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**General Certificate of Education
January 2011**

ECONOMICS: ECON4

**Unit 4: The National and International
Economy**

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Advanced Level Economics Unit 4

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

- (i) **An issue based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.
- (ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

AQA ADVANCED LEVEL (A2) ECONOMICS

**LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgments
Level 5 22-25 marks (mid-point 24) Good analysis and good evaluation	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) Good analysis but limited evaluation OR Reasonable analysis and reasonable evaluation	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) Reasonable answer, including some correct analysis but very limited evaluation	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) Weak with some understanding	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) Very weak	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- An** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

1 THE GLOBAL CONTEXT**Total for this question: 40 marks**

01 Using **Extract A**, identify **two** main features of China's macroeconomic performance for the period 2006 to 2010. *(5 marks)*

Award one mark for each valid point made and up to two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- economic growth has always been positive, eg 2007: 13.0%, 2009: 7.7%
- the rate of growth shows a decline until 2009 (7.7%) but then is forecast to revive in 2010 (9.3%)
- 2007 showed the highest growth figure (13.0%)
- 2009 was the poorest growth year (a forecast of 7.7%)
- inflation was at its highest in 2007 (7.4%) but is forecast to decline significantly by 2010 (0.5%)
- the fiscal balance is in surplus from 2006 – 2008 (as high as 4.2% in 2008) but is forecast to move into deficit in 2009 and 2010 of about – 3% of GDP per year
- the current account balance maintains its surplus throughout the period, ranging from 11.1% of GDP in 2007 to a forecast 7.8% of GDP in 2010
- although 2007 sees the highest GDP growth (13.0%), it also has the highest rate of inflation (7.4%).

Award a maximum of **1 mark** for use of data if % sign is not shown.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one valid point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

MAXIMUM FOR PART 01: 5 MARKS

02 Extract B (lines 4-5) refers to global investment undertaken by China.

Explain the term 'global investment' **and** analyse **two** economic consequences for an economy receiving such investment. (10 marks)

For candidates who:

explain the concept of global investment, eg

- define global investment in terms of international capital flows, perhaps with a reference to the role of multinational companies in this respect
- explain the growth of global investment, eg in terms of outsourcing, utilising cheap labour, establishing ownership of raw materials and energy supplies
- define/explain the term global investment, eg expenditure to generate future income; spending on capital equipment to increase output, perhaps to displace labour; human capital
- simply define global investment in terms of 'total investment in the world' (2 marks).

Up to 2 marks per definition and up to 2 marks for further explanation, or where there is no definition, up to 4 marks per explanation (including diagrams)

analyse **two** consequences of global investment, eg

- it promotes economic growth (1 mark) in that it is an injection into the circular flow of income (1 mark), generating higher AD through the multiplier process (1 mark) but also adding to the productive capacity of the recipient economy (1 mark)
- its impact on the further economic development of less-developed economies
- human capital formation helping to promote skills within a country's workforce
- financing innovation
- helping to improve productivity
- a general improvement in business efficiency
- any other valid point

**Up to 4 marks per consequence analysed
(1 mark for identification and up to 3 marks for analysis)**

make use of diagrams in the analysis

**up to 2 marks per diagram
(1 mark for labelling, 1 mark for correct information shown)
to a maximum of 3 marks**

Reward references to the UK/other economies

1 mark per reference, to a maximum of 2 marks

Where a candidate analyses more than two consequences, reward the best two.

A candidate can be awarded a maximum of **8 marks** if only the explanation and one consequence are analysed or for just two consequences analysed with no attempt at the first part of the question.

MAXIMUM FOR PART 02: 10 MARKS

03	<p>In 2009, the World Bank described the Chinese economy as a “relative bright spot in an otherwise gloomy global economy” (Extract B, lines 34-35).</p> <p>Using the data and your economic knowledge, assess the consequences for the UK economy of China’s continued economic growth during a global recession.</p> <p style="text-align: right;"><i>(25 marks)</i></p>
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It is hoped that candidates will clarify the criteria by which consequences can be measured and then relate China’s growth to the performance of the UK economy in an evaluative way.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- recession
- economic growth
- criteria for assessing consequences

Developing a response to the question:

- reference to the growth performance of the Chinese economy
- reference to the problems of the UK economy

- why continued growth of a major economy may be important to another country in recession
- economic growth
- the balance of payments
- employment/unemployment
- investment flows
- inflation
- China's growth perhaps causing inflation exacerbated by the UK pursuing a potentially inflationary policy of quantitative easing and fiscal expansion
- the impact on the UK of China taking increasing control over world resources by its investment
- China's contribution to the IMF which might ultimately be of benefit to the UK
- impact on the exchange rate.

