



A-level ECONOMICS 7136/2

Paper 2 National and International Economy

Mark scheme

June 2022

Version: 1.0 Final



Mark schemes are prepared by the Lead Assessment Writer 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 associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' 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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Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Below is the levels of response marking grid to be used when marking any 25 mark question.

Level of response	Response	Max 25 marks
5	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion. 	21–25 marks
4	<p>Sound, focused analysis and some supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation. 	16–20 marks
3	<p>Some reasonable analysis but generally unsupported evaluation that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data. 	11–15 marks
2	<p>A fairly weak response with some understanding that:</p> <ul style="list-style-type: none"> • includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported. 	6–10 marks
1	<p>A very weak response that:</p> <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported. 	1–5 marks

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A (Figure 1)**, if 2015 is the base year, calculate the index of Egypt's real GDP in 2018.

Give your answer to **one** decimal place

[2 marks]

Response	Max 2 marks
For the correct answer (114.5) to one decimal place	2 marks
For a correct answer but not to one decimal place, ie 114.52 OR For the correct method but the wrong answer, to 1 decimal place OR For an answer of 14.5% OR For a correct answer (114.5) but with symbols added such as \$ or bn	1 mark

Calculation: $(286.3/250.0) \times 100 = 114.52$

= 114.5 to 1dp

MAXIMUM FOR QUESTION 01: 2 MARKS

0 2

*Explain how the data in **Extract A (Figures 1 and 2)** show that nations with high and stable economic growth attract rising foreign direct investment (FDI) inflows.*

[4 marks]

Response:	Max 4 marks
<ul style="list-style-type: none"> includes evidence that shows that nations with high and stable economic growth attract rising foreign direct investment inflows clearly explains how this data is evidence that nations with high and stable economic growth attract rising foreign direct investment inflows. 	4 marks
<ul style="list-style-type: none"> includes evidence that shows that nations with high and stable economic growth attract rising foreign direct investment inflows explanation of how this data is evidence that nations with high and stable economic growth attract rising foreign direct investment inflows. 	3 marks
<ul style="list-style-type: none"> includes some limited evidence that shows that nations with high and stable economic growth attract rising foreign direct investment inflows limited explanation of how this data is evidence that nations with high and stable economic growth attract rising foreign direct investment inflows. 	2 marks
<ul style="list-style-type: none"> includes evidence that does not clearly show that nations with high and stable economic growth attract rising foreign direct investment inflows no explanation of how this data is evidence that nations with high and stable economic growth attract rising foreign direct investment inflows. 	1 mark

Relevant issues include:

- the meaning of the terms ‘high and stable economic growth’ and ‘rising foreign direct investment inflows’
- economic growth is derived from Figure 1 by determining the annual percentage change in real GDP
- explaining why high and stable economic growth may attract FDI such as improved confidence and the opportunity for greater profits
- Kenya had the highest economic growth over the period (18.0%) and the largest proportionate increase in FDI (+166.7%)
- Egypt had the second highest economic growth over the period (14.5%) and the second largest proportionate increase in FDI (+17.4%)
- the country which had the largest absolute increase in FDI (Egypt going from \$6.9bn in 2015 to \$8.1bn in 2018) also achieved the second highest growth rate (14.5%)
- the country which achieved the largest growth rate (Kenya at 18.0%) also achieved the second highest absolute increase in FDI (\$0.6bn to \$1.6bn)
- in terms of stability, the two countries which both experienced negative economic growth (Liberia and Nigeria) both experienced falling FDI over the whole period. Liberia fell from \$0.2bn to \$0.1bn (a fall of 50%) and Nigeria fell from \$3bn to \$2bn (a fall of 33.3%)
- the only country which had FDI increasing throughout (Kenya) also had high growth throughout.

Data tables to help examiners with percentage changes (numbers are rounded): and include two data tables below

Country	Change in FDI
Egypt	+17.4%
Kenya	+166.7%
Liberia	-50.0%
Morocco	+6.1%
Nigeria	-33.3%

Country	15/16	16/17	17/18	Overall growth
Egypt	4.4%	4.2%	5.3%	14.5%
Kenya	5.9%	4.9%	6.2%	18.0%
Liberia	0%	-3.8%	4%	0%
Morocco	1.1%	4.3%	3.1%	8.6%
Nigeria	-1.6%	0.8%	1.9%	1.1%

MAXIMUM FOR QUESTION 02: 4 MARKS

0 3 *Extract B (lines 18–19) states: ‘FDI can have many benefits. It should create employment, boost long-run economic growth and increase exports.’*

