



Economics Questions By Topic:

**Trading Blocs & the WTO (4.1.5)
Mark Scheme**

A-Level Edexcel Theme 4

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SECTION B

Question Number	Indicative content	Mark
1	<p style="text-align: center;">Knowledge 3, Application 3, Analysis 3</p> <ul style="list-style-type: none"> • Trade creation as a result of joining the trading bloc • Increased specialisation & trade for countries & their firms, following theory of comparative advantage so total output of the economy can increase. Could potentially be explained diagrammatically or with a numerical example • Higher incomes for workers in the countries thanks to increased demand for the country's exports pushing up wages • Increase in jobs as domestic firms now have much larger market to sell their products to, improving standard of living for citizens of the countries <p>NB For a Level 3 response candidates must refer specifically to benefits for sub-Saharan African countries</p>	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	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	4-6	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; chains of reasoning are developed but the answer may lack balance.
Level 3	7-9	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 carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
1 continued	Evaluation 6	
	<ul style="list-style-type: none"> • Trade diversion resulting in loss of efficiency as trade switches to less efficient producers within the trading bloc • More integration means financial crises will spread more quickly across the trading bloc • Loss of output due to cheaper competition from lower wage cost countries 	(6)

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	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5-6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
2(a)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Possible benefits include:</p> <ul style="list-style-type: none"> • increased regional trade has led to faster economic growth • firms can take advantage of increased economies of scale • trade creation • free movement of labour may fill labour shortages in individual countries • increased investment, either domestic or foreign • negotiating together may give the countries more power at, e.g., WTO talks. 	(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 links 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
2(a) continued	<p style="text-align: center;">Evaluation 4</p> <p>Possible costs include:</p> <ul style="list-style-type: none"> • trade diversion • loss of revenue from import tariffs from fellow members. <p>General evaluative points:</p> <ul style="list-style-type: none"> • Kenya is the largest economy in the EAC, so has the smallest additional economies of scale to gain • 'Kenya's exports to the other EAC members were about US\$1.2 billion in 2010' (Extract 2), so benefits appear to be significant • Kenya probably gains less benefit from the smaller countries being co-members of the EAC, e.g. Burundi. 	(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	Indicative content	Mark
2(b)	<p style="text-align: center;">Knowledge 3, Application 3, Analysis 3</p> <p>Candidates may analyse the costs in their answer, and the benefits as evaluation (or vice versa), or may analyse the costs and benefits in their answer, and consider the significance of their arguments as evaluation.</p> <p>Possible costs include:</p> <ul style="list-style-type: none"> • loss of control over monetary policy (given current differences in economic development, perhaps unlikely that one common policy would be optimal for all) • loss of control over exchange rate policy • resulting inability to respond differently to asymmetric shocks • changeover costs/menu costs • consumer confusion • may be inflationary if all producers round up their new prices/loss of consumer surplus. <p>Possible benefits include:</p> <ul style="list-style-type: none"> • reduction in transaction costs • elimination of exchange rate risk (leading to more trade and investment) • reduction in region-wide price differentials / may reduce inflation/increase consumer surplus • a larger and more diverse economic area may be less vulnerable to exogenous shocks and speculative currency attacks. 	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	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	4-6	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; chains of reasoning are developed but the answer may lack balance.
Level 3	7-9	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 carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2(b) continued	<p style="text-align: center;">Evaluation 6</p> <p>(Costs and benefits are outlined under Knowledge, Application and Analysis.)</p> <p>General evaluative points:</p> <ul style="list-style-type: none"> • the countries have benefited to different extents: Kenya and Rwanda seem to have done well, while Burundi has not seen as much of a benefit • the euro area is a significant trade partner more so than the other EAC countries (in 2008) • increasing economic openness should reduce the potential for asymmetric shocks as time progresses • low levels of intra-EAC trade mean that the benefits from reduced transaction costs will be very small. 	(6)

