



Economics Questions By Topic:

Balance of Payments, Exchange Rates & International Competitiveness (4.1.7, 4.1.8, 4.1.9) Mark Scheme

A-Level Edexcel Theme 4

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SECTION A

Question Number	Answer	Mark
1(a)	<p>The only correct answer is B</p> <p><i>A is not correct because the pound has fallen in value</i></p> <p><i>C is not correct because the pound-dollar is a floating exchange rate system</i></p> <p><i>D is not correct because the pound-dollar is a floating exchange rate system</i></p>	(1)

Question Number	Answer	Mark
1(b)	<p style="text-align: center;">Knowledge 2, Application 1, Analysis 1</p> <p>Knowledge 2 marks e.g.</p> <ul style="list-style-type: none"> • UK current account would improve/reduction in deficit (1) • Increase in exports (1) • Decrease in imports (1) <p>Application 1 mark e.g.</p> <ul style="list-style-type: none"> • Accurate reference to data between 1st January 2018 to 1st January 2019 <p>Analysis 1 mark for linked development e.g.</p> <ul style="list-style-type: none"> • UK exports become more competitive • UK exports appear cheaper to US consumers <p>Own answer rule</p> <p>Allow alternative responses referring to Marshall-Lerner Condition and/or J-Curve</p>	(4)

Question Number	Answer	Mark
2(a)	<p style="text-align: center;">Knowledge 1, Analysis 1</p> <p>Knowledge/understanding (1): Identification of relevant reason, e.g.</p> <ul style="list-style-type: none"> • Faster economic growth in Estonia • Lower unemployment in Estonia • Lower labour productivity in Estonia • Increase in the national minimum wage • Power of trade unions • Shortage of labour <p>Analysis: 1 mark for linked development, e.g.</p> <ul style="list-style-type: none"> • Workers able to negotiate higher pay due to low unemployment 	(2)

Question Number	Answer	Mark
2(b)	<p style="text-align: center;">Knowledge 1, Analysis 1</p> <p>Knowledge/understanding (1): Identification of reduced competitiveness for Estonia</p> <p>Analysis: 1 mark for linked development, e.g. With rapidly rising labour costs Estonia's exports may become more expensive than those of other countries such as France</p>	(2)

Question Number	Answer	Mark
3(a)	<p style="text-align: center;">Application 2</p> <p>Application: 1 mark for correct appropriate calculation e.g.</p> $\% \text{ change} = \frac{\text{change}}{\text{original}} \times 100$ $= \frac{600}{200} \times 100 \text{ (1)}$ <p>Answer = 300% or 300</p> <p>Award 2 marks for correct answer</p>	(2)

Question Number	Answer	Mark
3(b)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding:</p> <p>1 mark for partially correct explanation e.g.</p> <ul style="list-style-type: none"> • Referring to exports – imports • Exports of goods and services minus imports of goods and services <p>2 marks for correct explanation e.g.</p> <ul style="list-style-type: none"> • Measures total value of exports – total value of imports • Inflows minus outflows in money terms • Reference to four parts of the current account <ul style="list-style-type: none"> ○ Trade in goods ○ Trade in services ○ Primary income ○ Secondary income 	(2)

Question Number	Answer	Mark
3(c)	<p>The only correct answer is C</p> <p><i>A is not correct because the deficit increased</i></p> <p><i>B is not correct because there hasn't been a surplus</i></p> <p><i>D is not correct because there hasn't been a surplus</i></p>	(1)

END OF SECTION C

SECTION B

Question Number	Answer	Mark
4	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p>Knowledge/understanding: 1+1 marks for identification of likely impacts of a fall in the value of sterling, e.g.</p> <ul style="list-style-type: none"> • Import inflation change in cost of production for firms • Export/demand pull inflation • Changes in FDI • A change in unemployment • Economic growth • There will be an impact in the current account <p>Analysis: 2 marks for linked explanation of these impacts (1+1 or 2 marks for one well developed explanation), e.g.</p> <ul style="list-style-type: none"> • Fall in the value of sterling makes UK goods appear cheaper to consumers in foreign countries when converted into their own currency (1) • Fall in the value of sterling makes UK imports more expensive to UK consumers when converted into pounds (1) <p>Application: (1+1) or 2 marks for reference to figure 1 and/or extract A, e.g.</p> <ul style="list-style-type: none"> • Pound fell from around \$1.50 (1) rapidly to \$1.30 (1) after the Brexit vote • Pound fell further to a low over the period shown of just over \$1.20 (1) in October/November 2016 (1) • 'pound's post-Brexit referendum depreciation' (1) • Pound fell by approximately 12% after the vote to leave the EU (2) • Trend of depreciating pound (1) <p>Evaluation: 2 marks for evaluation (1+1 or 2 marks for one well developed explanation)</p> <ul style="list-style-type: none"> • Short-term impact - both figure 1 and extract A show how pound has risen towards mid/late 2017 • Price elasticity of demand for UK imports/exports • J-curve effect • Marshall-Lerner condition <p>NB If the answer relates to a small rise in exchange rates e.g. since March 2017 then full marks can be awarded for a rise in exchange rate</p>	(8)

