OCR
RECOGNISING ACHIEVEMENT

GCE

Economics

Advanced GCE

Unit **F585:** The Global Economy

Mark Scheme for June 2013

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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

Annotations

Annotation	Meaning
?	Unclear
BOD	Benefit of Doubt
EE	Effective evaluation
ND	No Development
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
NAQ	Not answered question
SEEN	Noted but no credit given
TV	Too vague
✓	Tick
✓+	Development of point

Subject-specific Marking Instructions

Some questions may have a 'Level of Response' mark scheme.

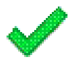
The following guidelines on the **quality of written communication** are embedded into the Levels of Response mark scheme used for question 3:

Level 4: Complex ideas have been expressed clearly and fluently using a style of writing which is 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: 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: Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.

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

Question			Answer	Marks	Guidance
1	(a)		**In order to gain membership of the eurozone, countries must achieve a high degree of fiscal and monetary convergence with existing members. Describe what is meant by fiscal and monetary convergence.** One mark for a definition of fiscal and monetary convergence: • The process by which economic conditions/indicators/ aspects in different economies become similar/ coincide/aligned/come together (one mark) Up to two marks for relevant examples of fiscal conditions: • annual government deficit/ratio of government deficit to GDP (one mark) • government debt/ratio of government debt to GDP (one mark) Up to two marks for relevant examples of monetary conditions: • rates of inflation (one mark) • (long term) interest rate (one mark) • exchange rate fluctuations/stability (one mark) Maximum four marks in total	4	Do **not** award definition mark for responses which say: • monetary and fiscal conditions must be **identical/same** • similarities in fiscal and monetary **polices** • countries adopt **common** fiscal and monetary policy • government spending and tax must be similar • economic cycle/employment/GDP must be similar In awarding marks for examples of monetary conditions accept details of the Maastricht Convergence Criteria: • inflation rate no higher than 1.5% of the average of the three existing members with lowest inflation/best performing economies • (long term) interest rate no higher than 2% of the average of the three existing members with lowest rates/best performing economies • membership of ERM II for two years and no devaluation over last two years Marks can be awarded for inflation rate and (long term) interest rates even if specific rates are incorrect In awarding marks for examples of fiscal conditions accept details of the Maastricht Convergence Criteria: • government debt to GDP ratio < 60% • budget deficit < 3% of GDP Use green ticks  for each mark awarded

Question			Answer	Marks	Guidance
	(b)		**Analyse *two* economic benefits which Estonia might be expected to gain from membership of the eurozone.** Reduced **transactions costs** (one mark): • the cost of changing currencies is eliminated when trading with other members of the eurozone (one mark) **or** this reduces the cost of trading with other members of the eurozone (one mark) **or** exports are cheaper (one mark) • this leads to a rightward shift of AS/AD **and** increases real GDP/economic growth/employment/improved BoP current account/reduced inflation (one mark) Elimination of **exchange rate risk** (one mark): • there is no requirement to 'hedge' against the risk that exchange rates may change (one mark) **or** this reduces the cost of trading with other members of the eurozone (one mark) **or** profit margins increase leading to more investment (one mark) • this leads to a rightward shift of AS/AD **and** increases real GDP/economic growth/employment/improved BoP current account/reduced inflation (one mark) Increased **price transparency** (one mark): • prices in the eurozone are easier for consumers and producers to compare (one mark) **or** this raises competition between producers in the eurozone (one mark), **or** this reduces costs for producers (one mark) • this leads to a rightward shift of AS/AD **and** increases real GDP/economic growth/employment/improved BoP current account/reduced inflation (one mark)	6	One mark for each benefit identified One mark for each description of the nature of the benefit One mark for the link to aggregate demand (injections) **or** aggregate supply **or** economic efficiency **and** any key macroeconomic indicator Use green ticks ✓ for each mark awarded Award one mark for the following economic benefits with up to two additional marks **if** linked to reduced transaction costs/reduced exchange rate risk/increased price transparency **and** analysed in terms of AD/AS key macroeconomic indicators: • higher FDI • increased trade/exports • lower barriers to trade • access to larger market/economies of scale • greater factor mobility/migration Also accept: • **more stable currency/reduced ER uncertainty** (one mark) if the euro is less vulnerable to speculative attack (one mark) **or** resulting in higher levels of exports/FDI (one mark), this leads to a rightward shift of AS/AD **and** increasing real GDP/economic growth/employment/improved BoP current account/reduced inflation (one mark) Allow microeconomic benefits only eg: • reduced transaction costs/reduced ER risk/greater price transparency (one mark), reduces average costs/lowers prices/increases competition (one mark) which increases productive/allocative efficiency (one mark) **or** consumer surplus (one mark) Do not accept the following: • trade creation • removal of tariffs • advantages of a fixed exchange rate • low inflation • support from EU funding/IMF bailouts

