



General Certificate of Education

Economics 6141

ECN6: Government Policy, the National and International Economy

Mark Scheme

2008 examination – June series

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

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

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Advanced Level Economics**June 2008****ECN6****Mark Scheme****General Instructions**

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

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

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

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 5. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

APPLYING THE 'LEVELS' MARK SCHEME**Levels of Response Mark Band Descriptors****Level 1**

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks (*Mid-Point: 3 marks*)

Level 2

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

7 to 12 marks (*Mid-Point: 10 marks*)

Level 3

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.

13 to 20 marks (*Mid-Point: 17 marks*)

Level 4

Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.

21 to 26 marks (*Mid-Point: 24 marks*)

Level 5

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.

27 to 30 marks (*Mid-Point: 29 marks*)

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

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

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

- (i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

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

They should demonstrate that they:

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

1 INFLATION

1(a) Using Extract A , compare the CPI and RPI measures of UK inflation for the period 2000 to 2006. <i>(4 marks)</i>

Award one mark for each valid point made and one mark for the supporting reference to the data. Points might include:

- the range of inflation values is the same for both measures, i.e. 1.5%
- the CPI figures are always lower than the RPI values
- the RPI measure is never lower than 1.7% (2002) whereas the CPI measure falls as low as 0.8% (2000)
- for three of the seven years the RPI is at 3% or over, whereas the highest for the CPI is 2.3% (2006)
- the average inflation over the period on the CPI measure is 1.5%, the RPI, 2.6%
- after 2003, the RPI steadies whereas the CPI rose quite sharply in 2005
- the differential between the two measures changes over time, from a significant differential of 2.2% points in 2000 but only 0.4% points in 2002, before widening to 0.9% points in 2006

A maximum of **1 mark** may be awarded if the candidate simply trawls through the data with no attempt at comparison.

A maximum of **2 marks** may be awarded if there is no use of statistics.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

MAXIMUM FOR PART (a): 4 MARKS

1(b) Extract B (lines 12-13) suggests that 'low inflation is vital for sustained economic success'. Explain **two** economic benefits of low inflation for an economy. (6 marks)

For candidates who:

define inflation **1 mark**

comment on the phrase "sustained economic success" **1 mark**

explain economic benefits, eg:

- international competitiveness may improve (1 mark), helping to improve export performance (1 mark), perhaps making imports less price-attractive (1 mark), and so bringing an improvement to the balance of payments on current account (1 mark)

- low inflation may facilitate a 'cheap money policy', i.e. low interest rates

- maintains/improves business confidence leading to increased investment

- maintains/improves consumer confidence leading to higher consumer demand for goods and services

- reduced expectations of future inflation

- lower wage demands

- an important foundation stone for sustained economic growth

up to 4 marks per benefit explained

Reward use of diagrams: up to **2 marks** per relevant diagram (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **3 marks**

Reward references to the UK economy

Where a candidate includes more than two benefits, award marks to the two strongest explanations.

Award a maximum of **5 marks** if only one benefit is explained.

MAXIMUM FOR PART (b): 6 MARKS

1 (c) Extract B (lines 15-17) argues that, with accelerating inflation, 'higher unemployment is likely, affecting both the economy and individuals'. Analyse **three** possible economic effects of higher unemployment. **(10 marks)**

Candidates might develop the leads given in Extract B.

Issues and areas for discussion include:

- recent UK unemployment
- types of unemployment likely to be experienced

for the economy:

- the impact on AD
- economic growth
- possible benefits for inflation via lower wage demands/less consumer spending
- Phillips curve analysis
- consequent benefits for competitiveness
- welfare spending and implications for other types of government spending
- tax revenue
- possible need for higher government borrowing

for individuals:

- the level of income
- general living standards
- lower morale impacting on worker performance
- individuals becoming confined to the periphery of the labour market or ceasing to job search altogether
- mobility – occupational (with implications for re-training) and geographical
- long term implications regarding savings and pensions

LEVEL 1

The candidate has copied from the extract and/or develops something relevant only with extreme brevity