Question Number	Indicative content	Mark
5	<p>Knowledge 2, Application 2, Analysis 2,</p> <p>Likely impacts on the current accounts include:</p> <ul style="list-style-type: none"> • Reduced demand for Eurozone exports as they appear more expensive when converted into other currencies. • Increased demand for Eurozone imports as they appear cheaper when converted into other currencies. 	(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
5 continued	<p style="text-align: center;">Evaluation 4</p> <ul style="list-style-type: none"> • Euro may not have appreciated against all currencies. • Euro may have appreciated against currencies of countries who do not receive many Eurozone exports. • Magnitude discussion • May change in the long term • Marshall-Lerner condition • J-curve effects • Non-price factors may be more important 	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Answer	Mark
6 (a)	<p>Knowledge and analysis (4 marks): Factors include (2 + 2 or 1 + 3 marks) of which 1 mark for identification of 1 factor:</p> <p>Possible causes include:</p> <ul style="list-style-type: none"> • Large current account deficit – link to fall in price of cocoa • Loss of confidence associated with high budget deficit; slow pace of economic reform • High rate of inflation • Ghana’s economy growing at a much faster rate than other SSA economies • Lower rate of economic growth compared with end of 2011 • USA economy performing better than Ghana’s • Change in relative interest rates e.g. in USA increasing relative to Ghana’s • Problems in financing the financial account <p>Application: (2 marks) Two specific data references from the information provided e.g.</p> <ul style="list-style-type: none"> • Fall in rate of economic growth from 15% in 2011 to 7.5% in 2013 (Figure 1) (1 + 1) • Increasing current account deficit: 12.3% in 2013 (Figure 2) (1) • 40% fall in the value of the cedi (Extract 1 or similar from Figure 4) (1) <p><i>Evaluation (up to 4 marks: 2 + 2; 3 + 1):</i></p> <ul style="list-style-type: none"> • <i>Current account deficit might be insignificant if it was financed easily by inflows into the capital and financial account</i> • <i>Growth rate still higher than average for SSA</i> • <i>Other factors might have been more significant e.g. lower commodity prices; fall in FDI</i> • <i>Prioritisation of factors identified with justification</i> 	(10)

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of one factor; 2 for application
Level 2	4-6	1 mark for identification of one factor; 2 for application 3 for analysis.
Level 3	7-10	1 mark for identification of one factor; 2 for application; 3 for analysis; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
*6 (b)	<p>Knowledge and analysis (5 marks): Possible effects include: (up to 5 marks; maximum 2 for identification only) and <i>5 marks for evaluation:</i></p> <ul style="list-style-type: none"> • Improvement in the current account of the balance of payments <i>But: will only be true if the Marshall-Lerner condition is met.</i> <i>Also reference to the J curve effect</i> • Reduction in unemployment, associated with an increase in competitiveness of its goods and services <i>But: inflationary pressures may limit the increase in competitiveness (or may be only a short term benefit)</i> • Increase in the rate of economic growth (export-led) <i>But: other factors might reduce aggregate demand e.g. decreased public expenditure and higher taxes to reduce the fiscal deficit</i> • Loss of confidence in the economy resulting in a fall in foreign direct investment and domestic investment <i>But: increased competitiveness might stimulate investment. Also FDI may increase because less \$ needed to buy the same amount of cedi</i> • Impact on Ghana's rate of inflation – may be imported inflation <i>but falling oil, gas prices might offset this</i> • Fall in Ghana's terms of trade <p>Application (2 marks): answer must be in the context of Ghana; generic answers should be awarded a maximum of 5/7 for KAA</p> <p><i>Evaluation (5 Marks) - points in italics above: 2 + 3; or 2 + 2 + 1.</i></p>	(12)