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Marks</th><th colspan="2">Guidance</th></tr>
<tr><th></th><th></th><th></th><th></th><th></th><th>Content</th><th>Levels of response</th></tr>
<tr><td></td><td>(c)</td><td></td><td>Comment on the likely economic benefits for Central and Eastern European (CEE) economies of high levels of Foreign Direct Investment (FDI).

Commentary on benefits could include:
• short term nature of the benefits – FDI raises GDP per capita so wages rates rise so MNCs move to lower cost economies in the LR so FDI is ‘footloose’/temporary/volatile
• depends on type of FDI – mergers and acquisitions generate little or no increase in GDP in the SR and may generate unemployment compared to genuinely ‘new’ investment
• little impact on employment - FDI may be capital intensive or MNCs bring own labour therefore limiting impact on tax revenue, income from employment, local multipliers, skills transfer
• profit may be repatriated - impact on BoP current account may be negative, so short term increase in financial inflow has to be balanced with long term worsening of current account, possible impact on exchange rate
• depletion in natural resources – any change in GDP, incomes etc is short lived and not sustainable so there is economic growth but not sustainable development
• pollution creates negative externalities – causes MSC > MPC resulting in allocative inefficiency, impact on ISEW / HDI
• limited fiscal benefits - due to small impact on employment/net tax benefits low because of inducements in the form of subsidy/low corporation tax receipts because of transfer pricing/tax avoidance etc
• specific context related to any CEE economy - benefits likely to be more significant for smaller economies/economies with poor infrastructure/low capital stock/economies with legacy of a planned economy resulting in constrained growth due to low savings and investment</td><td>10</td><td>In Level 4 award marks as follows:
• <u>one</u> stated point of evaluation = seven marks
• <u>two</u> or more stated points of evaluation = eight marks
• <u>one</u> developed comment = nine marks
• <u>two</u> developed comments or <u>one</u> comment with <u>two</u> points of development = ten marks

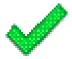
Do not accept:
• depends on size of FDI (unless as a % of GDP)
• FDI generates demand pull inflation (higher AD)

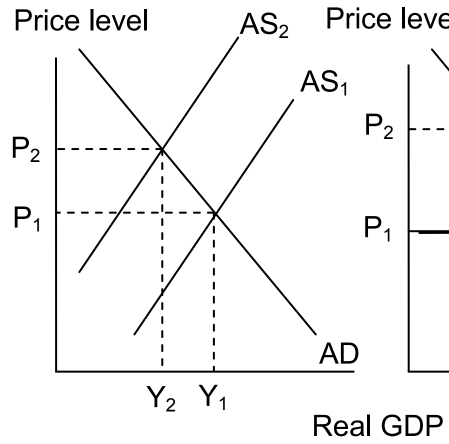
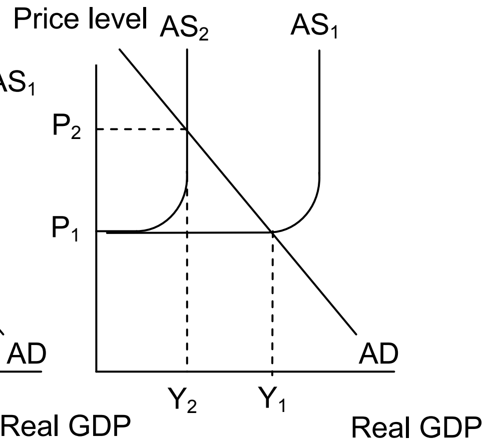
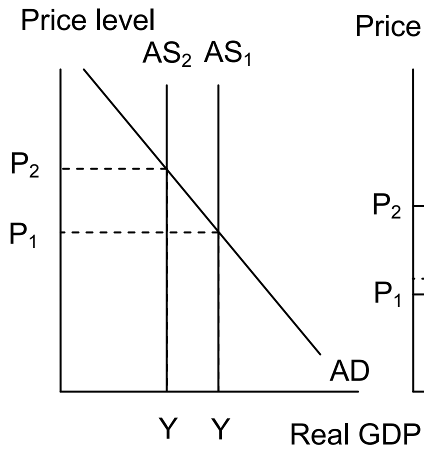
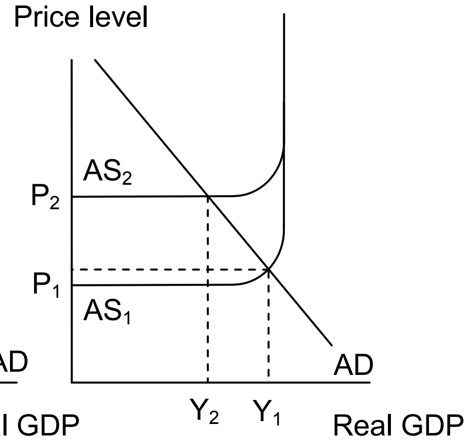
Accept other comments:
• impact on local firms
• over-reliance on FDI
• FDI may generate cost push inflation through increased wages</td><td>Level 4 (7–10 marks)
For a commentary on the likely economic benefits for CEE economies of high levels of foreign direct investment (FDI)