1 to 3 marks

LEVEL 2

For low Level 2 (4-5 marks) at least **one** economic effect is analysed with reasonable clarity and some use of economic terminology. For high Level 2 (6-7 marks) at least **two** economic effects are analysed. Marks at the top of Level 2 can be awarded even if the candidate confines himself/herself to either the effects on the economy or the effects on individuals

4 to 7 marks

LEVEL 3

Three effects are well analysed with clarity and good use of economic terminology. At the top of the mark band, reference to both the effects on the economy and on individuals might be seen although **good quality** analysis of **either** 3 effects on the economy **or** 3 effects on the individual could attract top marks

8 to 10 marks

MAXIMUM FOR PART (c): 10 MARKS

1 (d) Using the data and your economic knowledge, discuss the extent to which increases in the money supply may increase the rate of inflation in an economy. **(30 marks)**

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety. **Examiners should not expect more than an outline knowledge and understanding of the Quantity Theory of Money or of monetarism in candidates' answers.**

To achieve **Level 4**, at least two issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Where there is no **explicit** reference to the data, award a maximum of **24 marks**.

Evaluation could be in terms of: the fact that it is always likely to be difficult to isolate a specific cause of inflation in highly complex economies; the difficulty of defining money supply and isolate those components which past experience suggests may have the greatest bearing on inflation; the ability to *control* money supply is a key issue; whether or not the increase in money supply is a one-off or sustained over a period of time.

Issues and areas for discussion:

- types of inflation
- the concept of 'money supply'
- the UK record on inflation
- the argument that all causes of inflation have monetary origins
- aggregate demand (AD)
- the potential impact of money supply changes on prices
- the Quantity Theory of Money/the Equation of Exchange
- monetarism
- expectations
- the impact of exchange rate movements
- wage demands
- the Phillips curve
- the impact of productivity trends
- other supply-side issues and their relevance to inflation such as the impact of changes in technology
- the impact of globalisation
- the impact of the 'China factor'
- the impact of increased labour supply from the newer members of the EU

Also give credit for:

- references to the real world
- use of diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (d): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

2(a) Explain the economic reasons for government spending.	<i>(20 marks)</i>
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For candidates who:

Define any relevant term and/or explain government spending, e.g. placing it in the context of fiscal policy, capital v current v transfer spending, examples of spending departments

up to 3 marks per explanation including 1 mark for a definition, up to a maximum of 6 marks

Explain economic reasons for government spending, e.g.

References to redistributive policies might include:

- to redistribute income (1 mark) where tax policy may have failed or been too weak (1 mark), by increasing welfare spending which may include means-tested and universal benefits (2 marks) such as housing benefit and child allowance (1 mark), thus helping to support low-income households or where earned income is zero (2 marks)
- anti-poverty campaigns (the 'War on Want')

References to stability and growth policies might include:

- to help achieve macroeconomic stability
- to support the implementation of supply-side reforms
- to foster economic growth
- job creation policies

References to allocative policies might include:

- the supply of merit goods
- the supply of public goods
- the control of externalities, e.g. the provision of subsidies to private sector investment in 'green' technology
- support for private sector investment, e.g. through the provision of subsidies
- servicing the national debt

1 mark for identification of a reason and up to 6 further marks for its explanation

Reward the use of relevant diagrams and references to the UK economy: up to **2 marks** per relevant diagram (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **6 marks**

Reward references to the UK economy

MAXIMUM FOR PART (a): 20 MARKS

2(b) In 2006, UK government spending accounted for 41% of GDP and was predicted to grow further.

Evaluate the possible consequences for the UK economy if this further growth were to occur. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least two issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy.

Evaluation could be in terms of: the important issue may not be the level of government spending but the degree of efficiency within it; the nature of the spending; the impact, if any, on the tax burden; the impact, if any, on the level of government borrowing; whether or not, if government spending were cut, the private sector would become more active; that the UK economy in recent years has achieved success because of, or in spite of, that level of public spending, and therefore whether or not it really is an important issue; whether any rise is both in absolute terms and as a percentage of GDP .