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 issues;
Level 2	3-7	2 marks for identification of 2 issues; 2 for application as indicated above; 3 for analysis of at least 2 issues
Level 3	8-12	2 marks for identification of 2 issues; 2 for application as indicated above; 3 for analysis of at least 2 issues; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question Number	Answer:	Mark
7*	<p>Effects include (up to 5 marks; maximum 2 for identification only) and <i>5 marks for evaluation</i>:</p> <ul style="list-style-type: none"> • Improvement in the current account of the balance of payments because exports would become more competitive and imports less competitive <i>But: J curve effect; Marshall-Lerner condition must hold (2 evaluative points)</i> • Increase in net exports would cause an increase in economic growth and employment <i>But: depends on the value of the multiplier; danger of imported inflation so quickly eliminating the competitive advantage</i> • Imported inflation: higher cost of imported raw materials and finished goods <i>But: magnitude depends on the extent to which these higher costs are passed on to consumers</i> • Increase in debt burden for government and for banks with external debts <i>But: inflation would erode the real value of the debt</i> • Policy Implication: Increase in interest rates to reverse the depreciation/prevent further fall in the rupee <i>But: this would hinder economic growth</i> <p>Application (1+1 marks): 2 references from information provided or from own knowledge e.g. actual fall in the value of the rupee from 52 (1) to 63 (1) to \$1 or 20% (1); specific references from the information (1+1)</p>	(12)

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 implications;
Level 2	3-7	2 marks for identification of 2 implications; 2 for application as indicated above; 3 for analysis of 2 or more implications
Level 3	8-12	2 marks for identification of 2 implications; 2 for application as indicated above; 3 for analysis of 2 or more implications; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question Number	Answer	Mark
8	<ul style="list-style-type: none"> • Understanding of external debt relief: e.g. cancellation or partial cancellation of debt by developed economies/owed to other countries (1 mark); • Impact on Balance of Payments: reduction in interest outflows on 'investment income' section of current account (1 mark) • Leading to improvement in current account (1 mark) • Credit to 'capital transfers' on capital account (1mark) • Leading to improvement in capital and financial account (1 mark) • Example of one country from Figure 1 with data reference (1 + 1 marks) 	(5)

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge - see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for application -see above

Question Number	Answer	Mark
9(a)	<p>Factors include: (2 marks for identification; 4 for analysis i.e. 2 x 2 marks)</p> <ul style="list-style-type: none"> • Wealth of natural resources • High interest rates • Foreign direct investment • QE in other countries has caused their currencies to depreciate against the <i>real</i> • Significant growth in manufacturing and services suggesting that exports have increased • Speculative reasons • Brazil as a safe haven <p>2 marks for 2 data references from Extract 1 e.g. 40% increase in value of <i>real</i>; in 2011, Brazil attracted \$50.5bn in FDI; privatisations in 1990s attracted FDI from China and US.</p> <p>2 marks for identification; 2 for application and 4 for analysis (This should include transmission mechanisms)</p>	8

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 reasons
Level 2	3-4	2 marks for identification of 2 reasons; 2 for application as indicated above
Level 3	5-8	2 marks for identification of 2 reasons; 2 for application as indicated above and 4 for analysis

Question Number	Answer	Mark
9(b)	<p>Understanding of the impact of an appreciation of the <i>real</i>: Higher price (in foreign currency) of Brazil's exports; Lower price of imports into Brazil (in domestic currency). (1 mark)</p> <p>Data references: e.g. 40% increase in value of the <i>real</i> or comment on magnitude of rise; dependence on primary products such as sugarcane, coffee and tropical fruit. (2 marks for 2 data references)</p> <p>Possible effects: (Up to 3 marks for any analysis of one point or 2 + 1 marks):</p> <ul style="list-style-type: none"> • Lower import prices for intermediate goods, raw materials reduces price level and improves competitiveness in the long-run • Loss of competitiveness of Brazil's goods and services (resulting from an increase in its terms of trade): could lead to a deterioration in its current account balance (depends on whether or not Marshall-Lerner condition is fulfilled) • <i>But: there would be a reduction in the cost of imported raw materials</i> • If commodity boom ends, then Brazil would suffer a fall in the value of its exports so causing a deterioration of its current account. <i>But this depends on the price elasticity of demand for its exports of commodities.</i> • Less attractive for FDI which would cause a fall in inward flows into the financial account of the Balance of Payments <i>But: if price of commodities continues to remain high, then Brazil will still be attractive to TNCs as living standards will continue to increase</i> • Brazil's wealthy individuals might increase investments abroad (outward flow from the financial account) but would receive interest, profits and dividends in the medium term (inward flow to the current account) • Impact on capital and financial accounts: e.g. could lead to increase in overseas investment. <p><i>Marks for evaluation (points in italics above): 2 + 2 or 3 + 1.</i></p>	10