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	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question No.	Evaluate the likely benefits for Russia of its decision to join the WTO.	Mark
3	<p>For knowledge, application and analysis: 9 marks for up to 3 points (up to 5 marks for any one point) Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks)</p> <p>Benefits include:</p> <ul style="list-style-type: none"> • Increased markets for exporters – leading to benefits of economies of scale; lower costs; higher profits • May relate to benefits from application of law of comparative advantage • Likelihood of increase in FDI and associated benefits e.g. <ul style="list-style-type: none"> ~ AD/AS analysis could be used to show increase in real output and employment ~ balance of payments ~ tax revenues • Lower prices and increased choice for consumers; increased consumer surplus. May be illustrated using a tariff diagram, showing reduction in tariffs and reduction in welfare losses. <p>Maximum 7/9 if no data references or relevant examples</p> <p><i>Evaluation might include:</i></p> <ul style="list-style-type: none"> • <i>Some domestic firms may be unable to compete and go out of business causing unemployment</i> • <i>Critique of assumptions behind law of comparative advantage</i> • <i>Disadvantages associated with FDI e.g. repatriation of profits to shareholders in country from which it originated</i> • <i>In the long run, consumer choice may decline and prices may increase if there is a dependence on overseas suppliers</i> • <i>Increased significance of regional trade agreements so membership of WTO less significant than in the past</i> • <i>Credit responses which make reference to recent events (e.g. Russian annexation of Crimea) which have resulted in sanctions so offsetting benefits of WTO membership</i> 	(15)
Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 benefits; 2 for application (2 data references/examples)
Level 2	5-9	2 marks for identification of 2 benefits; 2 for application (2 data references/examples); 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 benefits; 2 for application (2 data references/examples); 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question No.	Answer	Marks
4	<p>Reasons include (up to 4 marks; maximum 1 for identification only):</p> <ul style="list-style-type: none"> • Independent monetary policy could be followed by these countries (UK interest rate 0.5%; Euro-zone 1.0% until April 2011) • Currencies of countries outside the Eurozone could (and did) depreciate against other currencies • High unit labour costs in peripheral euro zone countries resulting in a loss in competitiveness • More flexible labour markets • Eurozone growth average brought down by poor performance of weaker economies <p>Application e.g. reference to 2 relevant examples of countries (2 marks)</p> <p><i>Evaluation (up to 4 marks: 2 + 2; 3 + 1) could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation e.g. significance of depreciation of currency</i> • <i>Average figure disguises strong performance of economies such as Germany</i> • <i>Situation after 2010 changed: e.g. UK economy had negative economic growth by end of 2011</i> • <i>Membership of Eurozone might be an insignificant factor influencing growth e.g. FDI might be more important</i> • <i>Size of difference in interest rates</i> • <i>Possible long run benefits of Eurozone membership</i> <p>(Synoptic element: economic growth and monetary policy from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)</p>	(10)

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (reference to 2 relevant examples of countries)
Level 2	4-6	1 mark for identification of 1 reason; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 issues.
Level 3	7-10	1 mark for identification of 1 reason; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 issues; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
5	<p>Analysis might include:</p> <ul style="list-style-type: none"> • BRIC economies buying goods from African countries offsetting fall in demand from rich countries • Foreign currency earnings can be increased and used for debt servicing, purchasing of capital goods • African countries specialising and exporting goods in which they have a comparative advantage • Exports are a source of AD which can stimulate growth, leading to increase employment and an improvement in the current account • Has enabled African countries to avoid recession • Provided diversification of markets • Trade important if domestic market is small access to larger markets and economies of scale • Gains from increased competition and efficiency <p>Evaluative comments might include:</p> <ul style="list-style-type: none"> • African countries locked into dependence on primary products with associated disadvantages • No diversification into manufacturing, usually associated with growth and development • Import substitution might be a better, alternative means of growth at least in the initial stages of development • Increased vulnerability to external shocks • Over-reliance on a narrow group of countries - problem if BRICs go into recession • Volatility of commodity markets • Short run/long run effects <p>(Synoptic element: concept of current account of balance of payments from unit 2. Also, the 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 identification of 2 benefits;
Level 2	4-7	2 marks for identification; 2 for application (2 examples from text - products or countries - or own knowledge); 3 for analysis
Level 3	8-12	2 marks for identification; 2 for application (examples from text- products or countries - or own knowledge); 3 for analysis; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)

Question Number	Answer	Mark
6	WTO is primarily concerned with the promotion of free trade (2) by organising negotiations to reduce trade barriers such as tariffs and quotas (1). Also concerned with enforcing trade rules and settling disputes(1). Comment on any particular dispute from text or comment on current round of trade talks (Doha) (2)	(5)
Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for outline of role of WTO (see above)
Level 2	4-5	Up to 3 marks for 2 aspects of the role of the WTO and 2 marks for application (reference to an example of work of WTO)

END OF SECTION B

SECTION C

Question Number	Answer:
7(a)	<p>Reasons include:</p> <ul style="list-style-type: none"> • Trade creation <i>But: imports may increase more than exports causing a deterioration in the current account of the balance of payments; trade diversion</i> • Analysis based on law of comparative advantage. Increase in allocative efficiency • Benefits to domestic firms: increased production so that they can benefit from economies of scale. Economy would benefit from increased employment. <i>But: domestic firms may be unable to compete with goods from member countries and go out of business causing a rise in unemployment.</i> • Benefits to consumers: lower prices; increased consumers' surplus; more choice <i>But: in the case of a customs union, there would be trade diversion from low cost producers outside the bloc to high cost producers inside the bloc</i> • Greater weight in trade negotiations <i>But: USA is strongest participant in TPP and may be able to dictate terms to suit themselves</i> • Access to huge and lucrative US market <i>But: domestic firms will face massive unfettered competition from the world's most powerful corporations</i> • Increase in competition, leading to a reduction in X-inefficiency • Increase in innovation, leading to rise in dynamic efficiency • Transfer of ideas • Increase in world GDP/rising incomes/falling unemployment <p>Application to context: This is a very large trading bloc linking countries in North America to those in Asia so potential benefits may be very large. Or reference to examples of other trading blocs. (Maximum 14/20 without contextual reference)</p>