Candidates will only have time to discuss some of the issues given below or others which they feel to be relevant to the question.

Issues and areas for discussion:

- criteria for assessing the impact on the UK economy
- the nature of government spending
- the recent growth of government spending
- the main uses of additional expenditure in recent years, i.e. how money is spent
- government spending v private sector spending: the 'test of the market' criterion
- taxation
- government borrowing
- real-resource and financial crowding-out
- economic growth
- employment/unemployment
- inflation
- competitiveness and the balance of payments
- the possible impact on business confidence
- the impact of a possible decision by government to reduce the size of the public sector

Also give credit for:

- reference to the UK economy and/or other economies, e.g. other EU members
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR QUESTION 2: 50 MARKS

<p>3(a) Explain the possible costs and benefits for an economy arising from its involvement in international trade. <i>(20 marks)</i></p>
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For candidates who:

Define any relevant term and/or explain the concept of international trade, perhaps with reference to recent free trade developments, the significance of protectionism, trade blocs, the UK economy and international trade

up to 3 marks per explanation including 1 mark for a definition, up to a maximum of 6 marks

Explain the costs for an economy arising from an economy's involvement in international trade, eg:

- the problems caused to an economy's older industries (1 mark), which may have dated capital equipment (1 mark) and greater complacency compared to their counterparts in other countries (1 mark); complacency can mean lower investment in new technology (1 mark), leading to lower productivity (1 mark) which will have implications for competitiveness (1 mark), leading to loss of market share internationally and domestically (1 mark)
- problems for 'infant industries'
- unplanned/unwanted changes in an economy's economic structure
- dangers of dumping
- the costs associated with allowing in all types of goods, e.g. demerit goods such as alcohol
- the likelihood of reduced self-sufficiency, including the issue of strategic industries
- the possible impact on jobs
- the possible 'cost' to the balance of payments on current account
- the possible adverse impact on the exchange rate

1 mark for identification of a cost and up to a further 6 marks for the development of that point

Explain the benefits for an economy arising from its involvement in international trade, eg:

- the motivation to exploit any comparative advantage by greater specialisation (2 marks) which means that the economy in question can produce a given quantity of a good or service at a lower opportunity cost than another country (1 mark) as a numerical example can show (3 marks). Greater competitiveness can increase market share and export revenue (1 mark)
- the virtuous spiral effect of increased revenue and profits, reinvestment of profits, leading to further revenue and profits, and so on
- economies of scale

- greater choice/ improved quality of goods/services
- potential benefits to the rate of inflation, with implications for the cost-of-living
- jobs via an export-led multiplier
- a stimulus to R&D and innovation
- potential benefits to aspects of the macroeconomy such as growth and jobs
- potential benefits to the balance of payments on current account

1 mark for identification of a benefit and up to a further 6 marks for the development of that point

Where a candidate selects one cost, for example, job loss, and then cites job creation as a potential benefit of trade, do not credit this point twice. However, do give credit (part or all of the additional 6 marks per cost or benefit) if the explanations of the cost and benefit (to jobs in this example) are obviously different.

Credit relevant points made even if the effect on the economy is not explicitly expressed or is expressed in a vague way.

Reward use of diagrams: reward the use of relevant diagrams and references to the UK economy: up to **2 marks** per relevant diagram (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **6 marks**

Reward references to the UK and/or other economies

Where there is an explanation of costs **or** benefits only, the candidate should be awarded a maximum of **12 marks**

MAXIMUM FOR PART (a): 20 MARKS

3(b) The enlargement of the European Union (EU) to include such countries as Poland, Bulgaria and Romania brought the EU population in 2007 to over 450 million and provided new opportunities for growth and jobs for all other member countries.

Assess the possible consequences for UK macroeconomic performance of EU enlargement. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least two issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy.

Evaluation could be in terms of: making reference to the population figure and relating it to the significance of income per head; the impact perhaps being determined by the degree of integration to date; whether impact varies between those countries having adopted the euro and those who have not; the strength of the UK economy to face the challenges that enlargement might bring; equally, the strength of the UK economy to withstand the problems that enlargement might bring; the impact on the UK might be limited until the arrival of a single market in services; the impact of immigration; the possible relevance of the lack of development of the economies of the newer members.

