



Rewarding Learning

**ADVANCED
General Certificate of Education
2011**

Economics

Assessment Unit A2 2

assessing

The Global Economy

[AE221]

FRIDAY 27 MAY, MORNING

MARK SCHEME

General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark schemes should be read in conjunction with these general marking instructions which apply to all papers.

Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 18-year-olds, which is the age at which the majority of candidates sit their A2 examinations.

Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect and inappropriate.

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

Threshold performance: Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Marking calculations

In marking answers involving calculations, examiners should apply the “own figure” rule so that candidates are not penalised more than once for a computational error.

Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

Level 3 (High Standard): The candidate successfully reflects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

Level 4 (Excellent): The candidate successfully reflects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.

1 Imbalances undermine economic recovery

- (a) Ireland's public sector debt is £66 bn. This represents 46% of Ireland's GDP.

Greek public sector debt is £335 bn. This represents 124% of Greek GDP.

The burden of debt is significantly higher in Greece.

[2] for presenting Irish debt as percentage of GDP
[2] for presenting Greek debt as percentage of GDP
[2] for comparison using other forms of data manipulation
[1] for comparison
[2] for other relevant points
Constrained maximum of [5] [5]

- (b) Recessions have traditionally been beneficial for the UK balance of payments largely because of their impact on consumer spending and the labour market. There may also be a fall in the value of the pound which can improve the balance of payments.

Issues for analysis and discussion include:

- explanation of impact of recession on consumer confidence and spending
- explanation of impact of recession on unemployment and knock-on effect upon incomes and demand for imports
- explanation of income elastic nature of many UK imports
- explanation of impact on wages and the competitiveness of UK exports
- explanation of possible fall in value of the pound upon the balance of payments
- explanation of impact of **world** recession of UK balance of payments.

Level 1 ([1]–[3])

Candidate provides little explanation of the effect of a recession upon the UK balance of payments. There is no significant economic analysis and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some explanation of the effect of a recession upon the UK balance of payments. There is a degree of economic analysis though this may be superficial or contain errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation of the effect of a recession upon the UK balance of payments. There is accurate economic analysis and quality of written communication is of a high standard. [10]

- (c) If the issue were confined to Greece it is possible that the richer nations in the Eurozone might be prepared to pay off some of these debts. However, this would set a precedent which would require similar bailouts for the other states with large fiscal deficits and German public opinion would not countenance such a move.

So the choice facing the highly indebted states is to embark on a programme of fiscal austerity in the midst of a recession or to leave the euro and allow devaluation to reduce the real value of their debts.

Issues for analysis and discussion include:

- explanation of why Eurozone is not an optimal currency area
- explanation of impact of leaving euro upon the real value of Greek debt
- explanation of political problems involved in introducing tax rises and government spending cuts
- explanation of German opposition to rescue packages for Greece and other highly indebted states
- explanation of impact of “one size fits all” interest rate on the Greek economy
- explanation of problems caused by difference in productivity amongst member states.

Level 1 ([1]–[3])

Candidate provides little explanation of why Greek public sector debt poses a threat to the survival of the euro. There is no significant economic analysis and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some explanation of why Greek public sector debt poses a threat to the survival of the euro. There is a degree of economic analysis though this may be superficial or contain errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation of why Greek public sector debt poses a threat to the survival of the euro. There is accurate economic analysis and quality of written communication is of a high standard. [10]

- (d) The initiation of a trade war against China would require the USA to impose trade barriers such as tariffs against Chinese imports.

The imposition of the tariff barrier has three economic impacts in the USA:

- it increases producer surplus and the welfare of American manufacturers and workers
- it reduces consumer surplus and the welfare of American consumers
- it raises revenue for the American government.

However, there is an overall net welfare loss which is often referred to as a deadweight welfare loss.

Presumably China would retaliate in similar fashion with a corresponding welfare loss for the Chinese economy. Indeed China could escalate the trade war by refusing to purchase any more US government bonds or selling some of its vast holding of such bonds. This could drive down the value of the dollar and force the American government into cuts in public expenditure.

Clearly a trade war of this type is in no one's interests. However, one possible benefit would be that the threat of it would persuade the Chinese government to allow the Renminbi to gradually increase in value.