Level	Mark	Descriptor
Level 1	1-3	1 mark for understanding of appreciation of the <i>real</i> ; 2 for application (reference to 2 relevant examples)
Level 2	4-6	1 mark for understanding of appreciation of the <i>real</i> ; 2 for application (reference to 2 relevant examples); 3 for analysis.
Level 3	7-10	1 mark for understanding of appreciation of the <i>real</i> ; 2 for application (reference to 2 relevant examples); 3 for analysis; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question No.	Answer	Marks
10	<p>Policies include: (up to 5 marks; maximum 2 for identification only):</p> <ul style="list-style-type: none"> • Labour market reforms e.g. making easier to hire and fire workers; increasing retirement age; reducing minimum wages; reducing unemployment benefits <i>But: danger of worker exploitation; increased inequality; some countries like the UK are already very flexible</i> • Measures to increase productivity e.g. training, education; investment allowances <i>But: costs are difficult to finance when budget deficits have to be cut</i> • Measures to increase competitiveness in the product market e.g. further privatisations <i>But: most countries have exhausted potential industries to be privatised</i> • Also: measures to increase incentives for FDI e.g. decrease corporation tax <i>But: if confidence is low foreign investment is unlikely to take place</i> • Allow answers suggesting that these countries should leave the euro so allowing currency depreciation <i>But could lead to cost push inflation reducing gain in competitiveness</i> <p><i>Marks for evaluation (points in italics above): (2 + 3; or 3 + 2; or 2 + 2 + 1)</i></p> <p>Application e.g. reference to 2 relevant examples or references from Figure 4 (2marks)</p> <p>(Synoptic element: Supply side policies and concept of productivity from unit 2; wage determination from unit 1. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)</p>	(12)

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 policies;
Level 2	3-7	2 marks for identification of 2 policies; 2 for application (e.g. reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 policies
Level 3	8-12	2 marks for identification of 2 policies; 2 for application (e.g. reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 policies; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question Number	Answer	Mark
11(a)	With currency undervalued, it implies that <ul style="list-style-type: none"> • Price of Chinese exports is relatively low • Impact on US inflation • Price of imports to China is relatively high making Chinese goods more competitive than would be the case if the exchange rate appreciated • Implies US current account balance will be worse • Higher unemployment in US • Lower rate of economic growth in US 	(8)
Level	Mark	Descriptor
Level 1	1	2 marks for identification of two points
Level 2	2-5	2 marks for identification of 2 points; 2 for application (e.g. one data reference to value of 6.83 renminbi to the \$ or reference from extract)
Level 3	6-8	2 marks for identification of 2 issues; 2 for application (e.g. one data reference to value of 6.83 renminbi to the \$ or reference from extract) and 4 for analysis of at least two issues (2 + 2 or 3 + 1)

Question Number	Answer	Mark
11(b)	<p>Key issues:</p> <ul style="list-style-type: none"> Higher US savings implies lower consumer expenditure Therefore, lower amount spent on Chinese imports - dependent on marginal propensity to import (evaluative comment) If exports remain steady then US trade deficit should fall Analysis considering link between savings and investment <p>Evaluative points could include:</p> <ul style="list-style-type: none"> Impact will depend on marginal propensity to import Short run and long run effects - lower demand for Chinese goods might imply lower demand for US goods in the long term Higher savings would not necessarily be translated into higher investment - necessary for US to compete more effectively with China and other countries US trade deficit might be caused by fundamental structural weakness of US economy e.g. lack of competitiveness of US goods If manufacturing base in China continues to expand then higher savings in US may have little impact Much depends on exchange rate movements Effect of QE is to cause depreciation of the \$ - currency manipulation Lower US inflation due to cheaper imports (Synoptic element: concept of current account of the balance of payments from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)) 	(10)
Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (comment on size of US trade deficit or low savings ratio)
Level 2	4-6	1 mark for identification of 1 reason; 2 for application(comment on size of US trade deficit or low savings ratio) ; 3 for analysis of 2 issues
Level 3	7-10	1 mark for identification of 1 reason; 2 for application (comment on size of US trade deficit or low savings ratio); 3 for analysis of 2 issues; 4 marks for any two evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
11(c)	<p>Candidates may approach this question in a variety of ways: e.g. a general approach...</p> <ul style="list-style-type: none"> • Danger of increased use of protectionist measures by countries with trade deficits • Financial inflows from surplus countries to western capital markets led to asset price bubbles and to financial institutions taking excessive risks (could count as 2 points) • Financial crisis led to sharp downturn in economies of both deficit and surplus countries • Surplus countries were heavily reliant on export-led growth which resulted in deep falls in GDPs of those countries <p><i>Evaluative comments might include:</i></p> <ul style="list-style-type: none"> • <i>WTO rules might prevent protectionism</i> • <i>World trade declined only for a relatively short period of time</i> • <i>Trade imbalances may be offset by imbalances in other parts of B/P accounts</i> <p>In the case of trade deficits analysis could include:</p> <ul style="list-style-type: none"> • Might indicate a lack of competitiveness • Might imply rising unemployment in manufacturing industries • The trade in goods deficit might be difficult to finance • In turn, a trade deficit might cause a depreciation in the exchange rate, with possible inflationary consequences <p><i>Evaluative points include:</i></p> <ul style="list-style-type: none"> • <i>Trade imbalance may be offset by surplus on the services balance and/or in financial account</i> • <i>It may be easy to finance the deficit e.g. through inflows into the financial account</i> • <i>May be desirable if trade imbalances are caused by imports of capital goods which would increase the country's productive capacity in the long run</i> • <i>Exchange rate might change to bring about correction of B/P deficit/surplus</i> • <i>Might be a short term problem only</i> <p>In the case of trade surpluses analysis could include:</p> <ul style="list-style-type: none"> • Implies other countries have deficits which might result in the adoption of protectionist measures by these countries <p>(Synoptic element: balance of payments (unit 2); use of the Economist's tool-kit in analysis and evaluation and in approach to question))</p>	