Annotate each stated point of commentary using L4 in the LHS margin

Annotate developed evaluation with</td></tr>
</table>

Question			Answer	Marks	Guidance	
					Content	**Levels of response**
			Analysis of benefits could include: • higher AD, raising real GDP/economic growth/employment/ improved BoP current account (exports) • increased injections into the circular flow, raising real GDP/ economic growth/employment/improved BoP current account (exports) • rightward shift in LRAS from increase in productive capacity (productivity), raising real GDP/economic growth/employment/ improved BoP current account (exports) • increase in development, resulting from higher employment/ incomes/living standards **or** increased tax revenue (income and corporation tax) allowing increased government spending on education and health **or** higher GDP per capita resulting in higher HDI • improvements in BoP financial account, resulting in ability to run current account deficit without experiencing currency depreciation **or** sustain higher rates of economic growth without BoP problems		**Level 3** If only one benefit is referred to candidates should be capped to the bottom of the relevant Level as follows: • commentary on one benefit = seven marks • analysis of one benefit = four marks • application of one benefit = two marks.	**Level 3 (4–6 marks)** For a one-sided analysis of the likely economic benefits or drawbacks for CEE economies of high levels of foreign direct investment (FDI) *Annotate using* L3 *in the LHS margin*
			Application of knowledge and understanding of benefits of high levels of FDI for CEE economies could include: • higher employment/reduction in unemployment • transfer of skills and knowledge • higher government tax revenue • inflows on financial account of BoP • increase in GDP/GDP per capita		**Level 2** Mention of increase in AD, AS **without** the link to real GDP or employment remains in Level 2	**Level 2 (2–3 marks)** For an application of knowledge and understanding of the likely economic benefits for CEE economies of high levels of foreign direct investment (FDI) *Annotate using* L2 *in the LHS margin*
			Knowledge and understanding of FDI could include: • investment by MNCs in physical capital abroad or purchase of foreign firms			**Level 1 (1 mark)** For knowledge and understanding of foreign direct investment (FDI) *Annotate using* L1 *in the LHS margin*

Question			Answer	Marks	Guidance
2	(a)		**Distinguish between economic growth and economic development.** **Up to two marks for definitions of the terms:** • economic growth is an increase in an economy's output in the short run and an increase in its productive potential in the long run (one mark); • economic development is the process of improving people's economic well-being and quality of life (one mark). **Up to two marks for distinctions between the two.** A simple recognition that economic growth may not lead to economic development can be awarded one mark: • economic growth does not guarantee economic development/economic growth is a necessary but not sufficient condition for economic development (one mark) • economic growth can take place without an increase in living standards (one mark) There must some elaboration of **why** for two marks: • economic growth might take place with little impact on employment (one mark) because of the use of capital-intensive methods of production (one mark); • economic growth might be achieved by methods that result in high levels of pollution (one mark) so the quality of life is not improved (one mark); • economic development is a broader concept than economic growth (one mark) involving changes in more than one economic or social indicator (one mark); • economic growth might occur with no change in the structure of the economy (one mark), with the balance between primary, secondary and tertiary sectors largely unchanged (one mark) • economic growth is only one aspect of economic development (one mark) plus exemplification of other aspects (one mark). • economic growth will raise a nation's total income but be unequally distributed (one mark) so that a large number of people see little or no increase in their individual income – affluence and poverty co-exist (one mark)	4	Accept less precise definitions or incomplete definitions of economic growth: • economic growth is an increase in real GDP (one mark) Accept alternative definitions of economic development including: • a change in the structure of the economy. Accept differences in measurement as a distinction for one mark only. Use green ticks  for each mark awarded Maximum of two marks for definitions of the two concepts

