tip

It is important to have a secure understanding of the link between changes in exports and imports and changes in the demand and supply of a country's currency on the foreign exchange market.

One reason for the appreciation of the real is due to the high interest rates. The real has appreciated by 40% since 2008. As stated in extract 2 Brazil has high interest rates meaning that it is one of the most attractive places for the super rich to save their money. This will increase the demand ~~fall~~ for the real so therefore increasing the price.

Another reason for the appreciation may be due to the state of the economy. As mentioned in extract 1 Brazil has had 'significant growth'. The good state of the economy means that investors are more likely to invest their money into Brazil. This therefor increases the demand for the real which will lead to a higher price of currency which shows the appreciation of 40%.

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Examiner Comments

This answer identifies and analyses the significance of two reasons which explain the appreciation of the *real:* high interest rates and the state of the economy. Further, there are clear references to the information provided which support the reasons identified. Both paragraphs are worth at least four marks.

Consequently this answer was awarded full marks.

ResultsPlus
Examiner Tip

This response demonstrates that full marks may be obtained for precise and accurate analysis which is related clearly to the context.

Question 5 (c)

This question proved quite challenging. Most answers showed an understanding of the effect of an appreciation of the *real* on the foreign currency price of exports and the domestic price of imports. However, as with question 4(a), most responses made no reference to specific components of the balance of payments. A further weakness apparent in many answers was an absence of examples or appropriate reference to the information provided especially in evaluation.

One effect will be that it will worsen the trade in goods. This is because the increase in the value of the real means that the currency is more expensive to buy for foreign people. This makes their exports more expensive and imports cheaper. This will lead to a increase in imports and a decrease in exports which will worsen the trade in good so will worsen the balance of payments. However it is relative to other country's as if Brazil's main export partners such as China currency also appreciates then exports wont fall by as much as it still costs the same for the Chineses to buy the product.

The appreciation will also cause more hot money to flow into the economy meaning that the Balance of payments will improve as more currency is flowing into the country. There is also more investment and FDI in ~~the country~~ Brazil which is a injection into the economy so therefore improving the balance of payments. However in the long term the profits will flow out so worsening the balance of payments.

ResultsPlus
Examiner Comments

In this first paragraph, the impact of the appreciation in the *real* on export prices and import prices was identified with limited further explanation. There was also a thin evaluative comment at the end of the paragraph.

The second paragraph received no credit because there was no explanation of why the appreciation in the *real* would cause an inflow of hot money into Brazil. Had this been related to speculation about the possibility of a further appreciation of the currency, then this could have been rewarded.

Overall, therefore, this answer was awarded 3/10

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Examiner Tip

In a question such as this, it is important to explain the effect of the appreciation in the currency on particular components of the balance of payments. In this case, the response states that the balance of payments will be worsened without indicating that it would be the current account that would be adversely affected.

Balance of Payments accounts comprises of current account, financial account and capital account. BOP keeps track of the ~~b~~ flow of money in transactions between countries.

As mentioned in Ext 1 line 35, an increase in the value of Real has led to increase in the country's buying power. Therefore the value of other currencies is relatively cheap for Brazilians, hence the price of imports will be lower for them. Therefore Brazilians will buy more imports, which is an outflow of money out of the country, hence the current account will be worse for Brazil.

A high value of Real will lead to a decrease in the competitiveness of its exports in other countries, causing a decrease in output as mentioned in Ext 1 line 37. Therefore exporter find their goods more expensive because of the high value of currency, and decreasing demand of their exports, hence they will export less goods to other countries. This is a decrease of inflow of money, therefore the current account will be worse.

However, on the other hand, strong value of currency has attracted hot money flow. This is because high value of a currency attracts speculators to invest in the money Real, hence there will be an inflow of money in the financial account. Hence the financial account will be better.

The extent to which the decrease of exports due to high value of Real may be low as there ~~ae~~ are non-price factors in their exports. The quality of the good's makes it demand inelastic hence there won't be a great decrease in export demand.

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Examiner Comments

In the second and third paragraphs there are clear explanations of the impact of the appreciation of the *real* on exports and imports and on the current account of the balance of payments. The next two paragraphs contain two evaluative comment both of which were awarded two marks.

Therefore, with full marks for knowledge, analysis and evaluation this answer was awarded 8 marks. Unfortunately, the answer did not include any appropriate examples to illustrate the points made.

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Examiner Tip

This question clearly relates to Brazil so it is important to illustrate points made with examples from the information provided. For example, although export prices might have risen, export revenues might increase because demand for some of the goods which they export, such as sugarcane and coffee, are likely to be very price inelastic.

Question 5 (d)

This question was tackled fairly well with good analysis relating to the problem of price fluctuations and to the income inelasticity of demand for primary products. Most responses used Brazil as an example but candidates often struggled to gain full marks for evaluation.

Brazil relies heavily on primary products.
~~"Agriculture~~ "Top of the list of economic attractions is agriculture." Processing of foodstuffs is also a main export - these account for 36% of exports.