Candidates will only have time to discuss some of the issues given below or others which they feel to be relevant to the question.

Issues and areas for discussion:

- macroeconomic performance
- economic growth
- inflation
- jobs
- balance of payments
- the issue of competitiveness
- the degree of EU integration
- the Single European Market (SEM)
- the Single European Currency (SEC)
- migration trends
- outsourcing
- the dynamism of entrepreneurship
- relocation of businesses
- investment
- the extent and nature of competition
- economies of scale

- the UK as a service-based economy
- the possible further decline of manufacturing in the UK and implications for GDP
- productivity and the productivity gap
- the issue placed into the wider context of globalisation
- the EU as a trading bloc
- the changing pattern of trade

Also give credit for:

- reference to the UK economy and/or other economies, e.g. other EU members
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR QUESTION 2: 50 MARKS

4(a) Explain how a currency's value against other currencies might be determined.
(20 marks)

For candidates who:

Define and/or explain various aspects of exchange rates, e.g. the concept of 'exchange rate' itself, briefly outline exchange rate systems, refer to the relevance of basic supply and demand analysis

up to 3 marks per point explained including 1 mark for a definition, up to a maximum of 6 marks

For candidates who explain or compare in greater depth the various exchange rate systems
up to 6 marks

Explain determinants of exchange rates, eg:

- trade flows (1 mark), so that, for example, increased overseas spending on UK exports creates a higher demand for £s (1 mark). If at the same time UK spending on imports fell, the supply of £s would fall (1 mark). This higher demand and reduced supply, other things being equal, would lead to upward pressure on the exchange rate (1 mark), and hence a new higher equilibrium rate of exchange (1 mark), illustrated with a supply and demand diagram (2 marks).
- investment flows
- speculation
- confidence and expectations
- interest rate movements
- direct official intervention
- domestic economic conditions, e.g. inflation reducing competitiveness of UK exports

1 mark for identification of a determinant and up to a further 6 marks for the development of that point

Reward the use of relevant diagrams: up to **2 marks** per basic supply and demand (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct); up to **4 marks** per diagram for something more complex (as above, but **2 further marks** for the greater amount of information provided on the graph), e.g. intervention buying and selling, to a maximum of **8 marks** in total for diagrams.

Reward references to the UK and/or other economies

Where the candidate only makes reference to one determinant, albeit very well explained, he/she should be limited to a maximum of **12 marks**.

MAXIMUM FOR PART (a): 20 MARKS

4(b) Assume that the value of the pound sterling rises significantly against other major currencies.

Evaluate the extent to which this might have an impact on UK economic growth.

(30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least two issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy.

Evaluation could be in terms of: whether or not the appreciation occurs against **all** other major currencies; the scope for developing markets in those areas whose currencies have not weakened against the £; a discussion of ‘significantly’; the duration of the appreciation; the ability/willingness of exporters to respond positively to the appreciation; the other side of the coin is that imports will be cheaper, with possible benefits to UK inflation; other conditions for economic growth might more than compensate for the appreciation; price competitiveness v non-price competitiveness.

Candidates will only have time to discuss some of the issues given below or others which they feel to be relevant to the question.

Issues and areas for discussion:

- the nature of economic growth
- the various possible causes of economic growth
- the impact of a strong £ on exports
- the impact of a stronger £ on imports
- the benefits of cheap imports of materials for industry with potential benefits for inflation
- the impact on UK manufacturing of cheap imports
- higher unemployment affecting AD
- higher productivity as a response to the impact of dearer exports caused by appreciation
- the potential stimulus to other supply-side factors helping to counteract the impact of appreciation
- the extent of appreciation in currency markets
- whether or not the appreciation is short-lived or long term
- the significance of non-price competitiveness in determining export performance
- the significance of elasticity conditions

Also give credit for:

- reference to the UK and/or other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR QUESTION 4: 50 MARKS