

Version 1



**General Certificate of Education (A-level)  
January 2013**

**Economics**

**ECON4**

**(Specification 2140)**

**Unit 4: The National and International Economy**

**Final**

***Mark Scheme***

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

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

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## Advanced Level Economics Unit 4

### General Instructions

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

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

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

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

**AQA ADVANCED LEVEL (A2) ECONOMICS**

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

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

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

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

### Synoptic Assessment

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

They should demonstrate that they:

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

### QUALITY OF WRITTEN COMMUNICATION

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

Candidates will be assessed according to their ability to:

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

No specific marks are awarded for QWC.

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

**1 THE GLOBAL CONTEXT**

**Total for this Context: 40 marks**

**01** Using **Extract A**, identify **two** significant points of comparison between annual real GDP growth and unemployment for the period 2007 to 2010. *(5 marks)*

**Identifying comparisons:**

For identifying one comparison and providing supporting data for both GDP growth and unemployment with unit shown (%) and with <b>growth</b> of GDP explicitly referred to.	<b>3 marks (1 + 2)</b>
For identifying one comparison and providing supporting data only in terms of either GDP growth or unemployment with unit shown (%) and/or without <b>growth</b> of GDP explicitly mentioned.	<b>2 marks (1 + 1)</b>
For identifying one comparison and using data without units shown as appropriate.	<b>2 marks</b>
For identifying one comparison without supporting data and/or without <b>growth</b> of GDP explicitly referred to.	<b>1 mark</b>
For a 'trawl' through the data which includes one or a number of statistics but no comparison.	<b>0 marks</b>

**Examples of comparisons include:**

- for the world and developed economies/EU both GDP growth rates and unemployment worsen between 2007 and 2009, eg world GDP growth from 5.3% to -0.6% and world unemployment from 5.6% to 6.3%
- none of the forecasts for 2010 for GDP growth or unemployment suggests a worsening picture, eg unemployment for the Middle East and North Africa at least shows a constant picture of 10.1% but its GDP growth shows a rise from 2.4% to 4.4% (candidates might quite correctly express this point as an improving picture for the world and both regions shown for GDP growth and unemployment except for the Middle East and North Africa whose unemployment remained constant)
- world GDP growth and unemployment were at their most favorable in 2007 with world GDP growth at 5.3% and unemployment at 5.6%
- the Middle East and North Africa show higher actual GDP growth rates but also higher unemployment than the world as a whole and developed economies/EU, eg in 2008 GDP growth in ME/NAf was 5.1% and unemployment was 9.9% compared to 2.8% and 5.7% respectively in the world as a whole
- the range of values in the GDP growth rate data as a whole is almost twice that (9.4% points) of the unemployment data (4.8% points).

**MAXIMUM FOR PART 01: 5 MARKS**

**02 Extract B** (lines 3–4) states that ‘stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting’.

Explain why stronger real GDP growth would signal an economic recovery **and** analyse how **one** economic shock might prevent recovery in an economy.

(10 marks)

**Explanation**

For defining and/or explaining stronger real GDP growth (do not penalise candidates if ‘stronger’ doesn’t feature in their definition/explanation).	<b>Up to 2 marks for a definition(ensuring that the definition is not also credited as part of the analysis) and a further 2 marks for any explanation, eg showing the components of GDP</b>
For defining and/or explaining economic recovery. A reference to economic shocks might also be included here and should be rewarded.	<b>Up to 2 marks for a definition (do not also credit in the analysis) and a further 2 marks for an explanation, eg linking it to other parts of the economic cycle</b>
For references to such factors as investment, reduced unemployment, the multiplier.	<b>Up to 2 marks per reference explained</b>
For use of a relevant diagram, eg AD/AS, output gaps.	<b>Up to 2 marks but not additional to the maximum 4 marks if this maximum has been awarded</b>  <b>Diagram: 1 mark for labeling, 1 mark for correct information shown</b>