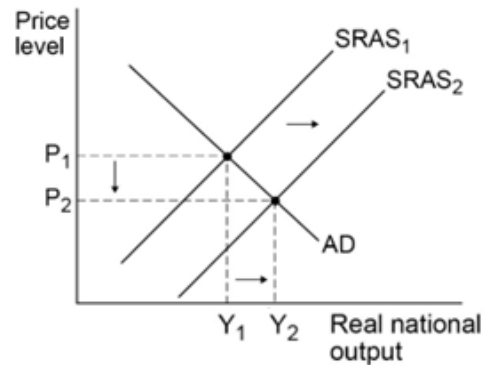
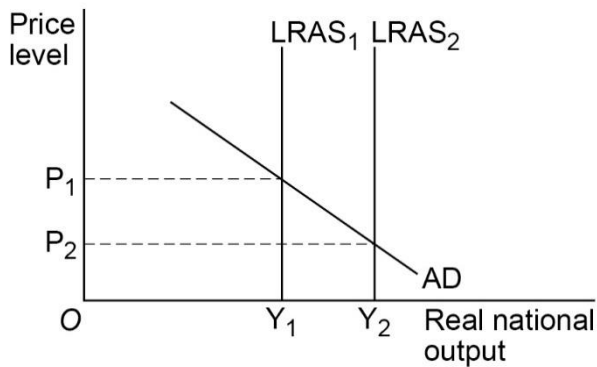
With the help of a suitable diagram, explain how a rise in inward foreign direct investment (FDI) may lead to increased exports.

[9 marks]

Level of response	Response:	Max 9 marks
3	<ul style="list-style-type: none"> • is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately. 	7–9 marks
2	<ul style="list-style-type: none"> • includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram. 	4–6 marks
1	<ul style="list-style-type: none"> • is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects. 	1–3 marks

An AD/AS diagram which shows LRAS shifting right is expected although candidates may explain potential benefits from SRAS shifting right and the subsequent effects on the price level and exports. Candidates may also use a Production Possibility Frontier shifting right.

Expected diagrams are:



Note: Some candidates may show the ‘effect’ of a rise in investment or exports by **only** shifting AD to the right. However, this does not explain why FDI may lead to an increase in exports and should not be credited as a suitable/relevant diagram.

Relevant issues include:

- definitions/explanations: investment, inward investment, foreign direct investment (FDI), exports
- explaining reasons why inward FDI may occur such as reduced corporation tax
- linking FDI to increases in productive capacity/potential
- linking FDI to forcing domestic firms to become more efficient
- the possible effects on the price level of boosts to efficiency/productive capacity
- if firms' costs fall (or at least don't rise) then firms become relatively more competitive
- linking FDI to possible benefits from economies of scale
- if firms which used to provide imports have relocated to the domestic economy, they may now be providing exports
- if total output rises firms may export surplus stock
- linking the increases in FDI to disinflation or benign deflation
- multinational corporations export around the world and hence FDI by a foreign MNC is likely to lead to an increase in exports.

MAXIMUM FOR QUESTION 03: 9 MARKS

0 4

Extract C (lines 13–14) states: ‘Some argue that African governments should be doing more to improve the living standards of their citizens, rather than relying on foreign firms.’

Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, African nations should pursue policies to attract foreign direct investment (FDI).

[25 marks]

Areas for discussion include:

- definitions/explanations: foreign direct investment (FDI), living standards
- explaining how living standards can be measured in terms of monetary measures such as GDP per capita
- explaining how living standards can be measured in terms of qualitative factors such as education, health, inequality, the environment, human development and sustainability
- alternative measures of living standards such as the Human Development Index (HDI)
- explaining the benefits of FDI on living standards in terms of:
 - employment
 - incomes and consumption possibilities
 - economic growth and GDP per capita
 - multiplier/accelerator arguments
 - human development/skills progression
 - potential improvements in infrastructure created by MNCs
 - possible health implications of increased formal, regular employment
 - generating more government tax revenue which may be spent on merit/public goods without creating debt
 - crowding in arguments
- explaining the drawbacks of FDI on living standards in terms of:
 - exploitation of workers by MNCs
 - damages to the environment caused by MNCs
 - possible inflationary pressures causing the cost of living to rise
 - ‘footloose’ industries causing instability in employment for example
 - repatriation of profits acting as a leakage from the circular flow
- considering that governments may not benefit from rising tax revenues as they may have been forced to offer tax breaks
- how global shocks, such as the pandemic, may lead to changes in investment beyond the control of the domestic government
- the alternatives to attracting FDI to improve living standards such as aid and the possible problems of tied aid
- other possible alternatives such as government spending and the potential problems of rising debt
- other possible alternatives such as the promotion of free trade or protectionism and the potential problems of each method
- whether the government should intervene at all or if the free market would provide better solutions
- the possible inequalities caused by FDI and the possible regional differences
- issues such as corruption affecting the distribution of the benefits of FDI.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