		<p>Quality of written communication (QWC) is assessed on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economics vocabulary appropriately • To use grammar, spelling and punctuation appropriately 	(12)
Level	Mark	Descriptor	
Level 1	1-3	2 marks for identifying 2 issues;	
Level 2	4-7	2 marks for identifying 2 issues; 2 for application e.g. 2 examples of countries with surpluses and/or deficits; 3 for analysis	
Level 3	8-12	2 marks for identifying 2 issues; 2 for application e.g. 2 examples of countries with surpluses and/or deficits; 3 for analysis for analysis; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)	

Question Number	Answer	Mark
12	<p>Understanding of trade weighted index: value of sterling in relation to a weighted basket of other currencies.</p> <p>Implications include:</p> <ul style="list-style-type: none"> • Increased price competitiveness of UK goods (fall in export prices, rise in import prices) • Improvement in current account of balance of payments • Will enable UK to benefit from upturn in world economy so moving out of recession quickly • Will help to prevent deflation because import prices are rising <p><i>Evaluative points could include:</i></p> <ul style="list-style-type: none"> • <i>Collapse in export market because of world recession so no immediate improvement in current account (J curve effect)</i> • <i>Current account will not improve if Marshall-Lerner condition is not met</i> • <i>Inflation could become a problem given the size of the fall in the value of sterling</i> • <i>UK exporters may not be able to respond to increased demand</i> • <i>Deflation could still result if world recession</i> <p>(Synoptic element: Elasticities (unit 1); Balance of payments (unit 2); use of the Economist's tool-kit in analysis and evaluation and in approach to question))</p> <p>Quality of written communication (QWC) is assessed on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument • To organise information clearly and coherently • To use economics vocabulary appropriately <p>To use grammar, spelling and punctuation appropriately</p>	(15)
Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 effects or for understanding of trade weighted index ; 2 for application (reference to specific countries/data e.g. exports from UK fell less than from Japan (1), with actual falls(1))
Level 2	5-9	2 marks for identification of 2 effects or for understanding of trade weighted index ; 2 for application (reference to specific countries/data e.g. exports from UK fell less than from Japan (1), with actual falls(1)); 5 for analysis of effects
Level 3	10-15	2 marks for identification of 2 effects or for understanding of trade weighted index ; 2 for application(reference to specific countries/data) ; 5 for analysis of effects; 6 marks for up to 3 evaluative points

END OF SECTION B

SECTION C

Question Number	Indicative content	Mark
13	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 8, Evaluation 9</p> <p>Likely impacts include:</p> <ul style="list-style-type: none"> • UK exports are now cheaper when priced in dollars, so should mean an improvement in UK price competitiveness leading to increased demand for UK exports and AD <i>However depends on quality of UK exports or if US firms/consumers demand what we are producing</i> • UK imports from the US are now more expensive so likely to lead to less demand for US imports which improves net trade and therefore AD <i>However, depends if there are domestic alternatives to the US imports. If not prices will simply rise</i> • Imported inflation: as prices of imports rise, particularly of necessities, then UK inflation will increase. • Lower exchange rate might attract inward investment with multiplier effects on AD • Other factors which cause growth might be considered as more than one factor • Diagrammatic analysis may be used (e.g. AD/AS) <p>Other evaluative comments may include e.g.:</p> <ul style="list-style-type: none"> • Imported inflation will be a particular problem if wages do not increase in line with inflation. • Depends if this is a temporary fall or a permanent adjustment to the exchange rate • Depends on UK exchange rate with other currencies as well • US is a significant trade partner for the UK so the impact is likely to be significant • Consideration of the Marshall-Lerner condition and J curve effect • Other factors which cause growth might be considered as evaluative comments • EU is a very significant trading partner for the UK and thus the impact is likely to be significant 	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Answer	Mark
14 (a)	<p>KAA 14; EV 6.</p> <p>Causes include:</p> <ul style="list-style-type: none"> • Expected/actual increase in base interest rate..... causing inflow of money into USA banks so increasing the demand for dollars and an appreciation of the exchange rate <i>But: this impact may be diminished if other countries raise interest rates also</i> • Strength of the US economy relative to that of other major economies e.g. strong data relating to GDP, employment/unemployment, productivity <i>But: this may be a temporary phenomenon</i> • Improvement in US trade balance <i>But: could be offset by other components of B/P</i> • Further, a relatively strong economy makes FDI more attractive, improving the financial account of the balance of payments and so increasing demand for dollars <i>But: other factors may be more significant in influencing FDI e.g. FDI to develop a country's natural resources</i> • Relative weakness of other major economies e.g. China, eurozone countries <i>But: in China's case, its growth rate is still significantly higher than that of USA</i> • US inflation rates low relative to some of its trading partners • Expectation that there will be an increase in interest rates in the USA and/or cut in interest rates in other countries/speculatio <p>NB: generic answers/not related to the dollar should receive a maximum of 16/20</p>	(20)