Question			Answer	Marks	Guidance
	(b)		**With the aid of a diagram, analyse one likely reason for the changes in Estonia's price level and real GDP in 2008.** **Award diagram marks as follows:** • one mark for original AD and AS curves • one mark for original price level and real GDP • one mark for leftward shift of AS curve • one mark for new price level and real GDP. *Diagram marks can only be awarded if axes are correctly labelled (must be macroeconomic labels and **not** microeconomic)* **Award up to a further two marks for analysis of one likely reason for the shift of the AS curve which might include:** • higher commodity/raw material prices raise costs of production (one mark) shifting AS to the left resulting in an increase in the price level and a reduction in real GDP (one mark) • reductions in productivity raise production costs (one mark) shifting AS to the left resulting in an increase in the price level and a reduction in real GDP (one mark) • reduction in labour force participation rates reduce productive capacity of the economy (one mark) shifting AS to the left resulting in an increase in the price level and a reduction in real GDP (one mark) • reduction in FDI reduces economy's productive capacity (one mark) shifting AS to the left resulting in an increase in the price level and a reduction in real GDP (one mark) • rise in indirect taxes caused an increase in costs (one mark) shifting AS to the left resulting in an increase in the price level and a reduction in real GDP (one mark) *NB there is no need for candidates to distinguish between SRAS and LRAS* Use green ticks ✔ for each mark awarded	6	 **Acceptable labels:** • price level (PL), general price level (GPL), average price level (APL), CPI, RPI • real GDP (RGDP), real national output (RNO), real national income (RNI)

Question			Answer	Marks	Guidance	
					Content	**Levels of response**
	(c)		**Comment on the importance of international trade as a cause of Estonia's economic growth between 2000 and 2010.** **Commentary on importance of international trade could include:** • **depends on other components of AD** – economic growth may have been caused by higher consumption/investment/ government spending • **depends on PED of exports** – reduction in price of exports as a result of removal of tariffs on trade may not have led to a large increase in the volume of exports if PED is price inelastic • **depends on size of (X – M) in relation overall AD** – if income tax falls, the rise in disposable income would increase consumption which may be a larger percentage of GDP • **high levels of FDI attracted by low rates of corporation tax** – the favourable economic environment could have raised AD in the short run and increased productive capacity and productivity in the long run leading to a rightward shift in LRAS • **changes in the age structure of the population** – increase the labour force participation rate/economically active population this increased productive potential, resulting in a rightward shift of LRAS • **improvements in skills/human capital/productivity** – these increased productive potential, resulting in a rightward shift of LRAS • **increases in the capital stock** – this increased productive potential, resulting in a rightward shift of LRAS • **competitive commercial banking sector** – this would have helped channel funds for investment, increasing AD and LRAS	10	In Level 4 award marks as follows: • <u>one</u> **stated** point of evaluation = seven marks • <u>two</u> or more **stated** points of evaluation = eight marks • <u>one</u> **developed** comment = nine marks • <u>two</u> **developed** comments or <u>one</u> comment with <u>two</u> points of development = ten marks Do not accept as commentary: • higher imports/net trade (X – M) may reduce growth • global financial/economic crisis reduced demand for X reducing growth Accept other comments: • depends on having made the transition to a market economy, which raised competitiveness • the effect of the global financial/economic crisis on consumer and business confidence in Estonia, resulting in a reduction in consumption and investment reducing AD • geographic position	**Level 4 (7–10 marks)** For a commentary on the importance of international trade was as a cause of Estonia's economic growth 2000–10 *Annotate each **stated** point of commentary using* L4 *in the LHS margin* *Annotate **developed** evaluation with*