Evaluation:

- the extent to which China wishes to share the 'proceeds' of growth with other countries by importing more goods
- although the phrase 'global recession' is used it may be that some other UK markets are not faring too badly, so making China's contribution to UK economic performance less significant
- the ability of the UK to maintain/increase market share in China
- China is pushing ahead with export-led growth which may not be in the long-term interests of UK manufacturing
- the extent to which the UK economy welcomes Chinese investment in its economy and whether China reciprocates.

Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of growth and with no attempt to place it into the context of the UK/China. However, this must be considered as low-level evaluation and awarded accordingly.

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 03: 25 MARKS

2 THE EUROPEAN UNION CONTEXT**Total for this question: 40 marks**

04 Using Extract C , identify two main features of unemployment for the period March 2008 to March 2009. <i>(5 marks)</i>

Award one mark for each valid point made and up to two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- all economies experience a more rapid growth of unemployment between October 2008 and March 2009 compared to the period March 2008 to October 2008 (e.g. UK 1.1% points and 0.9% points respectively)
- all economies show a worsening unemployment situation over the period, e.g. the EU: from 6.7% in March 2008 to 8.3% in March 2009
- France has the worst unemployment in March 2008 (7.6%) with Latvia taking that position by October 2008 (9.3%)
- Lithuania goes from having the best unemployment picture in March 2008 (4.3%) to having the second worst in March 2009 (15.5%)
- only Latvia and Lithuania reach double-digit unemployment (16.1% and 15.5% respectively in March 2009)
- although France shows only a 1.2% point difference in unemployment when comparing March 2008 to March 2009, for Lithuania the figure is 11.2%.

Award a maximum of **1 mark** for use of data if % signs are not shown.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one valid point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

MAXIMUM FOR PART 04: 5 MARKS

05 **Extract D** (lines 18-20) suggests that cyclical unemployment ‘is now widespread’ and that this ‘could increase tensions between Eastern and Western members of the EU’.

Explain the term ‘cyclical unemployment’ **and** analyse **two** effects of cyclical unemployment. (10 marks)

For candidates who:

Explain

- cyclical unemployment (perhaps also referred to by a candidate as demand-deficient unemployment) occurs when aggregate demand in the economy is insufficient to buy the output produced when all resources are fully employed; aggregate demand is not sufficient to allow all workers to work who wish to work at current wages
- cyclical unemployment in terms of a negative output gap
- cyclical unemployment by relating it to the economic cycle
- cyclical unemployment by contrasting it with other types of unemployment

Up to 2 marks per definition and up to 2 marks for further explanation or where there is no definition, up to 4 marks per explanation (including diagrams)

Analyse **two** effects of cyclical unemployment, eg

- the likely official response to cyclical unemployment (1 mark) in that it is probable that government will attempt a fiscal boost of higher spending and tax cuts (1 mark) and the Bank of England may decide to cut interest rates (1 mark). Through the multiplier process and the onset of cheap credit, AD will rise (1 mark) (*only one way of increasing AD need be mentioned for the mark*)
- the impact on incomes and living standards
- the impact on output and thus GDP
- an increased willingness to take wage cuts/improve productivity in order to preserve jobs and the implications of this for business costs
- increased welfare dependency and the fiscal implications
- the economic consequences of EU disunity if some countries blame other members for suffering more from cyclical unemployment.

**Up to 4 marks per consequence analysed
(1 mark for identification and up to 3 marks for analysis)**

make use of diagrams in the analysis

**up to 2 marks per diagram
(1 mark for labelling, 1 mark for correct information shown)
to a maximum of 3 marks**

Reward references to the UK/other economies

1 mark per reference, up to a maximum 2 marks

Where a candidate analyses more than two effects, reward the best two.