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
<p>14 (b)</p>	<p>KAA: 21; Ev: 9</p> <p>Effects on US economy include impact on:</p> <ul style="list-style-type: none"> • The trade balance: Likely to deteriorate because imports will become cheaper while exports will become more expensive <i>But: this depends on whether the Marshall-Lerner condition is met. Also reference to short-run/long-run effects – J curve analysis. Non-price factors may be more significant than exchange rate changes.</i> • The rate of economic growth: Could fall if net exports decrease <i>But: this may be offset by increases in other components of aggregate demand.</i> • Unemployment may increase (as a result of the fall in rate of economic growth) <i>But: much will depend on the other components of aggregate demand</i> • Rate of inflation may fall (as a result of lower import costs) <i>But: an increase in other components of AD could offset downward inflationary pressures</i> • On standards of living: An increase in the exchange rate implies that less has to be exported to gain a given quantity of imports, implying an increase in living standards <i>But: if the fall in competitiveness has an adverse impact on economic growth then living standards may fall</i> • Possible negative impact on tourism. <p>Effects on other countries could include:</p> <ul style="list-style-type: none"> • Increase in exports to USA and decrease in imports from USA with implications for current accounts of their balance of payments • Increase in debt burden if countries have debts in dollars • Foreign companies would experience an increase in profits earned in USA <p>Must make specific reference to the dollar, otherwise maximum of 24/30</p>	<p style="text-align: right;">(30)</p>

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
15(a)	<p>KAA: 14; Ev: 6</p> <p>Factors include:</p> <ul style="list-style-type: none"> • Exchange rate <i>But under a system of floating exchange rates, the impact could be short-term only</i> • Productivity which may be influenced by <ul style="list-style-type: none"> ~ Training and skills ~ Quality of capital and capital per worker ~ Quality of management ~ Methods of production ~ Quality of infrastructure <i>But: the relationship between wages and productivity is crucial in determining competitiveness</i> • Wage costs e.g. national minimum/living wage <i>But: higher wages could act as incentive for workers to increase their productivity</i> • Non-wage costs e.g. employers' national insurance <i>But: these may not be significant in labour intensive industries</i> • Regulations e.g. employment protection; environmental regulations; health and safety regulations; ease of setting up a business <i>But: some regulations might contribute to increased competitiveness e.g. safety regulations for products</i> • Power of trade unions and their impact on wage costs • Property rights • Rule of law • Degree of corruption <p>NB: generic answers should receive a maximum of 16/20</p>	(20)

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
15(b)	<p>KAA: 21; Ev: 9</p> <p>Measures could be by firms e.g. investment in</p> <ul style="list-style-type: none"> • R & D • Innovation • Marketing • Training <p><i>But: above measures may not occur because of cost; lack of confidence; government policy</i></p> <p>Or: Measures could be by governments e.g.</p> <ul style="list-style-type: none"> • Supply-side policies designed to increase productivity e.g. education and training; Tax incentives for investment; Measures to increase competition e.g. incentives to small firms; regulation of monopolies and oligopolies Measures to increase migration Reduction in regulations • <i>But: supply side policies would be ineffective if aggregate demand is very low</i> • For Greece and Portugal: decision to leave eurozone so facilitating a depreciation of their currencies • Measures to engineer a depreciation in the exchange rate e.g. quantitative easing • <i>But: danger that inflation would rapidly erode the increase in competitiveness</i> • Cut in interest rates by the Bank of England could help to stimulate investment and so lead to an increase in productivity • <i>But: other factors e.g. expected return of investment may be more significant than interest rates</i> <p><i>Other evaluative points could include:</i></p> <ul style="list-style-type: none"> • <i>Difference between short-run and long-run effects</i> • <i>Magnitude of impact of policy measures</i> <p>If no examples of countries, award a maximum of 24/30</p>	(30)

