GCE

Economics

Advanced GCE

Unit **F585:** The Global Economy

Mark Scheme for January 2012

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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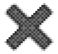
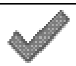
Any enquiries about publications should be addressed to:

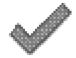
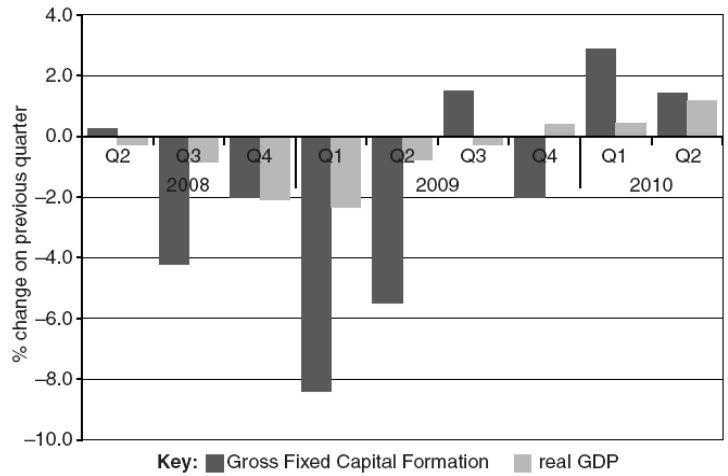
OCR Publications
PO Box 5050
Annesley
NOTTINGHAM
NG15 0DL

Telephone: 0870 770 6622
Facsimile: 01223 552610
E-mail: publications@ocr.org.uk

Annotations

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Effective evaluation
	No development
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted but no credit given
	Too vague
	Tick
	Development of point

Question			Answer	Mark	Guidance
1	(a)	(i)	The process by which any change (increase and/or decrease) in a component of aggregate demand / injections / withdrawals (1) results in a **greater** final change (increase and/or decrease) in real GDP / GDP / national income	2	Two marks for an acceptable definition (must include the idea of a greater final change in GDP) One mark for some vague understanding eg: • ΔY/ΔJ (1) • change in injections leads to change in national income (1) Acceptable formulae include: • 1/(mps + mpt + mpm), 1/(1 – mpc), 1/mps. 1/mpw (2) A rare but acceptable response for two marks is: • “a change in the level of GDP causes a greater final change in GDP” No marks for “it is the multiplier effect” without further elaboration of what this is. Annotate marks awarded with ✓
		(ii)	The accelerator theory that states that the level of investment (1) depends on the rate of change of national income (1).	2	Two marks for an acceptable definition of the term. One mark for a general vague understanding ie change in national income/AD/C but **not** RATE of change. Annotate marks awarded with ✓

Question			Answer	Mark	Guidance
	(b)		**Explanation of recession** • investment falls **because** there is a slowdown in the rate of economic growth in 2007/08 (the accelerator effect) • the fall in investment reduces AD and **causes** a greater fall in GDP over time (the multiplier effect) • the fall in GDP leads to a further and larger fall in investment (accelerator effect) **Severity and length of recession** • the interaction of the multiplier and accelerator may be one part of the explanation for a severe recession **because of the large changes in investment** brought about • prolonged nature of the recession may reflect the fact that investment responds with a time lag to the recovery phase of rising GDP **because of** low levels of business confidence and that investment is a small component of AD so that large changes in investment alone would be needed to raise GDP The last two bullet points indicate the type of content which addresses the issues of severity and length of recession.	6	Marks should be awarded as follows: Up to two marks for valid application of the data in Fig. 1.1 Indicate application marks with  Up to four marks for an analytical explanation of the interaction of the accelerator and multiplier Indicate explanation and analysis marks with  *Max of two marks where there is no reference to rate of change of GDP (accelerator) or greater fall in GDP (multiplier)* *Max of three marks where there is reference to multiplier or accelerator effects only* Up to two marks for an analytical explanation of the length and severity of the UK recession Max of four marks where there is no use of the data 

Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(c)		**Consequences for growth could be bad:** • reduction in G reduces AD and, therefore, SR economic growth • possibility of negative economic growth in the SR • increase in T may reduce disposable incomes and, therefore, C • continued slow growth / double dip due to reduction in AD **Consequences for growth could be good:** • reduced crowding out of the private sector leads to increase in business confidence increasing I • reduced risk of UK government defaulting on debt, reduces risk premium in capital markets therefore long term interest rates reduced/remain low stimulating business investment in the LR • private sector investment generates employment which compensates for job losses in the public sector • reduced debt interest allows public sector investment to increase in the LR • improves supply side of the economy and paves the way for return to economic growth in the long run	10	**Level 4** Responses should be underpinned by the use of AD/AS analysis. Valid commentary includes: • deficit reduction plan is designed to increase economic growth in the LR but may reduce it in the SR • consequences of deficit reduction plan depends on other factors (Plan A+, time period ...) • hysteresis effect may result in negative consequences in both SR and LR In Level 4 award marks as follows: • one <u>stated</u> point of evaluation = seven marks • two or more <u>stated</u> points of evaluation = eight marks • <u>developed</u> evaluation of one or more points MUST be awarded nine or ten marks Annotate developed commentary with **Level 3** Responses should be underpinned by the use of AD/AS analysis. **Level 2** Likely to paraphrase Extract material and not make the link to AD/AS analysis.	**Level 4** **[7 – 10]** For a commentary on the possible consequences for UK economic growth of the deficit reduction plan Annotate using in LHS margin **Level 3** **[4 – 6]** For a one-sided analysis of the possible consequences for UK economic growth of the deficit reduction plan. Annotate using in LHS margin **Level 2** **[2 – 3]** For an application of knowledge and understanding of the possible consequences for UK economic growth of the deficit reduction plan Annotate using in LHS margin **Level 1** **[1]** For knowledge and understanding of the deficit reduction plan only Annotate using in LHS margin

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>2</td><td>(a)</td><td></td><td>Some countries are allocated too much ODA (1) for example India which gets most aid yet has 2nd highest ranking in terms of GDP per capita and HDI (1)

Some countries are allocated too little ODA (1) such as Ethiopia, Tanzania and Sudan which are ranked lower in terms of ODA received than their need in terms of GDP per capita and/or HDI rankings (1)</td><td>4</td><td>One mark for the idea that some countries get more ODA than GDP per capita and/or HDI rankings would suggest they should.
One mark for use of Fig. 3.2 to support this idea.

One mark for the idea that some countries get less ODA than GDP per capita and/or HDI rankings would suggest they should.
One mark for use of Fig. 3.2 to support this idea.

<table>
<tr><th></th><th>ODA (US$m) 2007</th><th>GDP per capita (PPP US$) 2007</th><th>HDI 2007</th></tr>
<tr><td>India</td><td>700 [1]</td><td>2,753 [2]</td><td>0.612 [2]</td></tr>
<tr><td>Afghanistan</td><td>296 [2]</td><td>1,054 [8]</td><td>0.352 [9]</td></tr>
<tr><td>Nigeria</td><td>275 [3]</td><td>1,969 [5]</td><td>0.511 [7]</td></tr>
<tr><td>Ethiopia</td><td>273 [4]</td><td>779 [9]</td><td>0.414 [8]</td></tr>
<tr><td>Bangladesh</td><td>249 [5]</td><td>1,241 [6]</td><td>0.543 [4]</td></tr>
<tr><td>Tanzania</td><td>243 [6]</td><td>1,208 [7]</td><td>0.530 [6]</td></tr>
<tr><td>Pakistan</td><td>229 [7]</td><td>2,496 [3]</td><td>0.572 [3]</td></tr>
<tr><td>Sudan</td><td>203 [8]</td><td>2,086 [4]</td><td>0.531 [5]</td></tr>
<tr><td>China</td><td>201 [9]</td><td>5,383 [1]</td><td>0.772 [1]</td></tr>
</table>

<u>Do not credit responses which say that China does not need much aid because its GDP per capita and HDI are higher than others – this is true but IS reflected in the allocation of ODA – unless there is direct comparison with another country such as Sudan.</u>