**Maximum 4 marks for the explanation**

**Analysis of an economic shock. Award one mark for each step in a logical chain of reasoning.**

The way in which rising oil prices might impact on recovery by causing inflation <b>(1 mark)</b> or worsening inflation <b>(1 mark)</b> by cost-push building on demand–pull inflation <b>(1 mark)</b> . Oil prices will mean additional costs for industry <b>(1 mark)</b> and the consequent higher prices to consumers might discourage consumption <b>(1 mark)</b> together with higher fuel prices causing less disposable income to be available to spend on non-fuel consumption <b>(1 mark)</b> . The authorities’ counter-inflation policies might also impede recovery <b>(1 mark)</b> such as higher interest rates <b>(1 mark)</b> .	<b>Up to 8 marks but do not award a mark for identifying oil prices which is in the data.</b>
A banking/financial markets crisis which restricts investment.	<b>Up to 8 marks but do not award a mark for identifying banking crisis which is in the data.</b>
Interest rate increases	<b>Up to 8 marks but do not award a mark for identifying interest rate increase which is in the data.</b>

Problems in leading sectors such as housing	<b>Up to 8 marks</b>
A tightening of fiscal policy	<b>Up to 8 marks</b>
Collapse of the euro/exit of some members of the eurozone.	<b>Up to 8 marks</b>
Any other valid shock analysed	<b>Up to 8 marks per issue</b>
Use of appropriate diagrams, eg AD/AS	<b>Up to 2 marks per diagram (1 mark for labeling, 1 mark for correct information shown) to a maximum of 3 marks</b>
References to the UK and/or other economies	<b>1 mark per reference up to a maximum of 2 marks</b>

A candidate can be awarded a maximum of **6 marks** for the analysis if the explanation has not been attempted. (If only the explanation is attempted, candidates are restricted to 4 marks)

Where a candidate analyses more than one shock, award marks to the best one.

**MAXIMUM FOR PART 02: 10 MARKS**



**03** **Extract B** (lines 21–22) suggests that ‘targeted programmes in the labour market are vital’ in order to reduce unemployment.

Using the data and your economic knowledge, to what extent would you agree that such programmes are likely to be the most effective way of reducing unemployment in developed economies such as the UK? Justify your answer.

*(25 marks)*

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

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

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• unemployment defined</li> <li>• types of unemployment</li> <li>• the meaning of ‘targeted programmes’</li> <li>• developed economies.</li> </ul>
<b>Developing the response to the question (Application)</b>	<ul style="list-style-type: none"> <li>• reference to global unemployment of 6% (line 5)</li> <li>• the value of the programmes in light of possible fiscal restraint in the UK, for example (lines 11 – 12)</li> <li>• the IMF assertion that stimuli to AD is the single best cure (lines 19 – 20)</li> <li>• reference to wage subsidies to lower the cost to employers of hiring labour (line 22 – 23)</li> <li>• the importance of skills and mobility (lines 25 – 26)</li> <li>• the multiplier</li> <li>• the accelerator</li> <li>• aggregate demand.</li> </ul>
<b>Analysis</b>	<ul style="list-style-type: none"> <li>• examples of supply-side targeted programmes</li> <li>• the objectives of such programmes</li> <li>• the possible limitations of such programmes</li> <li>• the alternative demand-side approach to curing unemployment</li> <li>• analysis of such policies</li> <li>• a comparison of both approaches</li> <li>• references to the real world</li> <li>• diagrams</li> </ul>

<b>Evaluation</b>	<ul style="list-style-type: none"><li>• the importance of identifying the main type of unemployment</li><li>• the possibility of different types of unemployment existing at one time, eg structural and cyclical, so that a combination of demand-side and supply-side policies is needed</li><li>• the importance of the programmes to productivity improvements and hence competitiveness in world markets as economies recover</li><li>• the extent of the resources going into such programmes</li><li>• the duration of such programmes</li><li>• long term v short term considerations</li><li>• the need for individual developed economies to get the balance right between demand-side and supply-side approaches to unemployment to suit particular circumstances</li><li>• a final judgment on the role of the programmes.</li></ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART 03: 25 MARKS**