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
16(a)	<p>KAA 14; EV 6.</p> <p>Issues include:</p> <ul style="list-style-type: none"> • Significance of productivity for international competitiveness: affects unit labour costs; average costs of production; and so affects price at which goods are sold in the domestic and export markets. <p><i>But much depends on the sectoral composition of output and exports e.g. high productivity in services which are not traded would be relatively insignificant for international competitiveness</i></p> <p>Other factors influencing international competitiveness:</p> <ul style="list-style-type: none"> • Wage costs including the national minimum wage and the level of unionisation <i>But some argue that higher wages result in higher productivity</i> • Non-wage costs e.g. health and safety regulations; environmental regulations; employer taxes (National Insurance contributions); parental leave rights <i>But: these vary between countries and they may be insignificant relative to wage costs</i> • External value of the country's currency <i>But: firms might adjust profit margins to offset changes in the exchange rate of a country's currency. Also: real exchange rate is more significant than nominal exchange rate.</i> • Size of the public sector relative to the size of the private sector: argument that the private sector is more productive than the public sector <i>But public sector might be crucial in increasing productivity e.g. education</i> • Relative inflation rates <i>But non price factors may be more important</i> • Non-price factors e.g. quality, reliability, availability <i>But: much will depend on price elasticity of demand</i> <p><i>Candidates may take the view that productivity is/is not the most significant factor affecting international competitiveness with the reverse view used for evaluation.</i></p> <p>NB: Answers should demonstrate an understanding of productivity (either implicitly or explicitly) e.g. output per worker per hour worked and of competitiveness</p>	

	<p>(either implicitly or explicitly) e.g. a measure of a country's advantage or disadvantage in selling its products in international markets (price and non-price competitiveness).</p> <p>If no reference to productivity in answer then maximum 14/20 (Level 3) At least one other factor, apart from productivity, should be considered otherwise maximum 14/20 (Level 3)</p> <p>If no application e.g. example(s) of a country then maximum 16/20</p>	(20)
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Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
16(b)	<p>KAA: 21; Ev: 9</p> <p>Effects include impact on:</p> <ul style="list-style-type: none"> • The trade in goods and services balance: A fall in productivity might result in a loss in competitiveness of the country's goods and services leading to a deterioration in the trade balance <i>But: this may be offset by improvement in trade in other components of the balance of payments</i> • The rate of economic growth: If net exports decrease, aggregate demand may fall leading to a fall in real output <i>But: this may be offset by increases in other components of aggregate demand</i> • Unemployment may increase (as a result of the fall in real output) <i>But: much will depend on changes in productivity in other countries</i> • Rate of inflation: A fall in productivity could cause a leftward shift in the aggregate supply curve resulting in a rise in the price level <i>But: the fall in AD could offset upward inflationary pressures</i> • Real wages: A fall in productivity may result in falling profits for businesses and falling real wages for workers. <i>In turn, it could lead to an increase in business insolvencies.</i> <i>But: depends on the magnitude of the fall in productivity</i> • The exchange rate of a country's currency: Likely to fall <i>but will depend on the underlying cause of the fall in productivity</i> • FDI: May deter inward foreign direct investment which, in turn, would have adverse effects on growth and employment <i>But impact may vary because of differences in the fall in productivity in different sectors</i> • Income distribution: 	

	<p>Could cause income distribution to become more uneven especially if workers' wages are related to productivity while those of managers are not <i>But this could be offset by other factors e.g. increases in means-tested benefits</i></p> <ul style="list-style-type: none"> • Lower tax revenues if incomes are falling <p><i>Further evaluative points:</i></p> <ul style="list-style-type: none"> • Impact depends on degree by which productivity has fallen • Fall in productivity may be a short run phenomenon only • Is the fall in absolute or in relative productivity? <p>NB: Answers which confuse productivity and production are unlikely to score more than a Level 2 mark.</p> <p>Maximum 24/30 if no reference to an example(s)</p>	(30)
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Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
17(a)	<p>KAA: 14 marks; Eval: 6 marks</p> <p>Possible causes of Germany's surplus include:</p> <ul style="list-style-type: none"> • More competitive in terms of labour costs • Strong manufacturing base • Previous investment in modern technology • Highly educated and productive workforce • Reputation for producing high quality, highly reliable goods • Has developed markets outside EU <p>USA & UK deficits caused by:</p> <ul style="list-style-type: none"> • Inability to compete with goods produced by low wage countries such as China • Until 2008-9, the dollar and sterling were overvalued • Relatively low productivity • UK's manufacturing base eroded during period of high exchange rate • High marginal propensity to import <p><i>If no reference to BOTH a deficit and a surplus country, then award a maximum of 14/20</i></p> <p><i>Evaluation (6 marks) points might include:</i></p> <ul style="list-style-type: none"> • <i>These are data for one year only - may not be maintained in the long run. Germany now suffering from crisis in euro zone</i> • <i>Significance depends on deficits/surplus as a percentage of GDP</i> • <i>Germany is in Euro zone and more competitive than other members</i> • <i>Trade in goods balance is just one part of the current account and may be balanced by surplus in trade in services account or in investment income</i> • <i>Deficit might be financed by inflows into the Financial Account</i> 	(20)