Question			Answer	Marks	Guidance	
					Content	**Levels of response**
			Analysis of importance of international trade could include: • joining the EU reduced tariffs on Estonia's exports, reducing price of exports raising exports demand and AD, raising real GDP/economic growth • trade may increase Estonia's exports raising AD, raising real GDP/economic growth • in the long run greater efficiency in resource allocation, technology transfers from greater openness, EoS from access to larger marker may lead to increases in LRAS, raising real GDP/economic growth • the global financial/economic crisis could have reduced Estonia's exports reducing AD, leading to lower GDP/economic growth • net trade (X – M) may explain Estonia's negative economic growth 2008–09 if there has been an increase in the mpm causing imports to rise reducing AD, leading to lower GDP/ economic growth • international trade exposes the Estonian economy to international competition, reducing costs and shifting AS right leading to an increase in GDP/economic growth		**Level 3** *NOTE: International trade might explain* ***both*** *positive* ***and*** *negative economic growth so credit analysis of* ***both*** *in L3 and* ***not*** *L4* Analytical responses are characterised by use of AD/AS analysis **explicitly linked** to a change in real GDP/economic growth – this need not be in the form of a diagram	**Level 3 (4–6 marks)** For a one-sided analysis of the importance of international trade or other factors as a cause of Estonia's economic growth 2000–10 *Annotate using* L3 *in the LHS margin*
			Application of knowledge and understanding of importance of international trade from Extract 3 could include: • Estonia is an open economy and growth is based largely on trade and FDI • EU integration has boosted trade • recovery from recession based on strong growth in exports. **Knowledge of international trade and / or economic growth could include:** • economic growth is an increase in an economy's output in the short run and an increase in its productive potential in the long run • international trade is the exchange of goods and services across national boundaries		**Level 2** Mention of increase in AD, AS **without** the link to real GDP or employment remains in Level 2	**Level 2 (2–3 marks)** For an application of knowledge and understanding of the importance of international trade was as a cause of Estonia's economic growth 2000–10 *Annotate using* L2 *in the LHS margin* **Level 1 (1 mark)** For knowledge and understanding of international trade and / or economic growth *Annotate using* L1 *in the LHS margin*

Question			Answer	Marks	Guidance: Content	Guidance: Levels of response
3			**Discuss the view that future high rates of economic growth <u>alone</u> may enable Estonia to achieve sustainable development.** **Level 4, Band 3 responses** High rate of economic growth alone will not enable Estonia to achieve sustainable development unless accompanied by: • supply side policies to increase LRAS, including investment in infrastructure • progressive tax system • policies to internalise negative externalities • taxation of non-renewable resource to slow resource depletion	20	**Level 4, Band 3** Responses in this Band must be supported by strong analysis of reasons why high rates of economic growth may <u>**and**</u> may **not** allow Estonia to achieve sustainable development	**Level 4 Band 3 (18–20 marks)** For an explicit consideration of what else might be necessary to ensure that high rates of economic growth will enable Estonia to achieve sustainable development *Annotate using* EE *in the LHS margin*
			Level 4, Band 2 responses High rates of economic growth may not enable Estonia to achieve sustainable development because: • growth may be inflationary if generated by increases in AD rather than LRAS • growth may be unevenly distributed due to the geographic concentration of economic activity/lack of infrastructure/lack of progressive tax system • there may be negative externalities resulting from MSC > MPC so there is over-production/consumption • there may be resource depletion which reduces ability of future generations to benefit from growth • improvements in education, health and social welfare will not be guaranteed because education, health and social welfare have significant positive externalities and will be under-provided is left to the market		**Level 4, Band 2** Responses in this Band will be characterised by strong supporting analysis of reasons why high rates of economic growth may <u>**and**</u> may **not** allow Estonia to achieve sustainable development	**Level 4 Band 2 (15–17 marks)** For a well-developed discussion of the view that future high rates of economic growth may enable Estonia to achieve sustainable development. *Annotate using* *in the LHS margin*
			Level 4, Band 1 responses High rates of economic growth may not enable Estonia to achieve sustainable development because: • growth may be inflationary • growth may be unevenly distributed • there may be negative externalities and / or resource depletion • improvements in education, health and social welfare will not be guaranteed		**Level 4, Band 1** Responses characterised by weak supporting analysis but may include policies, if so – 11 marks: basic two sides 12 marks: policy named 13 marks: policy described 14 marks: policy analysed	**Level 4 Band 1 (11–14 marks)** For a basic discussion of the view that future high rates of economic growth may enable Estonia to achieve sustainable development. *Annotate using* L4 *in the LHS margin*