A candidate can be awarded a maximum of **8 marks** if only the explanation and one consequence are analysed or for just two consequences analysed with no attempt at the first part of the question.

MAXIMUM FOR PART 05: 10 MARKS

06 Extract D (lines 35-36) argues that ‘a more ambitious set of common macroeconomic policies would help speed recovery in the EU’.

Using the data and your economic knowledge, assess the impact on the UK economy of recovery in the EU as a whole. (25 marks)

It is hoped that candidates will show an understanding of the impact of recovery should it occur in the UK and then go on to evaluate the further impact if the recovery is EU-wide and not simply confined to the UK.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- common macroeconomic policies
- economic recovery
- the significance of the rest of the EU to the UK
- the criteria by which the impact on the UK economy might be assessed.

Developing a response to the question:

- the implications for economic growth
- the impact on employment/unemployment
- the consequences for the balance of payments on current account

- the effects on the £/€ exchange rate
- the greater likelihood of avoiding a period of deflation
- the dangers of inflationary pressures building up
- the further development of the SEM in a period of recovery and increasing prosperity.

Evaluation:

- the possible significance of a slow recovery
- the possible supply problems if recovery is too rapid
- whether the UK can take advantage of EU recovery
- whether the advantage lies more with the rest of the EU in terms of exporting to the UK than for the UK exporting to the rest of the EU
- the significance of EU recovery for the UK relative to recovery taking place elsewhere in the world, i.e. in markets which have significance for the UK
- whether or not recovery has implications for the movement of labour in and out of the UK and how this affects the UK labour market.

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 06: 25 MARKS

SECTION B
Question 3**Total for this question: 40 marks**

'Oil, as a form of energy, reigns supreme but it has brought significant problems to economies in terms of inflation, in particular, and the potential for economic instability in general.'

07 Explain the main causes of inflation.*(15 marks)***For candidates who:**

Define/explain

- inflation, with an explanation perhaps in terms of official UK measurement, how measurement is arrived at, recent experiences, other relevant factors

Up to 2 marks for a definition and up to a further 2 marks for an explanation, for example, reference to its measurement to a maximum of 4 marks

Explain causes of inflation, eg

included within **cost-push factors** could be:

- the rising cost of oil (1 mark), which for many firms will be a significant cost of production (1 mark). As oil costs rise, assuming no fall in other costs of the firm (1 mark) a decision has to be made that either profit margins be narrowed (1 mark) or prices of final output need to rise (1 mark). One consideration will be the price elasticity of demand for the product in question (1 mark), i.e. the more inelastic is demand, the more likely consumers will absorb any price increase (1 mark)
- wage costs
- supply-side weaknesses, eg low productivity
- imported inflation, perhaps via exchange rate depreciation

Included within **demand-pull factors** could be

- the demand-pull inflationary process
- the impact of monetary policy
- the impact of fiscal policy
- earnings growth

other factors could also be considered, eg

- expectations
- money supply/monetarist explanation
- any other valid point

**up to 7 marks per explanation
(1 mark for identification and 6 marks for the explanation)**

make use of diagrams in the analysis

**up to 2 marks per diagram
(1 mark for labelling, 1 mark for correct information shown)
to a maximum of 4 marks**

MAXIMUM FOR PART 07: 15 MARKS

08	Discuss how rising oil prices might affect the macroeconomic performance of an economy. (25 marks)
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It is hoped that candidates will recognise the need to evaluate issues given the command word 'discuss' and show that not all economies will be affected to the same extent and that any effects will be conditioned by the extent of the price rises and their duration.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- reference to the quote in the question
- the recent experience of rising oil prices
- criteria for assessing macroeconomic performance

Developing a response to the question:

- the implications of this for the pattern of production
- consequences for the balance of payments on current account
- inflation
- the impact of inflation on jobs
- the impact of inflation on economic growth
- rising oil prices and business and consumer confidence
- implications for government revenue and expenditure
- the impact on export performance

Evaluation:

- whether the oil price increases are simply building on past price increases or whether they represent a supply-side shock of which there has been little or no recent experience
- whether or not petrol taxes are reduced to compensate for higher oil prices
- mature economies having less dependency on oil
- whether price increases are sustained over a long period of time
- whether, as in the UK's case, an economy is also an oil exporter as well as an importer
- whether rising economic growth and inflation-reducing forces are in evidence to dull the impact of rising oil prices

Also give credit for:

- relevant use of evidence and examples from the UK/other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 08: 25 MARKS

Question 4**Total for this question: 40 marks**

‘While it is necessary to have macroeconomic policy objectives, such as price stability and full employment, they can sometimes prove difficult to reconcile.’

