



*Rewarding Learning*

**ADVANCED  
General Certificate of Education  
2013**

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## **Economics**

Assessment Unit A2 2

The Global Economy

**[AE221]**

**FRIDAY 17 MAY, AFTERNOON**

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# **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 scheme 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 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. 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 selects 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 selects 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 (a) • remittances started the period with a value of \$40b and ended it with a value of \$280b. This is rise of \$240b or 600 per cent
- overseas aid started the period with a value \$90b and ended it with a value of \$110b. This is a rise of \$20b or 22 per cent
  - remittances overtook aid in 1996
  - remittances have increased at a much faster rate than aid. By 2009 remittances exceeded aid by \$170b.

[2] for analysis of trend in remittances

[2] for analysis of trend in aid

[2] for comparison of the two trends

Constrained maximum of [5]

No manipulation of data, maximum of [4] [5]

- (b) There are a number of factors which make Mexico attractive to foreign investors.

These include:

- location. Close proximity to the USA allows products to be transported quickly and relatively cheaply
- NAFTA. This mean that there are no import restrictions on the export of Mexican products to the USA
- relatively cheap and skilled labour. American firms can relocate to Mexico and enjoy much lower labour costs
- Mexico is a democracy with a code of law, enforceability of contracts and protection of property rights
- tax rates are similar to those in the USA.

**Level 1 ([1]–[3])**

Candidate provides little explanation of why Mexico is a popular destination for FDI. There may be some reference to the points mentioned in the passage but these will not be explained or developed. There will typically be no additional issues examined and quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate provides some explanation of why Mexico is a popular destination for FDI. There is a degree of explanation of the points mentioned in the passage but this will be incomplete or contain errors. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate provides a clear and comprehensive explanation of why Mexico is a popular destination for FDI. There will be extensive explanation and development of the points in the passage and this may be complemented by reference to additional issues. Quality of written communication is of a high standard. [10]

- (c) Trade with China has affected the US economy in a variety of ways:
- at present the US has a trade deficit with China, meaning that imports exceed exports
  - loss of jobs. Some US firms have been forced to close because of imports from China and others have relocated to China and other relatively low-wage economies
  - greater choice for US consumer
  - lower prices for US consumer
  - Chinese purchases of US government debt have allowed the US government to borrow at relatively low interest rates and to finance large public works programmes
  - China is an attractive destination for US FDI. This has enhanced returns for shareholders in these companies
  - trade has created tension between the two countries and led to calls for protectionism.

**Level 1 ([1]–[3])**

Candidate provides little analysis of the impact on the American economy of trade with China. There are likely to be superficial references to some issues and quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate provides some analysis of the impact on the American economy of trade with China. However, this is likely to be incomplete or contain errors. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate provides a clear and comprehensive analysis of the impact on the American economy of trade with China. Key issues are explained in depth and quality of written communication is of a high standard. [10]

- (d) Immigration is a highly controversial issue but one which has been largely ignored by mainstream economists. Most economic analysis has focused on free trade in goods and free movement of capital.

Issues for analysis and evaluation include:

- impact on wages and employment in destination country
- possibility of illegal working at wage rates below the national minimum wage
- increased economic welfare of migrants
- costs to destination country for education, healthcare, translation costs and welfare benefits
- benefits to employers in destination country
- possibility of social tensions and disorder
- impact on country of origin.

**Level 1 ([1]–[5])**

Candidate provides little critical examination of this view. There is likely to be a superficial anecdotal approach and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some critical examination of this view. There is a degree of economic analysis and evaluation, However, this may lack depth or be one-sided and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides an extensive critical examination of this view. There is relevant economic analysis which complements an in-depth evaluation and judgment. Quality of written communication is of a high standard. [15]

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- 2 (a) The Single European Market aims to create four basic freedoms within the EU.

These are:

- free movement of goods
- free movement of services
- free movement of labour
- free movement of capital.