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<tr><td></td><td></td><td></td><td>Analysis must explicitly show how economic growth enables Estonia to achieve sustainable development

High rates of economic growth will increase real GDP
• this will increase GDP per capita, employment and disposable incomes and reduce unemployment
• the result will be that higher incomes will make basic life-sustaining goods and services more affordable and lift people out of poverty
• this helps to achieve sustainable development eg a ‘coherent society’ and ‘growth in welfare’

High rates of economic growth raise profits
• firms are able to afford clean technology to reduce environmental pollution
– this reduces the negative externalities of production
– there is less divergence between MSC and MPC
– this helps to achieve more sustainable development as the environmental capital left for future generations is not depleted/ degraded
– this helps to achieve sustainable development eg ‘ecological balance’
• firms are able to increase investment in human and physical capital
– this raises productive capacity, shifting LRAS to the right
– higher productive capacity allows future growth in AD
– this raises the ability of future generations to meet their own needs through consumption of goods and services (sustainable development)

Higher rates of economic growth produce a ‘fiscal dividend’
• high growth rates generate higher output, income and expenditure
• there will be an increase in receipts from income tax, expenditure taxes (VAT) and corporation tax
• this will allow the government to increase expenditure on education, health and social welfare such as benefits and pensions
• this will ensure that the benefits of growth are more widely shared, reducing poverty and inequality, increasing life expectancy and widening economic opportunities
• this helps to achieve sustainable development eg a ‘coherent society’ and ‘growth in welfare’</td><td></td><td>Level 3
For 5–7 marks there should be analysis of how high rates of economic growth enables Estonia to achieve one aspect of sustainable development

For 8–10 marks there should be analysis of how high rates of economic growth enables Estonia to achieve two or more aspects of sustainable development

Alternatively, responses in Level 3 may analyse why high rates of economic growth may not enable Estonia to achieve sustainable development.

In this case:
• For 5–7 marks there should be analysis of one reason why high rates of economic growth may not enable Estonia to achieve sustainable development
• For 8–10 marks there should be analysis of two or more reasons</td><td>Level 3 (5–10 marks)
For a one-sided analysis of the view that future high rates of economic growth alone may enable Estonia to achieve sustainable development.

Annotate using L3 in the LHS margin</td></tr>
</table>

Question			Answer	Marks	Guidance: Content	Guidance: Levels of response
			Application of knowledge and understanding that high rates of economic growth could enable Estonia to achieve sustainable development might include: • higher GDP • investment in human and physical capital • investment in education, health and social welfare • investment in new technology to reduce environmental damage *Alternatively, responses in Level 2 may focus solely on the material in Extract 5 which suggests that despite high economic growth in the past Estonia lags behind other EU economies in terms of indicators of sustainable development, for example:* • *poverty and income inequality* • *healthy life years* • *share of electricity produced from renewable sources*		**Level 2** For four marks candidates will make ***two or more*** of the points exemplified For three marks candidates will make ***one*** of the points exemplified	**Level 2 (3–4 marks)** For an application of knowledge and understanding of the view that future high rates of economic growth alone may enable Estonia to achieve sustainable development. *Responses in this Level will show a **TOTAL** lack of economic analysis of the relationship between economic growth and sustainability but will male some valid points.* Annotate using L2 in the LHS margin
			Knowledge and understanding of <u>sustainable development</u> might include: • development that meets the needs of the current generation without compromising the ability of future generations to meet their own needs • development that improves living standards and the quality of people's lives, both now and in the future • development that balances the economic, social and environmental objectives of growth **Knowledge and understanding of <u>economic growth</u> might include:** • economic growth is an increase in an economy's output/increase in AD in the short run • economic growth is an increase in productive potential/increase in LRAS in the long run		**Level 1** For two marks candidates will show knowledge and understanding of sustainable development **and** economic growth For one mark candidates will show knowledge and understanding of sustainable development **or** economic growth	**Level 1 (1–2 marks)** For knowledge and understanding of sustainable development or economic growth Annotate using L1 in the LHS margin

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