- 09** Explain the various macroeconomic policy objectives **and** their importance to an economy. (15 marks)

For candidates who:

Define the concept of macroeconomic policy objectives in terms of reference to the criteria by which macroeconomic performance is measured **Up to 2 marks**

Explain macroeconomic policy objectives, eg

- economic growth can be defined as increases in the productive capacity of an economy (1 mark). Such increases will determine the long-run trend rate of growth (1 mark) and will shift the LRAS curve and the PPC to the right (1 mark). Actual growth can be measured by GDP (1 mark)
- price stability
- full employment or low unemployment
- improving the performance of the balance of payments on current account
- exchange rate stability
- fiscal stability
- any other valid point

Up to 3 marks per explanation
(1 mark for identification and up to 2 marks for the explanation)

Explain the importance of macroeconomic policy objectives to an economy, eg

- price stability and international competitiveness
- economic growth and living standards
- the balance of payments on current account
- the importance of reducing unemployment
- an essential requirement for efficient policy making
- they establish benchmarks against which the authorities, NGOs, economists, business can measure success/failure within the economy
- they allow policies to be formulated in good time if objectives seem increasingly unlikely to be met
- because of the inherent weaknesses there may be in an economy, it is vital to have objectives which give a sense of direction and which provide the prospect of being able to remedy those weaknesses
- if achieved, they create a stable economic climate for the private sector
- any other valid point

up to 5 marks per point of importance explained

Make use of diagrams in the analysis

up to 2 marks per diagram
(1 mark for labelling, 1 mark for correct information shown)
to a maximum of 4 marks

A maximum of **10 marks** may be awarded if a candidate attempts only the first part of the question and a maximum of **12 marks** if only the second part is attempted.

MAXIMUM FOR PART 09: 15 MARKS

10 Discuss ways in which government economic policies can be used to try to reconcile conflicts between macroeconomic objectives. (25 marks)

It is hoped that candidates will be able to illustrate what is meant by conflicts before going on to evaluate ways of reconciling them.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- macroeconomic objectives in contrast to microeconomic
- the meaning of conflicts between macroeconomic policy objectives
- how objectives might be ranked in order of importance by any one government

Developing a response to the question:

- examples of potential conflict, eg
 - economic growth and price stability
 - full employment and price stability
 - demand-led growth and the balance of payments on current account
 - attempted corrections to the balance of payments deficit on current account and economic growth and/or employment
- the differing impact of expenditure-switching and expenditure-dampening policies
- supply-side policies

Evaluation:

- some ways of trying to reconcile conflict may not be politically expedient, eg increasing unemployment in order to control inflation
- government may attempt to reconcile conflict through fine-tuning which does not have a good track record
- conflict can be short term, supply-side remedies long term
- limiting growth in order to stabilise prices might harm material living standards
- supply-side improvements may be made, eg productivity, but may not bring a reduction of conflict if other countries have seen improvements to a greater extent, eg economic growth increases the flow of imports. An export drive to balance this may be unsuccessful if our productivity improvement is outpaced by that in other countries.
- the rate of inflation may be controlled but inflation may still be higher than in the economies of our trading partners, perhaps limiting the desired improvement to the current account (inflation having caused a deterioration)
- the policy constraints for members of the eurozone which won't apply to those members of the EU, including the UK, who have not adopted the euro

Also give credit for:

- relevant use of evidence and examples from the UK/other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 10: 25 MARKS

Question 5**Total for this question: 40 marks**

The deficit on the UK balance of trade in goods and services rose from £26 billion in 2003 to £44 billion in 2008.