Level 1 ([1]–[5])

Candidate provides no significant economic analysis of the effect on the American economy of a trade war with China. There is little evaluation and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some economic analysis of the effect on the American economy of a trade war with China. However, this may be incomplete or contain errors. There is a degree of evaluation though this may be one-sided or lack depth. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive economic analysis of the effect on the American economy of tariffs on Chinese tyres. There is in-depth evaluation and judgement and quality of written communication is of a high standard.

[15]

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2 Rich nations must promote economic development in Less Developed Countries

- (a) Economic growth is simply an increase in a country's output of goods and services. It is usually measured by the annual increase in real GDP. It tells us nothing about the nature of the items produced nor about how the proceeds of growth are distributed. Hence it is a deeply flawed indicator of the welfare of a country's citizens.

Economic development is a much broader indicator but one which has no precise definition: John Sloman says, "Development is a normative concept. Its definition will depend on the goals that the economist assumes societies want to achieve."

However, most measures of development will include variables such as literacy rates, infant mortality, healthcare provision and quite often political freedom.

Economic growth is relatively easy to measure. Economic development is not.

Level 1 ([1]–[5])

Candidate shows little understanding of the main differences between growth and development. The definitional problems of development are not addressed and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of the main differences between growth and development. However, this is likely to be incomplete or contain minor errors. The definitional problems of development may be mentioned but not explained in detail. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear and comprehensive understanding of the main differences between growth and development. The definitional problems of development are fully explained and quality of written communication is of a high standard.

[15]

- (b) Since economic development poses significant problems of definition and measurement, it follows that the appropriate policy mix to achieve economic development is going to prove very difficult to accomplish. There are, however, a number of broad policy initiatives which could be implemented though each of them creates problems both within the developed economies and for the developing nation.

Issues for analysis and discussion include:

- financial aid to the government of the developing country. This has problems of governance and corruption
- debt relief. This will certainly improve the finances of the country in question but if the debt were incurred as a consequence of profligate government spending then the interest saved is likely to benefit corrupt government ministers and officials rather than the citizens of the country
- financial aid directed to specific projects such as improved infrastructure. Again there are problems of part of this being siphoned off by corrupt officials
- assistance and advice to the government to establish a high quality civil service. This will include the creation of a legal framework which amongst other things protects property rights
- abolition of tariffs against the exports of developing nations and the abolition of trade-distorting subsidies to EU and American farmers. This is probably the single most effective measure which the EU and the USA could take to promote economic development in LDCs. It is also the most difficult to implement owing to the strength of the agricultural lobby within these nations. Nor is it guaranteed to help farmers in the poorest African nations as many Asian growers appear to have a comparative advantage in crop production
- advice and training for farmers to improve productivity.

Level 1 ([1]–[7])

Candidate shows little understanding of the various policies which rich nations could adopt to promote economic development in LDCs. There is no attempt at critical examination and quality of written communication is limited.

Level 2 ([8]–[13])

Candidate shows some understanding of the various policies which rich nations could adopt to promote economic development in LDCs. There is an attempt, albeit superficial, at critical examination and quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate shows a clear understanding of most of the policies rich nations could adopt to promote economic development in LDCs. There is serious critical examination of these policies and quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate shows a clear and comprehensive understanding of the policies which rich nations could adopt to promote economic development in LDCs. There is an in-depth critical examination of these policies and a conclusion which expresses an opinion on the most appropriate policy mix. Quality of written communication is excellent.

[25]

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3 Globalisation has affected every aspect of the UK economy

(a) The UK balance of payments is presented in two sections:

- current account
- capital and financial accounts.

The current account is made up of:

- trade in goods
- trade in services
- net income flows
- net current transfers.

In practice the capital account is relatively unimportant and consists mainly of migrants transfers.

The financial account of the balance of payments records cross border changes in the holdings of assets such as shares, government securities, buildings and land, and businesses.

- when foreign citizens and businesses purchase UK assets this is an inflow of funds and when UK citizens purchase assets abroad this represents an outflow
- direct investment refers to the purchase of physical assets such as a factory, a farm or property. So when a UK citizen purchases a Spanish villa this is an outflow of funds and a debit item
- portfolio investment refers to changes in holdings of paper assets such as company shares or government securities. So when an American pension fund buys UK gilt-edged securities this is an inflow of funds and a credit item.

Level 1 ([1]–[5])

Candidate provides little explanation of the main elements in the UK balance of payments. There will at best be a vague reference to issues like exports and imports, but little explanation. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of the main elements in the UK balance of payments. However, this is likely to be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of the UK balance of payments. Quality of written communication is of a high standard.