Context 2

Total for this context: 40 marks

0 5 Using the data in **Extract D (Figure 3)**, calculate the difference between the UK's and Argentina's mean unemployment rates over the period 2015 to 2018.

Give your answer to **two** decimal places.

[2 marks]

Response	Max 2 marks
For the correct answer (3.45 percentage points or 3.45%) with the words 'percentage points' or % sign and to two decimal places Also allow answers written as a negative (or with a minus sign)	2 marks
For a correct answer but without the words 'percentage points' or % sign and/or not to two decimal places OR For the correct method but the wrong answer, to two decimal places with the words 'percentage points' or % sign	1 mark

Note: In the event that candidates calculate this as a percentage difference rather than an absolute difference – allow answers stating that the Argentina's mean unemployment is 73.40% greater than the UK's or that the UK's mean unemployment is 57.67% of Argentina's.

Calculation: Argentina's mean = 6.5% + 8.5% + 8.4% + 9.2% = 32.6 32.6/4 = 8.15%

UK's mean = 5.4% + 4.9% + 4.4% + 4.1% = 18.8 18.8/4 = 4.70%

8.15% - 4.70% = 3.45 percentage points to 2 decimal places.

MAXIMUM FOR QUESTION 05: 2 MARKS

0 6

*Explain how the data in **Extract D (Figures 3 and 4)** show that there may be a short-run trade-off between unemployment and inflation.*

[4 marks]

Response:	Max 4 marks
<ul style="list-style-type: none"> includes evidence that shows that there may be a short-run trade-off between unemployment and inflation clearly explains how this data is evidence that there may be a short-run trade-off between unemployment and inflation. 	4 marks
<ul style="list-style-type: none"> includes evidence that shows that there may be a short-run trade-off between unemployment and inflation explanation of how this data is evidence that there may be a short-run trade-off between unemployment and inflation. 	3 marks
<ul style="list-style-type: none"> includes some limited evidence that shows that there may be a short-run trade-off between unemployment and inflation limited explanation of how this data is evidence that there may be a short-run trade-off between unemployment and inflation. 	2 marks
<ul style="list-style-type: none"> includes evidence that does not clearly show that there may be a short-run trade-off between unemployment and inflation no explanation of how this data is evidence that there may be a short-run trade-off between unemployment and inflation. 	1 mark

Relevant issues include:

- the meaning of 'trade-off' or 'unemployment' or 'inflation'
- explaining the trade-off in terms of an inverse relationship with possible reference to the Phillips curve
- explaining why a trade-off may occur between unemployment and inflation
- the largest fall in unemployment rates occurred in both France (10.4% in 2015 to 9.0% in 2018) and the USA (5.3% in 2015 to 3.9% in 2018) which both experienced significant rises in inflation rates (France 0.1% in 2015 to 2.1% in 2018 and the USA 0.1% in 2015 and 2.4% in 2018)
- the largest increase in unemployment was in Brazil (8.3% in 2015 to 12.3% in 2018) who also experienced a significant fall in their inflation rate (9.0% in 2015 to 3.7% in 2018)
- other than Argentina, the largest increase in inflation was in the UK (0.0% in 2015 to 2.5% in 2018) who also had a large fall in unemployment (5.4% to 4.1%)
- of the five nations displayed only Argentina appeared to not show a trade-off (unemployment rose from 6.5% in 2015 to 9.2% in 2018 whereas inflation rose from 10.0% to 34.3%).

Note: Some candidates may attempt to illustrate the trade-off using diagrammatic analysis and the data. This should be rewarded as evidence of the trade-off.