The problem with relying on primary products such as agriculture and natural resources is that they have a limited value. Manufacturing of these resources adds value to Brazil's exports but many resource seeking Chinese and US firms are exploiting the resource as opposed to Brazil. As well as this primary products are often very ~~[illegible]~~ volatile markets. Their price can fluctuate greatly depending on weather, natural disasters and political disagreements. This means that they do not provide a very stable income for many Brazilian workers. Another problem is that once the "commodity boom ends" Brazil has little to fall back on. Many of the industries in Brazil are not developed as well as developed nations and businesses have struggled due to the appreciated real. Natural resources such as iron ore and oil are finite resources and will eventually run out.

However ~~At~~ if the primary products provide Brazil with wealth in the short run it can use this to invest for the future. Once the commodity boom ends then Brazil can be prepared to provide an income via manufacturing, services etc... Also there is evidence to suggest that Brazil is processing some of it's primary products and adding value to them,

"processing of foodstuffs" is attracting investment.

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Examiner Comments

Although this answer contained relevant points, it did not score full marks because the evaluation and analysis were insufficiently developed.

The first paragraph made a valid reference to the significance of Brazil's exports of agriculture and processing of foodstuffs. The next two paragraphs identify the low value and volatility of primary products with some explanation.

On the second page, two evaluative points are identified but these are not developed so scored only 1 mark each.

Overall, this answer was awarded 8 marks.

ResultsPlus

Examiner Tip

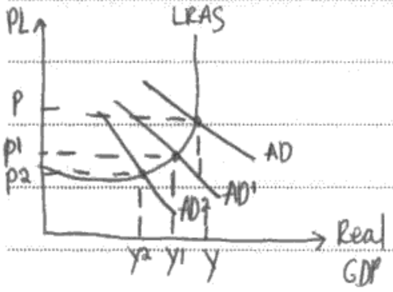
To score high marks it is essential for responses to go beyond simple identification of points. Evidence of analysis and evaluation as multi-stage processes need to be demonstrated in answers.

Primary product dependency is when countries rely on their primary product sector and this is their main export, and so they are too dependant on it.

This is dangerous as primary products have declining terms of trade. ~~$\frac{P_x}{P_m}$~~ ~~Th~~ The Prebisch-Singer hypothesis states that demand for manufactured goods rises more as population and income rises, than for primary products. This means the value of a country's exports falls whilst the value of imports rises. This means that in the long-run primary product dependency leads to more imports and less exports and therefore a current account deficit on the Balance of Payments account. However, a country like Brazil may have comparative advantage for commodities, i.e they produce them at lower opportunity cost than other country. Therefore, this is their specialisation and so it may not be that bad, as they will be worser off switching to other goods which they do not specialise in.

Another problem is that primary products are volatile due to weather shocks and given that they take a long time to grow and are perishable. They have a low PES and PED, and suffer huge fluctuations so it may be harder to plan and invest in Brazil. Farmers may suffer and their living standards may fall, so economic development in Brazil could halt. Furthermore, as extract 1 says: "if the commodity boom ends... the country has little in the way of business to fall back on". This shows how reliant they are on commodities as their other sectors aren't developed so a fall in demand for commodities will lead to a huge fall in real

GDP. This decrease in AD means that firms earn low profits so fire workers, consumption falls and AD falls even further. Through the multiplier effect this worsens even more. However, as they are benefiting from a



commodity boom now they could re-invest these profits into other sectors. This lessens their reliance on primary products, and so if there is a fall in demand for commodities they can cross-subsidise with other industries. Additionally, the demand for food increases more as population rises than demand for manufactured goods so they may not suffer that much. Demand for commodities is quite stable as things like oil and food are necessities, and as extract 1 shows China is still buying their primary products regardless of the appreciation of the real.

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Examiner Comments

This answer was an excellent answer which could have scored more than the 12 marks available.

The second paragraph discussed the possibility of declining terms of trade, a point which was evaluated very well towards the end.

The issue of volatility of primary product prices is considered in the third paragraph which makes reference to the price inelasticity of supply and demand. The final half of the answer contains two impressive evaluative comments, one relating to how the current commodity price boom is helping diversification in Brazil and the other relating to the significance of a rising population for commodity prices. There were appropriate references to specific commodities and to China as a major purchaser of commodities.

Overall, this answer was awarded 12 marks.

ResultsPlus
Examiner Tip

This answer demonstrates the value of including synoptic concepts such as elasticities in analysis.

Question 5 (e)

This question was frequently answered well. The benefits of foreign direct investment were usually analysed in terms of its impact on real output, employment and technology transfer. Evaluative comments usually included reference to exploitation of both labour and the environment; and environmental issues. However, in some answers scoring lower marks, it was evident that insufficient time had been left to respond to the question fully.

FDI is a long-term investment into a country made by a foreign firm. It is done by buying existing firms or setting up new ones. FDI into Brazil can bring many benefits.