Question Number	Answer:
7(b)	<p>Effects could be on the UK and/or on the EU</p> <ul style="list-style-type: none"> • Economic growth: If trade barriers are raised against UK goods then less specialisation and trade could a fall in the UK's growth rate. <i>But: UK would have incentive to diversify exports away from EU countries to growing economies in Asia, S America and Africa</i> • Foreign direct investment into UK may fall but rise in remaining EU countries <i>But impact on UK may small if there are other benefits of operating in the UK e.g. relatively low corporation tax rates</i> • Current account of UK's balance of payments: improvement for UK likely since it has a trade deficit with EU countries. Corresponding deterioration in trade balance of many EU countries <i>But: deterioration in the trade in goods balance if demand for UK imports is inelastic while demand for UK exports is elastic.</i> • Change in pattern of UK trade – away from EU towards emerging economies • Employment: May decline and unemployment may increase in UK especially if there is a fall in FDI into the UK and/or firms based in the UK decide to divert investment abroad <i>But: impact might be small especially if there is less direct competition from producers in the EU</i> • Public finances: UK's public finances may improve because the UK is a net contributor to the EU budget <i>But this may be offset by the impact on growth and employment</i> • Impact on specific sectors e.g. finance in which the UK has a comparative advantage; agriculture, fishing • Changes to patterns of migration • UK financial services comparative advantage • Less regulation outside the EU • Increases in labour market flexibility as do not have to conform to Social Charter and EU rules and regulations, improving competitiveness • No longer need to be part of EU Competition Policy with associated costs/benefits <p><i>NB if there is no UK/EU context then award a maximum of 24/30</i></p>

Question Number	Answer	Mark
8(a)	<ul style="list-style-type: none"> • Understanding of the term 'trading blocs' - usually groups of countries in specific regions that manage and promote trade activities. Could consider various types: free trade areas; customs unions; common markets; monetary unions • Consideration of trade creation - based on the law of comparative advantage • Consequent implications for: <ul style="list-style-type: none"> • Global economic growth • Resource alloaction • Global inflation rates • Inequality • Consideration of trade diversion - distortion of comparative advantage might be used in evaluation) • Free movement of labour within a common market leading to increased geographical and occupational mobility • Increase in FDI <p>If no reference to the impact on the global economy then maximum top of level 3 (14/20)</p> <p>Evaluative comments might include:</p> <ul style="list-style-type: none"> • Differential impact on those countries in blocs and those outside blocs • Trade diversion: Distortion of comparative advantage • Short run and long run effects e.g. in long run WTO might have further success in reducing trade barriers between blocs • Impact depends on number of trading blocs • And on size and extent of protectionist measures <p>(Synoptic element: 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 which are largely irrelevant
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
8(b)	<p>Candidates could take either side of the argument OR they could analyse and evaluate 2 benefits and 2 costs</p> <p>Analysis might include:</p> <ul style="list-style-type: none"> • Consideration of key features of a monetary union: single currency • Help from other members should one country get into difficulties e.g. loans from ECB <p>Other benefits: e.g.</p> <ul style="list-style-type: none"> • no transactions costs; might help to attract more FDI • monetary union designed to impose limits on macroeconomic management e.g. to ensure low rate of inflation • price transparency: increase in competition; rightward shift in AS curve and lower inflationary pressures • Increased trade <p>Evaluation could include:</p> <ul style="list-style-type: none"> • Fiscal and political changes required as pre-requisite of monetary union • Inability of a country to allow its currency a depreciate e.g. Greece, Ireland, Portugal, Spain whereas the pound sterling has depreciated 25% against other currencies • Resulting in loss of competitiveness and fall in real GDP and employment • 'One size fits all' interest rate which is determined by the ECB for all Eurozone countries but which may be inappropriate for a particular member. Bank of England's MPC can set interest rates to meet UK's inflation target • Costs of economic mismanagement by individual members fall on other Eurozone members e.g. Greece, Ireland. Moral hazard issue • Possible loss of control of fiscal policy • Crisis in eurozone could lead to closer economic union which UK could benefit from as a member • Transition costs -allow as half a point <p>(Synoptic element: monetary policy (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	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

END OF SECTION C