MAXIMUM FOR QUESTION 06: 4 MARKS

0 7

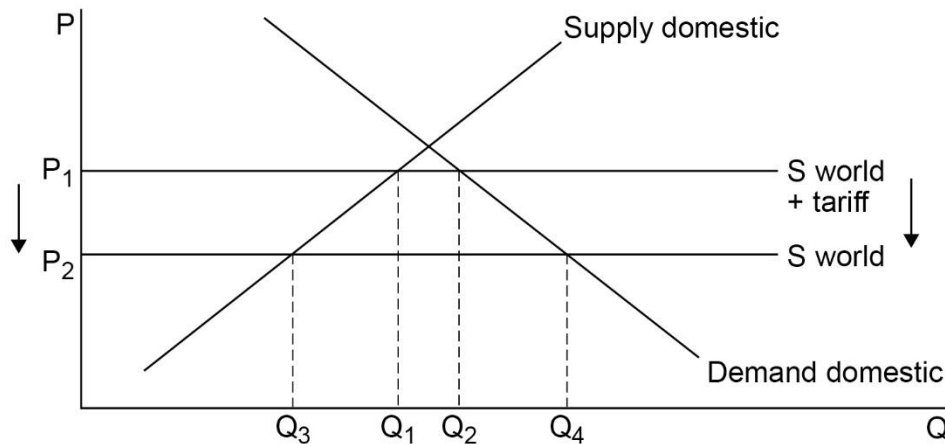
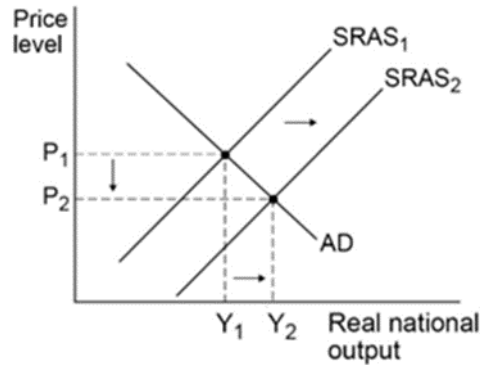
Extract E (lines 7–9) states: ‘It was hoped that policy measures, including a reduction in tariffs ... would help to reduce inflation.’

With the help of a diagram, explain how a reduction in tariffs could help to reduce inflation.
[9 marks]

Level of response	Response:	Max 9 marks
3	<ul style="list-style-type: none"> • is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately. 	7–9 marks
2	<ul style="list-style-type: none"> • includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram. 	4–6 marks
1	<ul style="list-style-type: none"> • is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects. 	1–3 marks

An AD/AS diagram showing a rightward in SRAS is expected, however a micro diagram illustrating the effect of removing a tariff and the resultant effect on price is equally acceptable.

Expected diagrams are:



Relevant issues include:

- definitions/explanations: tariff, inflation
- linking the reduction in tariffs to falling import prices
- the concept of the basket of goods and its 'weighted' components
- linking falling import prices to a fall in the general price level
- linking the fall in import prices to issues such as being able to obtain raw materials cheaper
- linking falling import prices to costs and the determinants of SRAS
- contributing to a reduction in cost-push inflation
- the impact of reducing tariffs on competition and the prices charged by domestic firms linking falling prices to falling inflation or disinflation.
- linking falling import prices to rising demand for imports, reducing demand-pull inflationary pressure

MAXIMUM FOR QUESTION 07: 9 MARKS

0 8

Extract E (lines 15–17) states: ‘Policies were put in place to reduce the money supply and reduce government spending. The control of inflation became the main target of UK government macroeconomic policy.’

Using the data in the extracts and your knowledge of economics, evaluate the view that achieving a low and stable rate of inflation should be the main economic objective of governments.

[25 marks]

Areas for discussion include:

- definitions/explanations: inflation, low-stable inflation, government economic objectives
- explaining the other main macroeconomic objectives of governments: economic growth, minimising unemployment and a stable balance of payments on current account
- other economic objectives such as the reduction of inequalities or protection of the environment
- the role of central banks, such as the Bank of England or Monetary Policy Committee (MPC) and inflation targets
- ways that central banks can use monetary policies such as interest rates and the transmission mechanism
- ways that central banks can use other variables such as forward guidance, operational independence and forecasting to influence inflationary expectations
- other policies such as supply-side policies which may create low inflation
- other policies such as contractionary or expansionary fiscal policies in attempting to maintain low, stable rates of inflation
- the possible beneficial effects of maintaining low stable inflation such as:
 - the creation of confidence and stability
 - the avoidance of wage-price spirals
 - the avoidance of deflation and possible creation of delayed consumption
 - allowing economic agents to factor in changes to decision making and the effects on consumption and investment
 - maintaining international competitiveness
 - the avoidance of hyperinflation
 - the effects on households, such as those on fixed incomes and the effects on savings
 - effects on government finances
- the possible negative effects of maintaining low stable inflation such as:
 - the possible trade-off with unemployment if inflation is too low
 - the possible trade-off with growth if inflation is too low
 - the focus on achieving low, stable inflation may impact upon certain groups more than others for example borrowers with variable rate mortgages
- considering the effectiveness of policies to control inflation
- the relative merits and problems of policies designed to create low stable inflation
- external shocks such as the pandemic, may force governments to alter economic targets
- the possibility that objectives may be achieved simultaneously
- whether deflation is more of a concern than low stable inflation
- whether the control of inflation depends upon the stage of the economic cycle and priorities may change
- the importance of other objectives of economic policy