[15]

- (b) Globalisation has impacted upon virtually every single aspect of the UK economy. Everything from the availability of goods and services to the closer integration of world financial markets and its role in the spread of the credit-crunch has been affected. There have also been deep social implications as result of inward migration.

Issues for analysis and evaluation include:

- explanation of nature of globalisation
- explanation of impact on UK consumers
- explanation of FDI into UK
- explanation of impact on UK firms
- explanation of impact on UK balance of payments
- explanation of impact of inward migration
- evaluation of net impact of globalisation.

Level 1 ([1]–[7])

Candidate shows little understanding of the various ways in which globalisation has affected the UK economy. There is no attempt at evaluation and quality of written communication is limited.

Level 2 ([8]–[13])

Candidate shows some understanding of the various ways in which globalisation has affected the UK economy. There is a degree of evaluation of the overall impact and quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate shows a clear understanding of the various ways in which globalisation has affected the UK economy. This is supported by accurate economic analysis and there is significant evaluation and judgement of the overall impact. Quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate shows a clear and comprehensive understanding of the various ways in which globalisation has affected the UK economy. This is supported by accurate economic analysis and there is in-depth evaluation and judgement of the overall impact. Quality of written communication is excellent.

[25]

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4 The Common Agricultural Policy is a cornerstone of the European Union

(a) The European Union contains the two essential features of a customs union:

- there is complete freedom of movement of goods and services within the EU
- all member states of the EU have the same import controls against products from outside the EU.

Trade creation occurs when consumption shifts from a relatively high cost producer to a relatively low cost producer. So a country joining the EU might then be able to obtain goods more cheaply from other members of the EU.

Trade diversion occurs when consumption shifts from a lower cost producer outside the customs union to a higher cost producer within it. When the UK joined the EU it lost free access to New Zealand lamb and had to buy from more expensive producers within the EU.

Issues for analysis and discussion include:

- explanation of why EU is a form of customs union
- explanation of trade creation
- explanation of trade diversion
- appropriate examples
- appropriate diagrams.

Level 1 ([1]–[5])

Candidate provides little explanation of how EU membership may lead to both trade creation and trade diversion. There is no significant economic analysis and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of how EU membership may lead to both trade creation and trade diversion. There is a degree of economic analysis and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of how EU membership may lead to both trade creation and trade diversion. There is accurate economic analysis and quality of written communication is of a high standard. [15]

- (b) The 1957 Treaty of Rome described the objectives of the CAP as:
- to increase agricultural productivity
 - to ensure fair living standards for the agricultural community
 - to stabilise markets
 - to ensure availability of food
 - to provide food at reasonable prices.

It began operating in 1962 with the community intervening to buy farm output when the market price fell below an agreed target level. This helped to reduce Europe's reliance on imported food but also led to over-production and the creation of mountains and lakes of surplus food and drink.

The community also taxed imports and subsidised agriculture. In spite of recent reforms the CAP remains by far the largest single item in the EU budget and has been widely criticised for its impact on European consumers and on third world producers.

Issues for analysis and evaluation include:

- explanation of objectives of CAP
- benefits of CAP to stability of food supplies in EU
- impact of CAP on farm incomes
- impact of EU enlargement upon CAP
- impact of CAP on farmers in LDCs
- financial costs of CAP
- costs of CAP to EU consumers in terms of higher food prices
- impact of CAP on animal welfare and production of safe food
- impact of CAP on rural environment.
- explanation of recent reforms to CAP.

Level 1 ([1]–[7])

Candidate shows little understanding of the impact of CAP on European consumers and food producers. There is no significant evaluation and quality of written communication is limited.

Level 2 ([8]–[13])

Candidate shows some understanding of the impact of CAP on European consumers and food producers. There is a degree of evaluation though this may lack depth or be one-sided. Quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate shows a clear understanding of how the CAP has affected European consumers and food producers. This is supported by relevant economic analysis and there is significant evaluation and judgement of its overall impact. Quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate shows a clear and comprehensive understanding of how the CAP has affected European consumers and food producers. This is supported by relevant and accurate economic analysis. There is in-depth evaluation and judgement of its overall impact, and quality of written communication is excellent.

[25]

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Total

80