In addition to this all member states of the EU have 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 Single European Market 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 Single European Market (SEM)
- 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 no significant explanation of how membership of the SEM might lead to both trade creation and trade diversion. There is little economic analysis and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation of how membership of the SEM might 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 membership of the SEM might 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 UK's membership of the EU has always been opposed by a significant body of opinion. The Eurozone debt crisis seems to have increased the intensity with which this view is held and has raised the possibility that a referendum might be held on the UK's continued membership.

Issues for analysis and evaluation include:

- UK exports would become subject to the common external tariff of the EU. However, it is possible that some form of free trade arrangement with the EU could be negotiated
- UK imports from non-EU countries would no longer be subject to this tariff. This would be likely to reduce food prices
- producers in LDCs would gain access to the UK market
- FDI into the UK could be reduced as production could not be freely shipped to EU countries
- inwards migration to the UK would be likely to be reduced
- the UK's net payment to the EU, *which in 2009/10 was 6.4 billion*, would cease
- UK producers would no longer be subject to EU regulations related to the Single European Market.

**Level 1 ([1]–[7])**

Candidate provides little explanation or evaluation of this view. There will be vague unsubstantiated assertions but no significant economic analysis and quality of written communication is limited.

**Level 2 ([8]–[13])**

Candidate provides some explanation and evaluation of this view. There will be a degree of economic analysis to complement some evaluation. However, this evaluation is likely to be one-sided or incomplete. Quality of written communication is satisfactory.

**Level 3 ([14]–[19])**

Candidate provides significant explanation and evaluation of this view. There will be clear economic analysis to complement in-depth evaluation. Quality of written communication is of a high standard.

**Level 4 ([20]–[25])**

Candidate provides a significant in-depth explanation, evaluation and judgement of this view. There will be clear economic analysis to complement this evaluation and quality of written communication is excellent. [25]

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- 3 (a)** The World Bank was founded in 1944 and has its headquarters in Washington DC. It is not a bank in the common sense of the word. It consists of two development institutions, owned by 187 member countries.

These are:

- the International Bank for Reconstruction and Development (IBRD) which aims to reduce poverty in middle income and credit worthy poorer countries
- the International Development Agency (IDA) which provides assistance to the world's poorest nations.

Both institutions provide low-interest loans, interest-free credits and grants for a variety of purposes.

These include:

- investments in provision of education and healthcare
- investment in public administration
- investment in infrastructure
- investment in agriculture
- investment in private sector businesses
- investment in environmental and natural resource management.

There has been some criticism of the World Bank for promoting free market economic policies which may not necessarily be appropriate for LDCs.

The WTO has three distinct roles in the global economy:

- to provide a framework for negotiating and formalising trade agreements, aimed at liberalising world trade. An example of this is the Doha round of negotiations
- to ensure that these agreements are adhered to
- to provide a dispute resolution process when countries feel that trade agreements have been breached. The WTO has the power to award compensation to aggrieved parties.



**Level 1 ([1]–[5])**

Candidate provides little comparison of the roles of the World Bank and the WTO in the global economy. There may be superficial references to issues like “helping free trade” but these will lack substance. Quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some comparison of the roles of the World Bank and the WTO in the global economy. There will be some explanation of key issues but this will lack detail or be incomplete. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear comparison of the roles of the World Bank and the WTO in the global economy. There will be extensive explanation of key issues and quality of written communication is of a high standard. [15]

- (b) The closer integration of the world’s economies has facilitated the spread of financial contagion from one country to another and increased economic instability. Many economists feel that a system of fixed exchange rate would reduce this instability.

The issue of fixed versus floating exchange rates has been debated by economists and policy makers for many years. For almost three decades after the second world war the world’s major currencies were fixed in terms of the dollar which itself was pegged to a fixed value in gold. This system was known as an adjustable peg as rates could be adjusted in the long run in the event of a structural balance of payments deficit.

Today the Chinese renminbi is fixed against the American dollar and the members of the Eurozone share a common currency. However, the pound and the American dollar are allowed to float against other major currencies and against each other.

The most important advantage of fixed exchange rates is the price stability which they give to exporters and importers.

The most important advantage of floating exchange rates is that in theory they provide for the automatic correction of Balance of Payments deficits and surpluses.