**2 THE EUROPEAN UNION CONEXT**

**Total for this Context: 40 marks**

**04** Using **Extract C**, calculate the price in dollars of a good exported from the eurozone to the US at the start of 1999 priced at 20 euros **and** identify **one** significant feature of the dollar/euro exchange rate for the period 1999 to 2011.  
(5 marks)

**The calculation:** Value: In 1999, a euro was worth \$1.20, causing the American price of the good exported from the Eurozone and priced at €20 to be (20 x \$1.20) \$24.00.

For the correct answer (working need not be shown) with \$ sign shown, ie \$24	<b>3 marks (2 + 1)</b>
For the correct answer without the \$ sign shown, ie 24.	<b>2 marks</b>
For showing the correct method but arriving at the wrong answer.	<b>1 mark</b>

**Identifying one significant feature:**

For identifying a significant feature and providing supporting data with the appropriate currency shown.	<b>3 marks (1 + 2)</b>
For identifying a significant feature but using data without the appropriate currency shown.	<b>2 mark</b>
For identifying a main feature without supporting data	<b>1 mark</b>
For simply providing one item of data with or without the unit shown or providing a 'trawl' and including a number of statistics, none of which can be regarded as particularly significant.	<b>0 marks</b>

**Significant features include:**

- the volatility of the euro's value against the US \$, eg in 2002 fluctuations between \$0.85 and \$1.05
- at the start of the period in 1999 the euro had a value of \$1.2, rising to \$1.43 by the end of 2011
- the peak value of the euro against the \$ was during 2008 when one euro was worth \$1.6
- the lowest value of the euro against the \$ was during the year 2000 at \$0.82
- 2008 and 2010 saw the most significant falls in the value of the euro against the \$ in any single year, eg in 2008 from \$1.6 to \$1.25.

**When values are being quoted, allow a 0.02 discrepancy +/-**

**MAXIMUM FOR PART 04: 5 MARKS**

**05** **Extract D** (lines 19–26) refers to economies which, if they left the eurozone, would no longer be obliged to follow such a strict policy of fiscal restraint and could enjoy other economic benefits.

Explain the phrase ‘policy of fiscal restraint’ **and** analyse **one** potential economic benefit for an economy if it leaves the eurozone. (10 marks)

**Explanation**

Defining/explaining fiscal policy, fiscal restraint, economic benefit.	<b>Up to 2 marks (ensuring that any definition is not also credited as part of the analysis)</b>
Explaining the possible direction of fiscal policy to achieve fiscal restraint, perhaps with some reference to what might be meant by ‘strict’.	<b>Up to 2 marks</b>
Reference to the macroeconomic aims of such fiscal restraint via AD.	<b>Up to 2 marks</b>
Use of relevant diagrams, eg AD/AS	<b>Up to 2 marks but not additional to the maximum 4 marks if this maximum has been awarded.</b>

**Maximum of 4 marks for the explanation**

**Analysis of an economic benefit gained from leaving the eurozone. Award one mark for each step in a logical chain of reasoning**

Greater freedom in monetary policy, eg setting interest rates so that national interest rates suit national economic trends <b>(1 mark)</b> and deciding on domestic monetary growth <b>(1 mark)</b> . This will allow interest rates to be raised if boom conditions emerge <b>(1 mark)</b> making it possible to adopt a counter-inflation interest rate policy <b>(1 mark)</b> . Equally, ECB rates will not have to be accepted if the national economy experiences a downturn <b>(1 mark)</b> when it would be necessary to lower interest rates <b>(1 mark)</b> in order to raise components of AD in the economy <b>(1 mark)</b> , such as consumption or investment <b>(1 mark)</b> .	<b>Up to 8 marks but not a mark for identifying the benefit because it is mentioned in the data.</b>
The ability to devalue a restored national currency.	<b>Up to 8 marks but not a mark for identifying the benefit because it is mentioned in the data</b>
Greater freedom on fiscal policy.	<b>Up to 8 marks but not a mark for identifying the benefit because it is mentioned in the data and in the question itself.</b>