Indicate marks awarded with ✓</td></tr>
</table>

Question			Answer	Mark	Guidance
	(b)		Possible reasons include: • unequal distribution of income (1): economic growth will raise total incomes but the additional income may be unequally distributed so that some people may see little or no increase in their individual incomes (1) with the result that affluence and poverty could coexist (1) • natural resource depletion (1): economic growth could lead to the depletion of natural resources reducing the stock of environmental capital available for future generations (1) making future generations worse off and making growth unsustainable (1) • capital intensive production (1); economic growth may be achieved through capital intensive production which provides few additional jobs (1) such that GDP rises with little impact on disposable income and, hence, well-being and quality of life (1)	6	The principle in marking this part of the question should be to award: One mark for each valid reason why economic growth may not raise the level of development Up to two marks for the reasoning offered (one mark if this is descriptive application of knowledge and understanding, two marks if this is analytical). Indicate each valid reason with in LHS margin Indicate explanation marks with in LHS margin Where a candidate gives no valid reasons or only identifies one valid reason with no development but shows knowledge and understanding of economic growth and/or development award up to two marks and annotate with

Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(c)		**Commentary** on **the extent to which** market-friendly reforms may promote development might include: • impact of ending price controls and subsidies might be to increase food prices leading to higher malnutrition • declining terms of trade in primary products if trade liberalisation results in a dash for cash crops • fiscal discipline may involve cuts in health and education spending worsening human development • the real problem may be market failure which requires public sector investment in infrastructure • also a lack of domestic savings constrains investment • a lack of entrepreneurial culture and missing markets • may not be as effective as other ways of promoting development, such as international aid	10	**Level 4** Responses will normally analyse how market friendly reforms may promote development and why they might not. An alternative Level 4 response is one which considers what might determine the success of market friendly reforms in promoting development. In Level 4 award marks as follows: • one <u>stated</u> point of evaluation = seven marks • two or more <u>stated</u> points of evaluation = eight marks • <u>developed</u> evaluation of one or more points MUST be awarded nine or ten marks	**Level 4** **[7 – 10]** For a commentary on the role of market-friendly reforms, such as those adopted by India in 1991, in promoting development. Annotate using L4 in LHS margin In Level 4 award marks as follows: • one <u>stated</u> point of evaluation = seven marks • two or more <u>stated</u> points of evaluation = eight marks • <u>developed</u> evaluation of one or more points MUST be awarded nine or ten marks Annotate developed commentary with

Question			Answer	Marks	Guidance: Content	Guidance: Levels of response
			Analysis of how market friendly reforms may promote development might include: • creating macroeconomic stability and low inflation, through fiscal discipline, which may create conditions favourable to private sector investment raising the long rate of economic growth • market liberalisation and privatisation would reduce government failure, improve productivity and allocative efficiencies and allow the profit motive to act as an incentive for private sector investment, including FDI, with the result that the long term rate of economic growth is increased • trade liberalisation exposes domestic firms to international competition and allows developing economies to earn export revenue, creating further allocative and dynamic efficiencies and higher investment • by increasing economic growth, market friendly reform should raise the level of GDP which should raise living standards for all through 'trickle down'		**Level 3** Responses are characterised by an analytical explanation of HOW market friendly reforms promote development Award six marks for developed analysis of one or more reform measures. Award five marks for weak analysis of two or more reform measures OR for reasonable analysis of one reform measure. Award four marks for weak analysis of any one reform measure. **Level 2** Responses are characterised by valid but generalised statements which are not underpinned by economic terms, concepts or theories (ie there is no attempt to establish CAUSE and EFFECT), eg market friendly reforms will raise the rate of economic growth but might cause poverty. **Level 1** Nothing of relevance other than knowledge of reform measures or of economic development, eg one market friendly reform would be to liberalise markets and privatise state-owned industries.	**Level 3** **[4 – 6]** For an analysis of the role of market-friendly reforms, such as those adopted by India in 1991, in promoting development. Annotate using in LHS margin **Level 2** **[2 – 3]** For an application of knowledge and understanding of market-friendly reforms but lacking economic analysis of how they might promote development. Annotate using in LHS margin **Level 1** **[1]** For knowledge and understanding of examples of market-friendly reforms or development only. Annotate using in LHS margin