Issues for analysis and evaluation include:

- explanation of fixed exchange rates and how they are maintained
- explanation of how globalisation has increased instability
- explanation of how fixed exchange rates assist in providing a stable trading environment by eliminating currency risks
- explanation of how fixed exchange rates encourage international trade
- explanation of how fixed exchange rates affect macroeconomic

policy by forcing governments to adopt deflationary policies in order to maintain the fixed rate

- explanation of how fixed exchange rates help to control inflation
- explanation and evaluation of other exchange rate systems such as free floating, adjustable peg, etc
- reference to international and historical examples.

### **Level 1 ([1]–[7])**

Candidate provides little explanation or evaluation of the view that the world's major trading nations should introduce a system of fixed exchange rates. There is no significant economic analysis and quality of written communication is limited.

### **Level 2 ([8]–[13])**

Candidate provides some explanation and evaluation of the view that the world's major trading nations should introduce a system of fixed exchange rates. However, the evaluation will be one-sided or lack depth. There is a degree of economic analysis though this will be incomplete or superficial. Quality of written communication is satisfactory.

### **Level 3 ([14]–[19])**

Candidate provides a clear explanation and meaningful evaluation of the view that the world's major trading nations should introduce a system of fixed exchange rates. There is relevant economic analysis and quality of written communication is of a high standard.

### **Level 4 ([20]–[25])**

Candidate provides a clear and comprehensive explanation and in-depth evaluation and judgement of the view that the world's major trading nations should introduce a system of fixed exchange rates. There is accurate and relevant economic analysis. Quality of written communication is excellent. [25]

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- 4 (a) The current account is principally a record of transactions as a result of exports and imports of goods and services. However, it also contains sections relating to income and current transfers.
- trade in goods: revenue received from exports of goods less payments made for imports of goods
  - trade in services: revenue received from exports of services less payments made for imports of services. The main categories of service are financial services, travel and royalties
  - income: this consists mainly of the returns from UK investment in other countries less the income earned by foreign businesses operating in the UK. It also contains a section for compensation of employees which relates to the repatriated earnings of UK citizens working abroad less a similar flow for foreign workers based in the UK
  - current transfers: these arise mainly from the UK's membership of the EU and is the net figure for payments to and from that body.

**Level 1 ([1]–[5])**

Candidate provides little explanation of the main components of the UK current account. There may be vague references to exports and imports but no significant explanation or development. Quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation of the main components of the UK current account. The main issues are referred to but the explanation will lack depth or be incomplete. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation of the main components of the UK current account. The main issues are explained in detail and quality of written communication is of a high standard. [15]

- (b) The importance of a current account equilibrium in government macroeconomic policy has fallen in recent decades. This is partly the result of the movement of most developed countries to a floating exchange rate regime and also to the increasing importance of financial and capital flows. Governments feel that they can turn a blind eye to a current account deficit as it is likely to be balanced by a financial account surplus. In addition, a deficit may be corrected by a fall in the value of the pound without the government having to take any other corrective measures.

However, a persistent and significant deficit cannot be ignored for ever and corrective measures will eventually have to be taken.

Issues for analysis and evaluation include:

- assessment of significance of any deficit
- analysis of the causes of a deficit
- analysis of the impact of government fiscal and monetary policies on the deficit
- impact on exchange rate
- fixed and floating exchange rates
- floating rates as automatic corrective mechanism for balance of payments deficits
- impact on employment
- impact on investor confidence
- problems of borrowing to finance deficit
- possibility of “Sterling crisis”
- historical and international examples.

**Level 1 ([1]–[7])**

Candidate provides little explanation of this view. There is no significant evaluation and quality of written communication is limited.

**Level 2 ([8]–[13])**

Candidate provides some explanation of this view. There is a degree of evaluation though this may lack depth or be one-sided and quality of written communication is satisfactory.

**Level 3 ([14]–[19])**

Candidate provides a clear and comprehensive explanation of this view. There is significant evaluation and quality of written communication is of a high standard.

**Level 4 ([20]–[25])**

Candidate provides a clear and comprehensive explanation of this view. There is in-depth evaluation and judgement and quality of written communication is excellent.

[25]

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**Total**

**80**