Freedom from the 'legal' obligation to offer financial support to other eurozone economies in crisis should it be in a position to do so.	<b>Up to 8 marks; a mark may be awarded here for citing the benefit because it is not mentioned explicitly in the data</b>
Any other valid analysis; for example, it would be conceivable for a candidate to argue that there is a general benefit of greater freedom on national policies while retaining the benefits of EU membership such as CAP, SEM, CET, with one or other of the latter being given some weight in an answer.	<b>Up to 8 marks per issue analysed including one mark for citing the benefit.</b>
Use of appropriate diagrams, eg AD/AS, interest rates.	<b>Up to 2 marks per diagram (1 mark for labeling, 1 mark for correct information shown) to a maximum of 3 marks.</b>
The UK/eurozone - £/€ experience	<b>1 mark per reference to a maximum of 2 marks.</b>

A candidate can be awarded a maximum of **6 marks** for the analysis if the explanation has not been attempted. (If only the explanation is attempted, candidates are restricted to 4 marks).

Where a candidate analyses more than one benefit, award marks to the best one.

**MAXIMUM FOR PART 05: 10 MARKS**

**06** **Extract D** (lines 28–29) states that it ‘is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone’.

Using the data and your economic knowledge, assess the possible impact on the UK economy if a number of countries leave the eurozone. *(25 marks)*

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

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

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>the Eurozone and the EU</li> <li>UK status</li> <li>economic criteria for measuring impact</li> <li>the likely nature of Eurozone break-up.</li> </ul>
<b>Developing the response to the question (Application)</b>	<ul style="list-style-type: none"> <li>the degree of stability that had existed before the global financial crisis especially for the weaker members (lines 3 – 4)</li> <li>the significance of the debt crisis (lines 8 – 13)</li> <li>the importance of eurozone stability for the UK (lines 35 – 39)</li> <li>the inability of the UK to be immune from the eurozone problems even though it lies outside the eurozone (lines 39 - 41)</li> <li>GDP</li> <li>injections/withdrawals from the circular flow</li> <li>cyclical/structural unemployment.</li> </ul>
<b>Analysis</b>	<ul style="list-style-type: none"> <li>economic instability in the eurozone or more widely in the EU</li> <li>the impact on the £</li> <li>the impact on the euro</li> <li>the status and stability of the restored national currencies of those economies leaving the eurozone</li> <li>UK economic growth</li> <li>UK employment.</li> </ul>

	<ul style="list-style-type: none"> <li>• UK balance of payments, current and capital accounts, especially the impact on UK exports</li> <li>• the impact on the UK banking/financial sector</li> <li>• the scale of any UK commitment to 'bail-outs'</li> <li>• diagrams to help the analysis</li> <li>• reference to the real world.</li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• the significance of which countries actually leave the eurozone</li> <li>• how many countries decide to leave</li> <li>• the policies those countries decide to pursue following their exit</li> <li>• whether or not the exit of some countries leaves the eurozone as a much stronger economic entity with which the UK establishes even stronger economic ties</li> <li>• the relative value of the £ in relation to the newly restored national currencies</li> <li>• if there is a continuing crisis whether or not the UK can compensate by developing stronger economic ties elsewhere in the world</li> <li>• whether the UK and the remaining members of the eurozone pursue policies intended to support the economies exiting from the eurozone</li> <li>• the exit of countries in the context of the state of the world economy at that point and the EU economy in particular</li> <li>• the potential significance of the EU still remaining as an economic entity with, for example, the SEM still intact</li> <li>• reference to what actually happens when this paper is sat by candidates and what is suggested in the data</li> <li>• a final judgment on the issue of countries leaving the eurozone.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>

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

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART 06: 25 MARKS**

**SECTION B**

**Essay 1**

**Total for this Essay: 40 marks**

**07** Explain the term ‘globalisation’ **and** the role that multinational companies play in the development of globalisation. *(15 marks)*

**For explaining the term ‘globalisation’; award one mark for each step in a logical chain of reasoning.**

<ul style="list-style-type: none"> <li>• defining globalisation, eg the greater integration of the world economy; the development of the world into one market place</li> <li>• greater international trade <b>(1 mark)</b>. Trade brings countries together <b>(1 mark)</b> and the greater openness that globalisation brings, allows development of a country’s comparative advantage <b>(1 mark)</b> in an era of greater freedom from protectionist policies <b>(1 mark)</b>. A numerical example of comparative advantage <b>(up to 4 marks)</b></li> <li>• investment</li> <li>• technology</li> <li>• international branding</li> <li>• labour movements</li> <li>• distinguish between the widening of globalisation (more countries becoming involved) and the deepening of globalisation (an increasingly greater part of a country’s economic activity being drawn into the process)</li> <li>• any other relevant aspect explained.</li> </ul>	<p><b>Up to 2 marks for a definition and up to 4 marks per aspect of globalisation explained to a maximum of 10 marks (including definition marks)</b></p>
<p><b>For explaining the role of MNCs in the globalisation process; award one mark for each step in a logical chain of reasoning</b></p>	
<p>For a definition of MNCs, eg a corporation or enterprise which manages production or delivers services in more than one country.</p>	<p><b>Up to 2 marks</b></p>
<p>Example (s) of MNCs</p>	<p><b>1 mark in total</b></p>
<p><b>Explanation</b></p> <p>MNCs will be heavily involved in foreign direct investment (FDI) <b>(1 mark)</b> which is investment by companies which have their head offices in other countries <b>(1 mark)</b>. It will strengthen economic links between countries <b>(1 mark)</b> and so further the process of global integration <b>(1 mark)</b>. Investment can establish production units in a number of countries <b>(1 mark)</b> and if necessary initiate a modernisation of production processes <b>(1 mark)</b>.</p>	<p><b>Up to 5 marks per aspect of MNCs’ work explained to a maximum of 10 marks</b></p>



<ul style="list-style-type: none"> <li>• fostering trade</li> <li>• spreading technology</li> <li>• making developing countries aware of the potential benefits of becoming a part of a globalised world</li> <li>• encouraging migration of labour</li> <li>• establishing or strengthening supply chains</li> <li>• any other aspect of MNCs' work relevant to globalization.</li> </ul>	
<p>Use of diagrams to help support explanations of globalisation or the role of MNCs, eg MEC (but not in specification), comparative advantage, AD/AS.</p>	<p><b>Up to 2 marks per diagram (1 mark) for labeling, (1 mark) for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation.</b></p>
<p>References to the UK and/or other economies</p>	<p><b>1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above.</b></p>

**It may be that a candidate deals with the role of multinational companies within the general explanation of globalisation rather than as a separate part of the answer. In this case, for references to the role of MNCs, examiners should ignore the mark constraint identified for the first part of the mark scheme (4 marks maximum for any aspect of globalisation explained) and use that part of the mark scheme that refers explicitly to MNCs when awarding marks for this aspect of the answer. (ie maximum 10 marks)**

Award a maximum of **10 marks** if both parts of the question are not addressed.

**MAXIMUM FOR PART 07: 15 MARKS**

**08** To what extent, if at all, have the economic consequences of globalisation differed between developed and developing countries? (25 marks)

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

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• globalisation</li> <li>• developed and developing economies</li> <li>• criteria which underlie an assessment of economic consequences</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<ul style="list-style-type: none"> <li>• economic growth</li> <li>• labour flows</li> <li>• capital flows</li> <li>• employment/unemployment, eg structural unemployment</li> <li>• balance of payments on current and capital accounts</li> <li>• trade and trade policy, eg exploitation of comparative advantage</li> <li>• MNC policies, eg branch-plant syndrome</li> <li>• deindustrialisation</li> <li>• the way in which the two categories of countries and governments within them respond to the challenges of globalisation if at all</li> <li>• the response of businesses in the two categories of countries, eg productivity, productive efficiency, efficiency-enhancing techniques such as Just-in-Time (JIT) and Total Quality Management (TQM) (examiners please note that these terms are not in the specification)</li> <li>• exploitation</li> <li>• the impact on the distribution of income and/or wealth</li> <li>• impact on living standards of different income groups &amp; regions</li> <li>• use of diagrams</li> <li>• references to the real world.</li> </ul>
<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• the possible error in just comparing two groups of countries when the diversity of experience and development within them is there for all to see</li> <li>• the relative degree of dominance of MNCs in each category and the nature of MNC policies</li> </ul>

	<ul style="list-style-type: none"><li>• relative degrees of vulnerability to major global shocks</li><li>• only conditional judgments are possible because the global economy is far from the end of the process of globalisation</li><li>• the degree to which national governments will stand up for the national interest, perhaps in a selfish, nationalistic way</li><li>• resources available to individual national governments to lend support to national businesses</li><li>• the potential greater flexibility of response of developing countries to changes arising from globalisation</li><li>• quantifying different costs and benefits may be difficult, eg not being able to determine what part of a country's environmental costs can be attributed to the globalisation process</li><li>• a final judgment, eg the extent of benefits will vary across economies, the degree of vulnerability perhaps much less so.</li></ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

**USE THE LEVELS MARK SCHEMES ON PAGES 3 & 4**

**MAXIMUM FOR PART 08: 25 MARKS**

**09** Explain the term ‘living standards’ **and** analyse how cuts in government Spending to lower the budget deficit might affect living standards in the UK.  
(15 marks)

**For explaining the term ‘living standards’; award one mark for each step in a logical chain of reasoning**

<ul style="list-style-type: none"> <li>• defining living standards, eg the general well-being of a country’s population;</li> <li>• economic welfare</li> <li>• GDP and per capita income</li> <li>• aspects of social welfare</li> <li>• indices such as the HDI</li> <li>• distribution of income</li> <li>• any other relevant aspect explained.</li> </ul>	<p><b>Up to 2 marks for a definition and up to 4 marks per aspect of living standards explained to a maximum of 10 marks (including definition marks)</b></p>
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**For explaining how cuts in government spending might affect living standards; award one mark for each step in a logical chain of reasoning.**

For a definition of government spending/fiscal policy/budget surplus/deficit.	<b>Up to 2 marks per definition to a maximum of 3 marks</b>
<p><b>Explanation:</b></p> <ul style="list-style-type: none"> <li>• welfare spending (<b>1 mark</b>) might have a very direct effect on living standards (<b>1 mark</b>) because cuts in benefits will lower disposable income (<b>1 mark</b>) so lowering spending and consumption (<b>1 mark</b>). Job Seeker’s Allowance and Child Benefit come into this category (<b>1 mark</b>)</li> <li>• the impact on public sector employment and increases in earnings which do not match inflation</li> <li>• weakening any government stimulus to AD and hence to employment generally</li> <li>• fiscal contraction and average income</li> <li>• less spending on merit goods such as health and education</li> <li>• the possibility of a reallocation of spending which helps to improve welfare of more people even though government spending is being cut</li> <li>• any other effect explained.</li> </ul>	<p><b>Up to 5 marks per effect explained to a maximum of 10 marks</b></p>
Use of diagrams to help support explanations, eg AD/AS	<b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation</b>
References to the UK and/or other economies	<b>1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above.</b>

Award a maximum of **10 marks** if both parts of the question are not addressed.

**MAXIMUM FOR PART 09: 15 MARKS**

**10** Discuss whether the UK Government should **either** raise taxes **or** cut government spending to achieve its 2015 – 2016 fiscal objective. *(25 marks)*

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

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• UK fiscal policy and budgetary positions</li> <li>• general tax principles, eg fairness, ability to pay, incentives</li> <li>• examples of UK taxes and tax rates</li> <li>• the distinction between direct and indirect taxation</li> <li>• different categories of spending, eg capital v current</li> <li>• the nature of UK Government spending cuts.</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<ul style="list-style-type: none"> <li>• direct taxation and the issue of incentives (income and substitution effects)</li> <li>• corporate taxes v taxation of household income</li> <li>• Laffer Curve analysis (not mentioned in the specification)</li> <li>• indirect taxes and the issue of their regressive nature</li> <li>• equity and equality</li> <li>• supply and demand analysis to show the possible incidence of taxation</li> <li>• the possible effects of increasing tax rates on total tax revenue per tax</li> <li>• public spending and multiplier/reverse-multiplier</li> <li>• government spending cuts and the impact on private sector business</li> <li>• cuts to capital spending and macroeconomic implications</li> <li>• cuts to current spending and transfer spending (references to living standards need to build on what might have been said in <b>09</b> in an evaluative way)</li> <li>• use of diagrams</li> <li>• references to the real world.</li> </ul>

<p><b>Evaluation</b></p>	<ul style="list-style-type: none"> <li>• the need for a balanced approach to the use of tax and spending policies</li> <li>• relative distributional effects</li> <li>• relative impact on economic recovery</li> <li>• assessment of the use of a particular tax; any increase in its tax rate(s) may be influenced by the degree of change in the rate(s) being imposed</li> <li>• judgments made on the actual effect on living standards by individual taxes or particular aspects of government spending, whatever the ultimate aim is of a budget surplus</li> <li>• the national and international macroeconomic climate in which changes are being made</li> <li>• how tax/government spending changes relate to the supply- side ethos of recent governments</li> <li>• surveys which point to a limited or zero impact on incentives</li> <li>• to work resulting from changes in income tax</li> <li>• welfare-spending cuts and the unemployment trap</li> <li>• tax changes and the poverty trap</li> <li>• the need for coordination of spending and tax policies, eg needing to avoid conflict between welfare benefits and harshly regressive indirect taxes, or assessing if one compensates for the other</li> <li>• the impact of individual taxes on macroeconomic indicators, eg indirect taxes on the rate of inflation</li> <li>• the assessment of both might be affected by the speed with which spending cuts/tax increases are implemented</li> <li>• a final judgment regarding the best policy for the macroeconomy, individuals, for living standards in general, for the achievement of other macroeconomic objectives.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART 10: 25 MARKS**

**11** Explain how changes in the price level in the UK are measured through the use of price indices such as the RPI and CPI. (15 marks)

<p><b>For:</b></p> <ul style="list-style-type: none"> <li>• price indices</li> <li>• UK inflation or deflation.</li> </ul>	<p><b>Up to 2 marks for a definition or explanation to a maximum of 4 marks</b></p>
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**For explaining aspects of measurement of changes in the price level:**