Question			Answer	Marks	Guidance: Content	Guidance: Levels of response
3			Valid **judgement** might include: • threat to global stability is intensified by current global economic problems, including slowdown in world growth, eurozone crisis etc • threat to global economic stability is long term since there are other short term threats such as eurozone crisis • global imbalances are not the most important threat to global economic stability • extent of the threat depends on international policy co-ordination	20	**Level 4 Band 3** *Judgements should be based on well developed analytical discussion*. Stated judgements = 18 marks One or more developed judgements MUST be awarded 19 or 20 marks Responses which discuss whether global trade threatens global stability and whether BoP imbalances threaten global stability can access ALL marks in the mark scheme.	**Level 4 Band 3** **[18 – 20]** For a judgement on the extent to which global trade and balance of payments imbalances are a threat to global economic stability with appropriate analysis and context. Annotate using  in LHS margin
			Valid **discussion** includes ways in which threat to global economic stability can be reduced / minimised: • WTO may act to restrict protectionism • economic growth in countries with current account surpluses may cause appreciation of their real exchange rate • exchange rates could be realigned either by government intervention or by greater reliance on freely floating exchange rates • threat to global stability can be reduced by rebalancing savings and investment globally		**Level 4 Band 2** *The discussion should be based on strong supporting analysis.*	**Level 4 Band 2** **[15 – 17]** For a balanced discussion of the consequences of global trade and balance of payments imbalances and the threats posed to global economic stability, with appropriate context. Annotate using  in LHS margin
					Level 4 Band 1 *Responses in this Band will give reason(s) why trade and BoP imbalances might threaten global economic stability and reason(s) why they might not. There will be weak supporting analysis and little context beyond naming of countries (eg China and US)*	**Level 4 Band 1** **[11 – 14]** For a unbalanced discussion of the threat to global economic stability created by a global trade and balance of payments imbalances, with undeveloped analytical support and context. Annotate using  in LHS margin

Question			Answer	Marks	Guidance	
					Content	Levels of response
			Analysis of the threat to global stability: • trade wars – countries with trade and current account deficits are likely to engage in protectionism. This may lead to trade wars, lowering volume of world trade. Global ‘consumption’ is reduced, reducing global AD, growth and GDP • currency wars – countries with trade and current account deficits may devalue their currencies in order to raise X and lower M. If this leads to competitive devaluations world trade would be reduced which would reduce global AD and threaten stability of world growth. Exchange rate instability would itself reduce world trade and cross border investment • capital controls – there is likely to be an increase in global capital flows as a result of some countries running significant trade and current account surpluses. Some countries may impose capital controls to prevent their exchange rates rising, thereby limiting or reducing FDI • destabilising capital flows – capital outflows from countries with trade and current account surpluses runs the risk of creating unsustainable asset price bubbles / boom-bust		**Level 3** Responses which analyse the consequences for INDIVIDUAL ECONOMIES of trade and BoP imbalances should be awarded a maximum of eight marks. **Level 2** Responses in this Level will recognise that trade and currency wars are likely to result from global trade and BoP imbalances. However, there will be a **TOTAL** lack of economic analysis of the CONSEQUENCES for global economic stability but will. They are likely to simply paraphrase Extract 5. **Level 1** Economic stability at the global level is characterised by an avoidance of fluctuations in world economic growth, inflation, employment/unemployment and exchange rates. It is underpinned by consistent growth in world trade.	**Level 3** **[5 – 10]** For a one-sided analysis of the consequences of global trade and balance of payments imbalances for global economic stability. Annotate using in LHS margin **Level 2** **[3 – 4]** For an application of knowledge and understanding of the consequences of global trade and balance of payments imbalances for global economic stability. Annotate using in LHS margin **Level 1** **[1 – 2]** For knowledge and understanding of global trade and balance of payments imbalances and/or their CAUSES and/or global economic stability only. Annotate using in LHS margin

APPENDIX 1

In question 3, the following applies for quality of written communication:

Level 4 responses
Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.

Level 3 responses
Responses characterised by explicit use of the **economists' toolkit of concepts and theories** and through **explanation of cause and consequence**
Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.

Level 2 responses
Responses in this level will show a TOTAL lack of economic analysis and are characterised by generalised statements.
There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.

Level 1 responses
Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar.

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

Education and Learning
Telephone: 01223 553998
Facsimile: 01223 552627
Email: general.qualifications@ocr.org.uk

www.ocr.org.uk