



General Certificate of Education

Economics

ECON4

Unit 4 The National and International Economy

Mark Scheme

Specimen mark scheme for examinations in June 2010 onwards
This mark scheme uses the [new numbering system](#)

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.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

Copyright © 2009 AQA and its licensors. All rights reserved.

COPYRIGHT

AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

Advanced Level Economics Unit 4

Specimen 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 **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 (e.g. 14 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.

THE LEVELS MARK SCHEME FOR A2

Level Descriptions

In parts **03** and **06** of the data response questions and the second part of each essay question, 40% of the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 15 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer

Few, if any, relevant issues are recognised. Descriptions and explanations lack clarity. 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. There might be some evidence of organisation in the answer but generally it fails to answer the question. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. Descriptions and explanations are sometimes hard to follow. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. There is some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. There is some limited logic and coherence in the organisation of the answer. 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 11 marks

Mid-Point 9 marks

Level 3: An adequate answer with some correct analysis but very limited evaluation

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. There is 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. There is some use of specialist vocabulary which is applied appropriately.

12 to 16 marks

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation

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 answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate demonstrates some ability to synthesise the arguments presented and come to some relevant conclusions although these might not always be based on evidence presented. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. A wide range of specialist vocabulary is used with facility.

17 to 21 marks

Mid-Point 19 marks

Level 5: Good analysis and evaluation

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 answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate demonstrates the ability to synthesise the arguments presented and come to conclusions which are based on the evidence presented. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. A wide range of specialist vocabulary is used with facility.

22 to 25 marks

Mid-Point 24 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.

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 THE GLOBAL CONTEXT**Total for this question: 40 marks**

01 Using **Extract A**, compare the economic performance of the UK with that of China for 2000 and 2005. *(5 marks)*

Award one mark for each valid point made and one mark for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- the much higher % growth rates in China, the difference between the UK and China being more notable in 2005
- neither country witnessing a serious inflation problem, but China showing the bigger increase, to a level which for the UK would be a cause for concern (in the context of a target rate of 2%)
- in 2000, China and the UK had fairly similar proportions of GDP represented by trade in goods and services, but China witnessed a much more marked growth, while the UK saw a declining %
- both countries display a very satisfactory economic performance across the criteria shown but with China showing exceptional rates of growth
- both countries show a worsening picture as far as the % rate of inflation is concerned but only China shows an improvement in economic growth

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data with no attempt at comparison.

A maximum of **3 marks** may be awarded if there is no use of statistics.

A maximum of **4 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 01: 5 marks

02 Extract B (lines 16-17) states that labour productivity in the UK economy 'remains below the average of the seven most industrialised nations'. Explain the concept of labour productivity **and** analyse **two** ways in which labour productivity might be improved. *(10 marks)*

For candidates who:

explain the concept of labour productivity, e.g. giving a precise definition, showing how it can be calculated, referring to its relevance to economic growth **up to 3 marks**

explain determinants of labour productivity, e.g.

- research and development (R&D) (1 mark), leading to more application of new technology to production processes (1 mark), fostering greater specialisation of labour (1 mark), allowing labour to work more efficiently at greater speed , allowing total output to increase (1 mark)
- education and training
- labour attitudes
- the quality of management
- investment
- incentives for the labour force **up to 4 marks per determinant explained**

make relevant use of diagrams **up to 2 marks per diagram to a maximum of 3 marks**

Reward references to the UK economy.

MAXIMUM FOR PART 02: 10 MARKS

03 Extract B (lines 25-26) refers to macroeconomic stability as a 'crucial ingredient for an economy wanting to face global challenges successfully'. Using the data and your economic knowledge, evaluate the contribution that macroeconomic stability in the UK may make in facing the challenges posed by economies such as China. (25 marks)

It is anticipated that candidates will show a good understanding of the nature of macroeconomic stability and go on to discuss its contribution in relation to other factors.

To achieve **Level 4**, at least **three** issues should be presented.

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.

Where there is no **explicit** reference to the data, award a maximum of **20 marks**.

There must be evidence of evaluation for candidates to score more than **15 marks**.

Evaluation could be in terms of: *the duration of the period of stability, the problem of maintaining stability, especially in the context of international developments, the issue of 'crucial ingredient', i.e. the possibility of making progress against economies such as China even if there is a period of instability in the UK, supply-side reforms may be an important issue for long-term stability and strength but have the potential for short-term instability, e.g. unemployment, it may all depend on the extent and nature of the challenge.*

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

- the nature of macroeconomic indicators
- economic growth
- prices
- jobs
- the balance of payments
- the concept of macroeconomic stability
- the degree of stability/instability in the economic cycle
- the potential significance of stability
- the nature and examples of global challenges
- the extent of deindustrialisation to date, perhaps making successful challenges much more difficult to launch against other countries
- the significance of export performance
- productivity
- other aspects of competitiveness
- flexibility of, and innovation from within, the business sector
- the degree of business confidence
- investment
- the UK's industrial structure
- the rate of inflation/existence of deflation
- comparative advantage

-
- supply-side reforms generally
 - the duration of the period of stability
 - the problem of maintaining stability, especially in the context of international developments
 - the issue of 'crucial ingredient', i.e. the possibility of making progress against economies such as China even if there is a period of instability in the UK

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME

MAXIMUM FOR PART 03: 25 MARKS

2 THE EUROPEAN UNION CONTEXT

Total for this question: 40 marks

04 Using Extract C , compare the GDP and the rate of growth of GDP of the UK with those of the other economies for the years 2000 and 2005. (5 marks)

Award one mark for each valid point made and one mark for the supporting reference to the data, up to maximum of 5 marks. Points might include:

- the UK is by far the strongest of the economies shown in terms of GDP (\$US) in both years
- Poland is the strongest of the three new members shown in terms of GDP (\$US) and so closest in strength to the UK economy on this criterion
- Poland has the greatest similarity with the UK taking the two years together as far as the rate of growth of GDP is concerned
- Estonia is the weakest of the three new members shown in terms of GDP (\$US) and so shows the greatest contrast with the UK economy
- only Poland shows similarity with the UK in showing a fall in the rate of growth of GDP in 2005 compared to 2000
- the growth rates of the three new member countries is equal to or greater than the UK in both years
- the range of growth rates in 2000 is 4 percentage points compared to 8 percentage points in 2005

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data with no attempt at comparison. Reward comparisons between countries within one year as well as comparisons across the two years.

A maximum of **3 marks** may be awarded if there is no use of statistics.

A maximum of **4 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 04: 5 MARKS

05 Extract D (lines 21-24) suggests that immigration has helped keep interest rates at low levels which 'inevitably may have an impact on consumer credit, savings and the exchange rate, and hence on aggregate demand'. Explain the concept of aggregate demand **and** analyse **two** ways in which lower interest rates might raise the level of aggregate demand. *(10 marks)*

For candidates who:

explain aggregate demand, e.g. the total spending on goods and services in an economy per time period, explain the components of aggregate demand **up to 2 marks**

explain the ways in which lower interest rates raise the level of aggregate demand, e.g.

- lower interest rates make consumer credit cheaper (1 mark), as well as bank loans to consumers (1 mark), leading to greater willingness of consumers to borrow (1 mark), in order to spend more on consumer durable goods which cannot be afforded from current income (1 mark)
 - investment
 - savings
 - the exchange rate
 - it becomes cheaper for government to borrow to finance more spending
- up to 4 marks per consequence explained**

make relevant use of diagrams **up to 2 marks per diagram to a maximum of 3 marks**

Reward references to the UK economy

MAXIMUM FOR PART 05: 10 MARKS

06 Extract D (lines 5-6) states that, in assessing UK economic performance, 'the impact of EU enlargement itself may be difficult to isolate from other determinants of economic success'. Using the data and your economic knowledge, evaluate the significance of EU enlargement to UK macroeconomic performance. (25 marks)

It is anticipated that candidates will discuss how EU enlargement may open up opportunities for the UK economy but potentially also cause problems, before going on to consider other factors which might also play a part in UK macroeconomic performance.

To achieve **Level 4**, at least **three** issues should be presented.

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.

Where there is no **explicit** reference to the data, award a maximum of **20 marks**.

There must be evidence of evaluation for candidates to score more than **15 marks**.

Evaluation could be in terms of: *other factors may simply complement the impact of enlargement or vv, i.e. enlargement is just one potential component of improved UK macroeconomic performance, it may all depend on the underlying strength/weakness of the UK economy before enlargement, or depend on the strength of the challenges posed by the new members, how positive UK business is in preparing for, and facing up to, the challenges, whether enlargement is perceived to be much more/much less significant than other factors.*

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion:

- the nature of EU enlargement
- macroeconomic performance
- economic growth
- jobs
- prices
- the balance of payments
- indicators of macroeconomic performance
- a general comparison of the UK with new members' economies
- export opportunities
- import threats
- significance of outsourcing
- demand-management policies helping to put the UK 'house in order' and maintaining stability
- supply-side reforms
- productivity
- comparative advantage
- the extent to which deindustrialisation limits economic success within the context of enlargement

-
- the extent of services providing a basis for success within the context of enlargement
 - opportunities/threats beyond the EU
 - immigration
 - other factors complementing the impact of enlargement or vv, i.e. enlargement as just one potential component of improved UK macroeconomic performance
 - the underlying strength/weakness of the UK economy before enlargement
 - the strength of the challenges posed by the new members
 - the UK business attitudes towards preparing for, and facing up to, the challenges
 - enlargement perceived as much more/much less significant than other factors

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME

MAXIMUM FOR PART 06: 25 MARKS

07 Explain the possible causes of a recession **and** the subsequent recovery phase of an economic cycle. *(15 marks)*

For candidates who:

define recession, recovery, economic cycle

up to 2 marks per definition to a maximum of 4 marks

explain causes of recession, e.g.

- high inflation which causes the authorities to have to take action (1 mark), by raising interest rates and/or tightening fiscal policy (1 mark), hence reducing the rate of growth of AD (1 mark) to an extent that GDP growth becomes negative (1 mark)
- high interest rates
- the sudden end of a speculative housing boom
- a stock market crash causing business and consumer confidence to slump
- international recession
- supply-side shocks (candidates could score maximum marks if only referring to one supply-side shock such as rapidly-rising oil prices)

up to 4 marks per cause explained

explain causes of recovery, e.g.

- lower inflation or deflation (1 mark), increasing the competitiveness of UK output in world markets (1 mark), hence causing world demand to increase for UK goods and services (1 mark), stimulating output and GDP (1 mark)
- the benefits of a lower exchange rate which has been a consequence of the recession
- a revival of investment
- discretionary action by the government
- a revival in, or expansion of, the UK's main overseas markets

up to 4 marks per cause explained

make use of relevant diagrams

up to 4 marks

Reward references to the UK economy

If the same cause is cited in both parts, the explanation in each part has to be convincing and relevant, e.g. if interest rates are cited in both parts, there needs to be a convincing explanation of the relevance of interest rates to recession, e.g. higher interest rates in order to deal with inflation which is destroying confidence and competitiveness, and an equally convincing explanation of the relevance to recovery, e.g. lower interest rates, cheapening credit, discouraging saving and encouraging consumer and investment spending, causing a rise in AD.

A maximum of **10 marks** may be awarded if a candidate writes only of recession or only of recovery.

MAXIMUM FOR PART 07: 15 MARKS

08 During the last UK recession, 1990 to 1992, the level of GDP fell by about 2%. In the years 1994 to 1997, during the economy's recovery phase, the annual average rate of growth of GDP was 3.2%.

Assess the contribution which supply-side reforms might make to the reduction of such variations in economic growth during the period of an economic cycle.

(25 marks)

It is anticipated that candidates will consider the importance of increasing the underlying strength of the economy by supply-side reforms in order to help protect it from cyclical shocks, but also consider the potential significance of demand-management policies.

To achieve **Level 4**, at least **three** issues should be presented.

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 more than **15 marks**.

Evaluation could be in terms of: *the argument that at both microeconomic and macroeconomic levels, attention needs to be given to both supply and demand conditions, the likely limitations of supply-side reforms in delivering stability without some use of demand-management, the potential for some supply-side reforms creating instability, e.g. rationalisation increasing unemployment, the potential for unsuccessful demand-management giving the economy a boom-bust scenario, the limitations of all types of policy if international events are the cause of instability.*

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

- the economic cycle
- indicators of stability/instability
- national or international examples of phases of the trade cycle
- the general nature of supply-side reforms
- productivity

-
- welfare reform
 - taxation reform
 - education and training
 - R&D and technological innovation
 - possible consequences of supply-side reforms
 - the nature of demand-management policies
 - analysis of demand-management policies, notably fiscal and monetary policy
 - the potential contribution of demand-management policy to stability/instability
 - the argument that at both microeconomic and macroeconomic levels, attention needs to be given to both supply and demand conditions
 - the likely limitations of supply-side reforms in delivering stability without some use of demand-management
 - the potential for some supply-side reforms creating instability, e.g. rationalisation increasing unemployment
 - the potential for unsuccessful demand-management giving the economy a boom-bust scenario
 - the limitations of all types of policy if international events are the cause of instability.

Also give credit for:

- relevant use of evidence and examples
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME

MAXIMUM FOR PART 08: 25 MARKS

09 Explain the economic reasons for public expenditure **and** the reasons for taxation other than to finance public expenditure. *(15 marks)*

For candidates who:

define fiscal policy, public expenditure, taxation

up to 2 marks per definition to a maximum of 4 marks

explain reasons for public expenditure, e.g.

- free provision of merit goods (1 mark) such as health and education (1 mark) which create positive externalities (1 mark) and will be underprovided/underconsumed if left to the free market (1mark)
- public goods
- support for business
- the control of negative externalities
- subsidies, e.g. to public transport
- to promote economic growth
- to influence AD
- income distribution
- anti-poverty strategy

up to 4 marks per reason explained

explain reasons for taxation, e.g.

- to deal with negative externalities (1 mark), by imposing tax to raise the price of a good (1 mark), from the point that $P = MPC$ (1 mark) to where price is equated with MSC (1 mark)
- to alter the pattern of consumption, e.g. away from demerit goods
- to influence AD by changing personal disposable income
- to discourage imports
- income redistribution
- to create incentives for business and labour

up to 4 marks per reason explained

make relevant use of diagrams

up to 4 marks

Reward references to the UK economy

Where a candidate cites the same reason for public expenditure and for taxation, only credit the second reference where there is a convincing explanation of its relevance to public expenditure/taxation when it is used for the second time.

Award a maximum of **10 marks** if there is only reference to public expenditure or only to taxation.

MAXIMUM FOR PART 09: 15 MARKS

10 Within the last ten years or so, the UK budget balance has moved from surplus to deficit. In 1998-9, a surplus of £6.5 billion was recorded, but in 2005, the deficit was £41 billion.

Discuss the possible economic consequences of such a change in an economy's budget balance. (25 marks)

It is anticipated that candidates will discuss the concept of budget deficit and surplus before considering the impact of the type of change in fiscal policy suggested in the data, although specific reference to the data given is not a requirement for a good answer.

To achieve **Level 4**, at least three issues should be presented.

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 more than **15 marks**.

Evaluation could be in terms of: *how gradual the change proves to be, the extent of the change in the fiscal balance, the nature of the economic background to the change, the government objectives underlying the change, whether or not the change was accurately planned, how the change relates to the economic cycle, the extent to which the private sector counteracts the change in the public sector's financial position.*

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

- the budget
- the concept of budget balance
- PSNCR
- rule-based fiscal policy, e.g. the Code for Fiscal Stability, the Growth and Stability Pact
- benefits and costs of deficits, e.g. a stimulus to AD v pressure on inflation
- benefits and costs of surpluses, e.g. engendering confidence in the business world v the possible cuts in public services
- the distinction between the microeconomic and macroeconomic impact of changes in the fiscal balance

- the impact on economic growth
- the impact on jobs
- the impact on prices

-
- the impact on the balance of payments
 - the consequences for income redistribution policy
 - the consequences for the 'War on Want'
 - the consequences for public services
 - the potential monetary impact, e.g. on interest rates
 - the length of time over which the change comes about
 - the magnitude of the change
 - the nature of the economic background to the change
 - the government objectives underlying the change
 - the accuracy of the planning behind the changing balance, i.e. the danger of overshoot/undershoot
 - the budget balance and the economic cycle
 - the role of the private sector as the fiscal balance changes

Also give credit for:

- relevant use of evidence and examples
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME

MAXIMUM FOR PART 10: 25 MARKS

11 Explain the possible causes of deficits in an economy's balance of payments on current account. <i>(15 marks)</i>
--

For candidates who:

define the balance of payments, the balance of payments on current account, deficit/surplus
up to 2 marks per definition to a maximum of 4 marks

explain possible causes of deficits, e.g.

- an overvalued exchange rate (1 mark), causing exports to be more expensive and potentially in less demand (1 mark), but imports to be cheaper and potentially in greater demand (1 mark), making it likely that the total value of imports will exceed the total value of exports and hence create a deficit (1 mark)
- a long-term high propensity to import
- deindustrialisation
- the domestic rate of inflation compares unfavourably with those of our trading partners
- the inability to close a productivity gap
- undeveloped/underdeveloped comparative advantages
- falling export prices in the context of price inelastic demand for the goods/commodities in question
- price inelastic demand for imports exacerbating the problems caused to the balance of payments on current account as import prices rise
- trading partners at different points in the economic cycle, e.g. growth and stability in the UK and recession amongst some of our main trading partners who therefore lower export prices and encourage UK consumers to import, but UK exporters are struggling to sell in those markets in recession
- increased protectionism amongst the major trading partners of an economy
- the trends in other components of the current account, e.g. investment income, payments to the EU

Make relevant use of diagrams

up to 4 marks

Reward references to the UK economy

MAXIMUM FOR PART 11: 15 MARKS

12 Annual deficits on the UK balance of payments on current account averaged £20 billion between 2000 and 2005.

Evaluate the measures which might be taken to bring about an improvement in the UK's balance of payments performance on current account. (25 marks)

It is anticipated that candidates will cite the traditional weaknesses of the UK balance of payments on current account, perhaps providing a brief summary of the salient points from part (a) on causation, before analysing and evaluating the various feasible measures to alleviate the deficits.

To achieve **Level 4**, at least three issues should be presented.

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 more than **15 marks**.

Evaluation could be in terms of: *the measures probably depending on the causes of the deficits, a distinction drawn between short-term palliatives and long-term reforms to bring a more permanent improvement, the potentially limited impact of measures if they are weak or limited in relation to the severity of the deficit, the measures having limited impact in the context of deteriorating international economic conditions, there may be little choice over high level of imports, given, for example, the extent of deindustrialisation, EU constraints on possible measures.*

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

- the balance of payments accounts
- the balance of payments on current account
- expenditure-switching versus expenditure-reducing measures
- the possible importance of capital flows for the current account
- the existence and strength of anti-inflation measures
- the success in closing any productivity gap
- the scope for developing any comparative advantage the UK might have which has been underutilised to date
- supply-side policies, e.g. used to regenerate manufacturing
- the deflation of the economy to reduce imports and release output to the export sector
- the business sector encouraged to pay more attention to other types of competitiveness, e.g. the quality of after-sales service, the nature of warranties on goods, design, quality of product
- exchange rate policy
- a distinction drawn between short-term palliatives and long-term reforms to bring a more permanent improvement
- the impact of measures if they are weak or limited in relation to the possible severity of the deficit
- the possible significance of deteriorating international economic conditions
- imports seen increasingly as necessities in the context of UK deindustrialisation

Also give credit for:

- relevant use of evidence and examples
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME

MAXIMUM FOR PART 12: 25 MARKS