Use of indices to calculate % rates of changes in prices	<p><b>Award 1 mark for each relevant point in a logical chain of reasoning made up to a total of 15 marks. The section on the left on weighting shows, as an example, how 5 marks could be awarded for this feature of indices and an accompanying explanation. It may be, however, that candidates simply list features such as weights and the FES without further explanation and to each of these 1 mark can be awarded.</b></p>
The concept of a 'basket' of goods and the 650 'representative' items.	
Family Expenditure Survey	
The concept of the average family	
The system of weighting <b>(1 mark)</b> . Weights reflect the fact that some items are more important than others in terms of their share of household spending <b>(1 mark)</b> . Price increases for certain items have a larger impact on the overall change in the construction of the 'basket' of goods <b>(1 mark)</b> . Weights are updated each year to reflect changes in household spending <b>(1 mark)</b> and to reflect the introduction of new items or removal of old ones <b>(1 mark)</b> .	
A numerical example	
Comparisons between different types of UK price indices (only RPI and CPI are mentioned in the specification).	
Any other valid feature of measurement using indices, eg large representative sample of prices collected each month; price relatives to calculate an individual item in the index.	
Use of diagrams to help support explanations, although diagrams are unlikely to feature in this part of the answer.	<p><b>Up to 2 marks per diagram (1 mark for labeling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation</b></p>
References to UK and other economies	<p><b>1 mark for each reference up to a maximum of 2 marks</b></p>

**MAXIMUM FOR PART 11: 15 MARKS**

<b>12</b>	Evaluate the view that the avoidance of price deflation should always be the major macroeconomic objective. <span style="float: right;"><i>(25 marks)</i></span>
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In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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

<b>Introduction</b>	<ul style="list-style-type: none"> <li>• inflation and deflation defined</li> <li>• the issue of price stability as an objective</li> <li>• the issue of avoidance of deflation, eg the possibility of being able to do so</li> <li>• other macroeconomic objectives</li> <li>• the UK experience</li> <li>• the current inflation target of 2% (CPI).</li> </ul>
<b>Developing the response to the question (application and analysis)</b>	<ul style="list-style-type: none"> <li>• ‘benign’ v ‘malevolent’</li> <li>• the benefits to competitiveness of a period of deflation</li> <li>• the benefits to real income and real purchasing power, boosting AD</li> <li>• the benefits of reflationary policies to correct deflation</li> <li>• the danger of entering a ‘liquidity trap’ scenario (examiners note that this term is not in the specification)</li> <li>• the impact on the real value of savings</li> <li>• the impact on business and household confidence</li> <li>• postponement of consumption</li> <li>• the impact on profits, for example, if consumption is postponed or wages are ‘sticky’ downwards, and hence the impact on investment</li> <li>• the ultimate damage to growth and jobs</li> <li>• the impact on creditors/debtors</li> <li>• the ultimate impact on living standards</li> <li>• deflation increasing the real burden of debt</li> <li>• arbitrary distributional effects</li> <li>• possible adverse macroeconomic implications overall worsening the fiscal position</li> <li>• use of diagrams</li> <li>• reference to the UK</li> <li>• reference to other economies.</li> </ul>



<b>Evaluation</b>	<ul style="list-style-type: none"> <li>• ‘a’ or ‘the’ major macroeconomic objective</li> <li>• the degree to which the problem can be anticipated and corrective policies followed</li> <li>• the degree of deflation</li> <li>• the duration of the problem</li> <li>• deflation or inflation? Both to be avoided and the control of both seen as a major economic objective</li> <li>• avoidance of deflation as always needing to be the major objective: an assessment of deflation as the major macroeconomic objective in relation to an assessment of the importance of other macroeconomic objectives, eg deflation and the balance of payments as opposed to deflation and economic growth</li> <li>• the issue of whether equal weight needs to be given to all macroeconomic objectives and their interrelationships recognised</li> <li>• such weighting may change to suit changing circumstances</li> <li>• an assessment of deflation in relation to a possible alternative, ie mild inflation which might be welcomed or runaway inflation which would not</li> <li>• the simultaneous experience of other economies</li> <li>• mild deflation as a minor problem compared to the effects of the authorities over-reacting and reflating too strongly</li> <li>• a final judgment, eg price stability needs to be the major macroeconomic objective with control over changes in the price level whether these are pointing to inflation or deflation because this can be seen as the foundation upon which a strong macroeconomy can be built.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART 12: 25 MARKS**