One of which is employment. By US and Chinese firms either off-shoring or out-sourcing into Brazil it can bring employment for that country. For example if Shell were to invest into Brazil for resource-seeking - (oil) then they could employ local workers. This can help increase wealth and reduce unemployment. There is a significant, positive multiplier effect.
By investing into Brazil new, more efficient technology and ~~and~~ production processing can be introduced to the country. Local firms can benefit from copying these technologies and production processes. When Nissan invested into the UK, Japanese worker motivation ~~et~~ / ethic etc. was copied and this can help to boost productivity.
Another advantage for Brazil is that FDI can help to boost GDP and growth.
However the benefits of FDI may not be as good as first seemed. If the foreign company brings over workers from the original country the employment benefits will not be as good as first seemed. Their wages will be repatriated back

home reducing the multiplier effect.
Also the more efficient MNC's will / may outcompete local firms driving them ~~out~~ out of business and taking workers (the best workers) from them.
Finally MNC's undertaking FDI may exploit the cheap labour in Brazil.

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Examiner Comments

This is a relatively short answer possibly indicating that the candidate had not left enough time to provide a fuller response.

The second paragraph considered the impact of FDI on employment and the third paragraph explained the benefit of technology transfer. At the bottom of the page there was a brief reference to the effect of FDI on growth.

The second page contained two brief evaluation comments.

A total of 10 marks were awarded for this answer (7KAA + 3 Evaluation)

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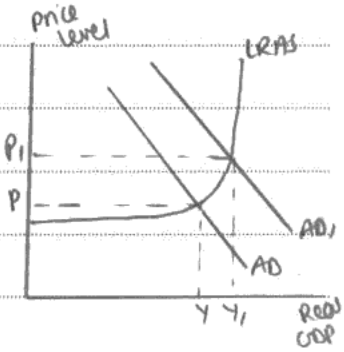
Examiner Tip

It is important to plan time carefully so that sufficient time is available to respond to the last part of the data response question fully.

Since 6 marks are available for evaluation, it is good practice to evaluate each of the points.

Foreign direct investment is when a firm (mainly a transnational company) invests in another country. For example UK retail firm Tesco has set up its operations in Central Europe and Thailand. As shown in figure 1 annual FDI in Brazil has risen from around $25.9 billion in 2009 to $50.5 billion by 2011.

One advantage of this is that inward FDI into Brazil can create more jobs and thus reduce unemployment levels in Brazil. This can therefore increase living standards as individuals will be receiving a basic income. An increase in income can stimulate growth levels in Brazil as consumption is likely to increase due to ~~big~~ more people earning. Since consumption is a component of AD this will increase AD to AD1 and thus stimulate growth as real GDP will rise from Y to Y1.



However, although there will be more jobs created, these jobs are likely to be low skilled jobs and therefore will also be low paid. Therefore ~~[illegible]~~ workers are likely to receive extremely low wages and may also be subject to exploitation such as child labour. Therefore this may not ~~[illegible]~~ increase consumer welfare and living standards in Brazil, thus resulting in no ~~increase~~ or very little increase in AD.

Another benefit of inward FDI in Brazil is that it can help to improve Brazil's balance of payments account. FDI is an injection into the capital account of the balance of payments and thus this can improve the capital account. Furthermore inward FDI means that Brazil will be exporting more as the goods will be produced in Brazil. Therefore this will improve the current account of the balance of payments, hence Brazil's government can be more able to reach its macroeconomic objective of a ~~[illegible]~~ satisfactory balance of payments.

However the transnational company may repatriate its profits back to its own country which is seen as a leakage from the capital account, thus this may not improve the balance of payments account of Brazil.

Another benefit of inward FDI into Brazil is that the government of Brazil can benefit from increased tax revenues due to corporation tax revenues. This can help to improve development in Brazil as the government can use this to improve infrastructure ~~[illegible]~~ or health and education services in Brazil which is essential for development.

However as TNC's have monopsony power, they could use this power to make Brazil's government lower its tax rates and thus tax revenues may not rise significantly. Furthermore firms may engage in tax avoidance or tax evasion which also means tax revenues may not increase for example in the case of Starbucks and Amazon.

The ~~a~~ disadvantages of FDI to a certain extent outweigh the advantages of inward FDI into Brazil as FDI can also lead to environmental

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Examiner Comments

This is a very impressive answer and contains many characteristics which are indicative of good practice.

The introduction includes a definition, an example and makes reference to the data. This is followed by a discussion of the effect of FDI on employment followed by relevant evaluation.

There is a discussion of the impact of FDI on the components of the balance of payments although there is an error in the evaluation. (It should have stated that repatriation of profits represents a leakage from the current account).

Finally, the effect on tax revenues is analysed and evaluated.

Overall, this answer was, therefore, awarded full marks.

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Examiner Tip

Although this was awarded maximum marks, it should be noted that the term 'capital account' is technically incorrect: inward foreign direct investment represents an inflow into the financial account.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Read questions very carefully to ensure that they are interpreted correctly and that all the elements of the questions are addressed
- Secure a good knowledge and understanding of economic issues over the last 10 years to enhance the quality of answers
- Discuss policies in specific contexts. For example, the imposition of tariffs by one EU country would not be allowed unless there were exceptional circumstances
- Take greater care in interpreting graphs and data so that answers address the questions set
- Gain a clear understanding of the main components of the Balance of Payments.
- Ensure that handwriting is legible. It might be advisable to gain practise at writing quickly under examination conditions rather than writing all assignments on computers.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

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