- 11** Explain the main factors which might help determine the volume of UK exports and imports. *(15 marks)*

For candidates who:

Define/explain

- exports/imports
 - balance of trade in goods and services
 - the balance of trade in goods and services in the context of the current account or the balance of payments as a whole
 - the possible nature of a country's exports and imports given its own stage of development
- Up to 2 marks per definition and up to 2 marks for any further explanation, to a maximum of 4 marks**

Explain factors which help determine the volume of exports and imports which a country achieves, eg

- the UK may adopt a strategy of export-led growth (1 mark). This may be because it is perceived as the most rapid way of achieving economic growth (1 mark) and/or because it feels itself to be very competitive in world markets (1 mark). It may recognise that a good export performance will initiate a multiplier effect (1 mark) which should benefit the economy beyond the export sector (1 mark) and that exports may well encourage supply-side improvements (1 mark) such as innovation and higher productivity to sustain good external performance (1 mark)
- favourable terms of trade (examiners note that this term is not included in the specification but candidates may well discuss relative export/import prices even if the term is not used)
- the need for imports of raw materials, energy and/or finished goods, e.g. because the UK has lost so much of its industrial base
- a sustained favourable exchange rate motivates an export drive
- absolute/comparative advantage, e.g. UK comparative advantage in financial services
- the impact on UK exports of overseas recession, especially the US and the EU as far as the UK is concerned
- exchange rate movements
- relative inflation rates
- relative rates of productivity (traditionally unfavourable for the UK) and impact on competitiveness
- the ability of the UK to impose protectionist policies
- any other valid point.

**Up to 7 marks per explanation
(1 mark for identification and 6 marks for the explanation)**

However, it may be that a candidate devotes much of his/her answer to the issue of comparative advantage and develops the point with a numerical example. If this is the case award up to 10 marks for an explanation of comparative advantage.

make use of diagrams in the analysis

**Up to 2 marks per diagram
(1 mark for labelling, 1 mark for correct information shown)
to a maximum of 4 marks**

MAXIMUM FOR PART 11: 15 MARKS

12 Evaluate government policies which might bring about a reduction in the UK deficit on the balance of trade in goods and services. <i>(25 marks)</i>
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Given that the question cites the UK economy, it is hoped that candidates will be able to distinguish policies which are relevant in the UK context, e.g. supply-side policies, from those which are unlikely to be pursued, e.g. direct official intervention in the foreign exchange market. This would help form the basis of evaluative comments made.

Unlike Questions 3 and 4, Question 5 refers to the UK economy. However, in fairness to candidates opting for this question, no mark constraint is being imposed if reference to the UK economy is weak or non-existent as would normally be the case.

Level 5	Good analysis <u>and</u> good evaluation	22-25 marks (mid-point 24)
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17-21 marks (mid-point 19)
Level 3	Reasonable answer, including some correct analysis but very limited evaluation	10-16 marks (mid-point 13)
Level 2	Weak with some understanding	4-9 marks (mid-point 7)
Level 1	Very weak	0-3 marks (mid-point 2)

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- the balance of trade in goods and services
- the balance of payments accounts
- surplus/deficit.

Developing a response to the question:

- supply-side policies
- exchange rate manipulation
- protectionist policies
- controlling aggregate demand in order to constrain import growth and release more output to the export sector
- adoption of an export-led growth strategy

- control of inflation if this is perceived to be the cause of the problem
- expenditure-switching policies compared to expenditure-dampening policies.

Evaluation:

- the need to distinguish between those policies which offer a possible short-term improvement and those which offer a potential cure for the problem in the long term (e.g. a reference to expenditure-dampening v expenditure switching).
- the need to distinguish policies which can be regarded as realistic in the current climate, e.g. supply-side policies, from those which might be politically unacceptable, e.g. protectionism
- some policies may not bring immediate improvement, eg the long-term nature of supply-side policies; exchange rate manipulation and the J-curve effect
- there may be less significance attached to the deficit if it is seen as part-and-parcel of a maturing economy which, although successful in the trade in services, has lost much of its industrial base, thus needing to import more finished goods
- the underlying issue of whether or not a deficit really matters if it does not impede economic growth and job creation and does not damage investor and business confidence.

Also give credit for:

- relevant use of evidence and examples from the UK/other economies
- diagrams
- an overall judgement on the issues raised.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 12: 25 MARKS