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 08: 25 MARKS

Section B

Below is the levels of response marking grid which should be used to mark the 15 mark questions.

Level of response	Response	Max 15 marks
3	<p>A good response provides an answer that:</p> <ul style="list-style-type: none"> • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning. 	11–15 marks
2	<p>A reasonable response provides an answer that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places. 	6–10 marks
1	<p>A weak response provides an answer that:</p> <ul style="list-style-type: none"> • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused. 	1–5 marks

Section B

Essay 1

Total for this essay: 40 marks

0 9

Explain how expenditure-switching policies can be used to reduce a deficit on a country's balance of trade in goods and services.

[15 marks]

Relevant issues include:

- definitions/explanations: expenditure-switching policies, trade, trade deficit, balance of trade
- explaining the difference between expenditure-switching policies and expenditure-reducing policies
- how expenditure-switching policies cause a shift in consumption away from imports and towards domestic consumption and exports
- reasons for wishing to reduce a trade deficit
- explaining expenditure-switching policies linked to protectionism in terms of:
 - tariffs
 - quotas
 - non-tariff barriers
 - export subsidies
- explaining expenditure-switching policies in terms of exchange rate manipulation in terms of:
 - direct government intervention in terms of buying and selling currency
 - indirect intervention in terms of manipulation of interest rates
- explaining expenditure-switching policies in terms of supply-side policies and making domestic goods and services more competitive
- the relative effects on the volume and value of imports and exports
- the impact on net trade.

Use the levels mark scheme on page 16 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

1 0*Assess the view that floating exchange rates are always better than fixed exchange rates.***[25 marks]****Areas for discussion include:**

- definitions/explanations: exchange rates, floating exchange rate, fixed exchange rate, exchange rate systems
- explaining the possible ways in which 'better' can be assessed by linking this to the macroeconomic objectives
- how floating exchange rates work and the factors that may cause supply and demand of currency to change
- linking floating exchange rates to FOREX
- explaining the possible advantages of being on a free-floating exchange rate system (or the disadvantages of being in a fixed system) in terms of:
 - automatic correction/stabilisation
 - allowing monetary policy freedom, for example interest rate manipulation
 - reduced needs for currency reserves and government intervention
 - speculation may be reduced
 - depreciation may improve injections leading to benefits of growth and employment
- explaining the possible advantages of being in a fixed exchange rate system (or the disadvantages of being in a floating system) in terms of:
 - avoiding sudden fluctuations which may alter costs and imports/exports
 - encouraging confidence and investment
 - encouraging trade
 - possibly avoiding transaction costs if fixed in a monetary union
- the nature of a fixed system, whether it is in a monetary union or not
- considering real-life examples and the fact that very few nations actually work on a truly fixed system
- whether currencies do actually correct or stabilise trade
- the possible trade-offs that can occur, for example a depreciation may improve short-run growth at the expense of inflation
- that speculation is more prevalent in a floating rate system although it may become more serious in a fixed rate system when it becomes obvious that the currency is over or undervalued (the one-way option problem).
- considering managed floats rather than truly 'fixed' systems
- considering real-life examples such as: the Bretton Woods system, the ERM, Danish Krona fixed to the euro and attempts by some other countries, particularly in Africa, to fix their currencies to the US\$ or the euro.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

Essay 2

Total for this essay: 40 marks

1 1

Explain the main problems for an economy of having a large positive output gap.