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
17(b)	<p>Evaluate means by which trade imbalances could be reduced.</p> <p>KAA: 21 marks; Evaluation: 9 marks</p> <p>Methods include:</p> <ul style="list-style-type: none"> Measures taken by the German government/surplus countries to stimulate domestic consumption e.g. tax cuts; reduction in incentives to save <i>But tax cuts may be saved or spent on domestically produced goods rather than spent on imports</i> Measures taken by the US and UK governments/deficit countries to promote saving e.g. tax free savings schemes <i>But these measures may be ineffective if interest rates are low and consumers continue to spend</i> Supply side measures in US and UK/ deficit countries to increase productivity and competitiveness e.g. investment incentives; cuts in corporation tax; investment in education and training (could count as 3 points) <i>But these measures might involve extra public expenditure; they might result in increased inequality e.g. cuts in benefits and cuts in higher rates of income tax; time lags may be considerable</i> Contractionary fiscal and monetary policies in deficit countries <i>But these measures might cause an increase in unemployment</i> Protectionist measures by deficit countries / e.g. awarding major infrastructure projects to domestic companies; subsidies; tariffs. <i>But might be risk of retaliation</i> Allow exchange rate adjustments i.e. depreciation of the dollar and pound and/or appreciation of the euro only if mechanism by which this may be achieved is included. <i>But this will depend on whether or not the Marshall-Lerner condition is met.</i> <i>Also: short run/long run effects: J curve</i> <p><i>N.B. If no reference to context e.g. in discussing protectionism then award a maximum of 24/30</i></p>	(30)

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
18(a)	<p>Factors include:</p> <ul style="list-style-type: none"> • Increase in the value of the country's currency • Decline in productivity relative to other countries • Increase in rate of inflation relative to other countries • Decline in non-price competitiveness • Increase in real unit labour costs • Increase in regulations <p>Evaluation points include:</p> <ul style="list-style-type: none"> • Relative significance of factors selected • Whether or not these are short or long term factors • Competitiveness might not fall following a rise in exchange rate if exporters cut profit margins <p>(Synoptic element: reference to productivity, inflation and exchange rates (unit 2) and use of the Economist's tool-kit in analysis and evaluation and in approach to question)</p>	(20)
Level	Mark	Descriptor
Level 1	1-7	Identification of points <i>which are largely irrelevant</i>
Level 2	8-10	consideration of one factor with one evaluative point or 2 points with no evaluation
Level 3	11-14	consideration of 2 factors with one evaluative point or 3 points with no evaluation
Level 4	15-16	consideration of 3 factors with one evaluative point
Level 5	17-20	consideration of 3 factors with at least two evaluative points

Question Number	Answer	Mark
18(b)	<p>Measures used by businesses could include:</p> <ul style="list-style-type: none"> • Research and development resulting in improved designs or new products • Investment in new technology • Investment in capital equipment • Pricing strategies (e.g. limit pricing) • Improved reliability of products • Better customer service <p>Measures used by governments could include: Range of supply side policies including...</p> <ul style="list-style-type: none"> • Privatisation • Education and training • Investment tax relief • Improvements in infrastructure • Cutting unemployment benefits • Removal of regulations e.g. health and safety, environmental, employment protection • Encourage immigration. <p>If appropriate examples are given, candidates could also discuss: Devaluation of currency; Increase in trade barriers Subsidies</p> <p>Evaluation could include:</p> <ul style="list-style-type: none"> • Costs to businesses of expenditure on new capital equipment • Costs to government: difficult to finance at time when fiscal deficit is rising rapidly • Time frame: some measures could take a considerable time to have an impact • Increased inequality e.g. if unemployment benefits are cut • Danger of increased exploitation of workers and of the environment if regulations are relaxed • These policies could be offset by other factors e.g. appreciation of the currency; rising wage costs <p><i>Maximum 21 if only government or business strategies are discussed</i> (Synoptic element: pricing policies (unit 3) supply side policies (unit 2) and use of the Economist's tool-kit in analysis and evaluation and in approach to question)</p>	(30)
Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	2 factors with one evaluative point or 3 factors with no evaluation
Level 3	16-21	3 factors with one evaluative point or 4 factors with no evaluation
Level 4	22-25	4 factors with two evaluative points
Level 5	26-30	4 factors with three evaluative points

END OF SECTION C