[15 marks]

Relevant issues include:

- definitions/explanations: output, output gap, positive output gap, economic cycle
- linking positive output gaps to booms
- reasons which may have caused an economy to end up in a positive output gap
- linking positive output gaps to real output growing faster than productive potential
- if the output gap is persistent it will eventually lead the economy to overheat
- explaining the problems which may be caused by positive output gaps such as:
 - demand-pull inflation as too much money is chasing too few goods
 - cost-push inflation due to labour shortages
 - wage-price spirals
 - rising imports as consumption is rising and possible leakages rise
 - falling exports if inflationary pressure occurs
 - an increase in the current account deficit
 - unsustainable asset price rises
 - potential effects on the exchange rate
- linking the 'problems' of the economy having a large positive output gap to the causes such as low productivity growth.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 16 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

1 2

Evaluate the view that supply-side improvements in the UK economy can best be achieved through the use of interventionist policies.

[25 marks]

Areas for discussion include:

- definitions/explanations: supply-side, supply-side improvements, interventionist policies
- explaining why supply-side improvements may be necessary
- the difference between interventionist and free-market approaches
- the differences in targeting labour markets or product markets
- explaining interventionist supply-side policies such as:
 - education
 - apprenticeships/vocational training
 - infrastructure
 - regional policy
 - health spending
 - housing supply policies
- explaining free market supply-side policies such as:
 - privatisation
 - deregulation
 - tax and welfare benefit system changes
 - flexible labour markets including trade union reform
 - promoting free trade
 - removing red tape/bureaucracy
 - policies to promote immigration
- the effects of supply-side policy on the macroeconomic goals or living standards
- considering that some supply-side policies require ‘intervention’ to make them more ‘free-market’ such as legislation reducing trade-union power to allow the market system to work
- the problems that so called ‘carrot and stick’ policies may create
- the merits of interventionist versus free-market approaches
- the unintended consequences of policies or government failure
- the real-life experiences and effectiveness of policies: for example, has privatisation worked in all markets such as railways?
- the potential financial costs or cost effectiveness of supply-side policies
- considering that supply-side policies can affect AD
- the difficulties of measuring the effectiveness of supply-side policies and time lags.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

Essay 3

Total for this essay: 40 marks

1 3

Explain reasons for changes in the value of exports from the UK to the rest of the world.

[15 marks]

Relevant issues include:

- definitions/explanations: trade, exports, value of exports
- explaining the value of exports in terms of the quantity/volume and price of exports
- explaining how changes in the pattern of trade can affect trade values
- the significance of trade and exports to the UK economy
- using relevant examples to illustrate the changes in the value of exports
- explaining comparative advantage and possibly giving a numerical example of comparative advantage
- explaining possible reasons for changes in the value of exports from the UK to the rest of the world such as:
 - changes in comparative advantage
 - changes in protectionist/free trade policies in other countries
 - leaving or changing membership of trading blocs such as the EU
 - consideration of trade diversion/trade creation arguments
 - exchange rate changes
 - changing quality/reputation
 - de-industrialisation
 - economic growth (or decline) in other nations
 - external shocks
 - innovation and invention (both product and process)
 - technological improvements that have led to reductions in cost of transport and communications.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 16 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

1 4*Evaluate the view that international trade always benefits nations.***[25 marks]****Areas for discussion include:**

- definitions/explanations: international trade
- explaining the alternatives to international trade such as protectionism or closed economies
- different stakeholder groups for analysis such as firms, households, the government or in terms of the macroeconomic objectives or other objectives such as the environment
- explaining the benefits of trade such as:
 - benefits from comparative advantage
 - economies of scale
 - increased competition
 - lower prices
 - access to more diverse markets
 - trade creation
 - export-led growth and employment
 - encouraging FDI
 - increased product and process innovation
 - welfare gains
 - improving international relations/reducing conflict
- explaining the potential drawbacks of trade such as:
 - loss of domestic industry
 - structural unemployment
 - potential loss of infant/sunset industry arguments
 - leakages to the circular flow if a net importer
 - environmental damage due to transportation
 - trade deals may cause political arguments
 - potential trade of demerit goods/illegal goods/weapons
- using real-life examples of where international trade has helped or damaged industries in the UK or the rest of the world
- whether protectionist policies or having a closed economy would have benefited different nations rather than trade
- the limitations of trade such as assumptions about the model of comparative advantage
- the different industries that LEDCs and MEDCs end up specialising in and the effects of this in terms of development
- the different experiences of LEDCs and MEDCs regarding the terms of trade or problems of primary product dependency
- considering living standards in LEDCs may be damaged in terms of worker exploitation or the environment
- considering the term ‘always’
- the inability of some nations to be able to fully exploit their comparative advantage
- considering both the positive and negative impact of MNCs on different nations.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate’s response to the question.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS