GCE A LEVEL MARKING SCHEME

SUMMER 2022

A LEVEL
ECONOMICS - COMPONENT 3
A520U30-1

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INTRODUCTION

This marking scheme was used by WJEC for the 2022 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

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GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of economic concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level-based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

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1 (a)	**Explain why governments might intervene to reduce income inequality. [10]**	
Band	AO1	AO3
	6 marks	4 marks
3	**5-6 marks** Excellent knowledge A strong knowledge of at least two issues associated with inequality and why these are undesirable.	
2	**3-4 marks** Good knowledge A knowledge of the issues associated with inequality is present, but the range of issues is narrow and/or lacks depth.	**3-4 marks** Good analysis Clear explanation of how inequality causes the economic problems that might cause a government to intervene
1	**1-2 marks** Limited knowledge Some problems with income inequality are identified but there is real development.	**1-2 marks** Limited analysis The chain of reasoning from inequality to the problems associated with it lacks development.
0	**0 marks** No valid knowledge is present.	**0 marks** No valid analysis.

Indicative content:

AO1/AO3
Inequalities mean that rising GDP does not benefit society as much as it could have been – there will be slower improvements in life expectancy and educational attainment than might have been the case if inequality was lower thus governments intervene because economic growth may well be lower than it might otherwise have been in the longer term.

Inequalities mean that total overall satisfaction will be lower than it might otherwise have been, with some members of low-income groups barely able to subsist, while top income groups enjoy conspicuous consumption thus government intervene because resources have therefore been misallocated.

Inequality is heavily associated with negative social outcomes. Research suggests that higher levels of inequality are strongly correlated with addiction, lower life expectancy, higher child mortality and social unrest thus governments intervene because this increases government spending on benefits, the health service, social services and the criminal justice system.

Inequality may mean that total demand is lower than it would have been with the rich having a lower propensity to consume thus governments intervene with policies to produce a fairer income distribution.

Income inequality leads to and perpetuates wealth inequality producing an underclass which then perpetuates over time and thus governments intervene to reduce income and wealth inequality and introduce measures to increase social mobility.

The key for AO3 is analysis of why each issue associated with inequality might lead to government intervention.

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1 (b)	**Evaluate policies that a government could introduce to reduce income inequality in the UK. [20]**		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5-6 marks** Excellent knowledge Excellent knowledge is shown of at least two policies that the government could introduce. Good range and detail of policies.	**5-6 marks** Excellent analysis Excellent analysis of how the policies identified will be able to reduce income inequality. There is a clear link between how the policy operates and why income inequality will be reduced.	**6-8 marks** Excellent evaluation Evaluation points are well developed and are put into the context of the UK over the next few years. Judgement is therefore centred around what will or won't be most effective given the situation the UK is facing.
2	**3-4 marks** Good knowledge Good knowledge is shown of policies that the government could introduce. Good range **or** detail of policies.	**3-4 marks** Good analysis Good analysis of how the policies identified will be able to reduce income inequality. There is a link between how the policy operates and why income inequality will be reduced but the link isn't clear at times.	**3-5 marks** Good evaluation The answer has qualifications of the major policies identified which show a good understanding as to why they may be ineffective or counterproductive.
1	**1-2 marks** Limited knowledge Limited knowledge is shown of policies that the government could introduce. Range and depth is limited.	**1-2 marks** Limited analysis Limited analysis of how the policies identified will be able to reduce income inequality. The link between how the policy operates and why income inequality will be reduced is underdeveloped.	**1-2 marks** Limited evaluation There is some attempt to explain why the policies identified may be either ineffective or counterproductive in terms of their impact on income inequality.
0	**0 marks** No valid knowledge.	**0 marks** No valid analysis.	**0 marks** No valid evaluation.

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Indicative content:

Policies might include:
Could increase the top rate of income tax. This will reduce the after tax income of the very richest members of society, hence helping to reduce income inequality. The proceeds could be used to improve the health and education systems giving better life chances to all.

However, top earners may be able to avoid the tax fairly straightforwardly and in any case, only a relatively few people are in the highest tax bracket, making its impact relatively small. Laffer curve could be used.

Could increase spending on merit goods such as health and education. This might allow for a longer and more productive working life and allow all groups to be able to access high-skilled high value-added jobs (increased social mobility).

However, these policies will be long-term in their effects at best and health and educational outcomes are determined by more complex factors than simply the government's educational spending. In reality inter-generational inequality has proved persistent in spite of improvements in the health and education system.

Could increase tax credits/reform the benefits system, allowing those with the least income and wealth to earn more.

However, there is a risk that increasing the safety net creates a disincentive to work therefore creating a larger underclass that is increasingly left behind by those in work – the short-term effects might be larger than the long term effects.

Could increase the personal allowance/cut the basic rate of tax. These will benefit all those in work and on low incomes, hence helping to narrow the gap with the highest earners.

However, they will have no effect on those who are already earning less than the personal allowance, on benefits and so on (although it might create more incentives to work).

Cuts in VAT/indirect taxes generally might make the tax system more progressive and would increase the purchasing power of low income groups to a greater extent than higher income groups, hence reducing income inequality, but the cut would need to be quite sharp to make a major difference, many essential items are already zero rated and cuts in excise duties might have longer term health consequences that might negate their short term effects.

Could reform the housing market via increased provision of low-rent social housing in cities, allowing lower income groups better access to facilities and would reduce the cost of commuting to work.

But budget pressures and shortage of suitable land to build such properties on make this a long-term prospect and probably also quite small scale.

There are many other policies which could be introduced such as:
wage limits on top executives
Increases in the national minimum wage
Greater support for part-time work/child care costs to allow both parents to access work.

Allow anything reasonable that is well-explained and discussed.

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2 (a)	**Explain how firms can sustain their monopoly power.** **[10]**	
Band	AO1	AO3
	6 marks	4 marks
3	**5-6 marks** Excellent knowledge Excellent knowledge of at least two ways in which monopoly power can be sustained	
2	**3-4 marks** Good knowledge At least two sources of monopoly power are known but there may be a lack of depth in explanations.	**3-4 marks** Good analysis There is logical development and a clear chain of analysis of how monopoly power can be sustained.
1	**1-2 marks** Limited knowledge Only a basic knowledge of the sources of monopoly power will have been demonstrated.	**1-2 marks** Limited analysis Reasoning is generally not well developed and chains of analysis are unclear or undeveloped.
0	**0 marks** No valid knowledge	**0 marks** No valid analysis

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Indicative content:

Understanding shown of strategic and behavioural barriers to entry.
Patents, copyright, legal monopolies – barriers to entry protected by law/regulation.

Horizontal integration – increased market power/share gives large firms more power over rivals and potential entrants.

Vertical integration- control over the supply chain gives large firms the power to deter entry of new firms.

Brand loyalty/advertising – makes products more price inelastic and consumers more reluctant to switch to rivals. Product/brand proliferation protects and grows market shares and deters potential entrants.

First mover advantage (Microsoft) – by being the first to enter a new market, a business gains a commercial advantage over its actual and potential rivals leading to higher revenues, profits and market power over time.

Success by delivering a successful business model to consumers. Google became a monopoly through dominating the search engine market the same with Amazon.

Internal economies of scale- reduction of costs per unit due to increased size gives firms with significant market power an advantage over rivals/potential entrants.

Behavioural barriers to entry- large firms with monopoly power can use limit pricing and predatory pricing to preserve their dominance.

Market knowledge/customer data base/contacts with supplies etc.

Allow any other relevant points.

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2 (b)	**To what extent can a natural monopoly ever be efficient? Use a diagram(s) to support your answer. [20]**		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5-6 marks** Excellent knowledge An excellent knowledge is shown of the concept of natural monopoly and efficiency. Accurate diagram(s) with no significant errors are drawn which shows that the learner fully understands the concepts being tested.	**5-6 marks** Excellent analysis An excellent analysis of how natural monopoly performs in relation to efficiency. Learner has a clear line of argument to explain how natural monopoly performs in relation to different efficiencies.	**6-8 marks** Excellent evaluation A critical evaluation. Evaluative points are well developed and relevant diagrams are well integrated and support the evaluation. Learner develops a strong two-sided answer and comes to a reasoned judgement as to the extent to which a natural monopoly can be efficient OR evaluation is integrated.
2	**3-4 marks** Good knowledge A good knowledge is shown of the concept of natural monopoly **or** efficiency with some knowledge of the other. Diagram used may be a normal monopoly diagram.	**3-4 marks** Good analysis A good analysis of how natural monopoly performs in relation to efficiency. Analysis may lack depth of explanation in terms of how the efficiency might work.	**3-5 marks** Good evaluation A strong two-sided answer with effective points made on both sides of the argument. Some evaluative points may lack development and the answer lacks a reasoned judgement OR evaluation is not integrated.
1	**1-2 marks** Limited knowledge Limited grasp of the concept of natural monopoly and efficiency showing gaps in knowledge. Diagrams may have significant errors or not be present.	**1-2 marks** Limited analysis A limited analysis of how natural monopoly performs in relation to efficiency. The answer lacks key economic concepts and avoids technical analysis.	**1-2 marks** Limited evaluation A few evaluative points are made but merely as assertions. The points made are not developed and superficial.
0	**0 marks** No valid knowledge	**0 marks** No valid analysis.	**0 marks** No valid evaluation

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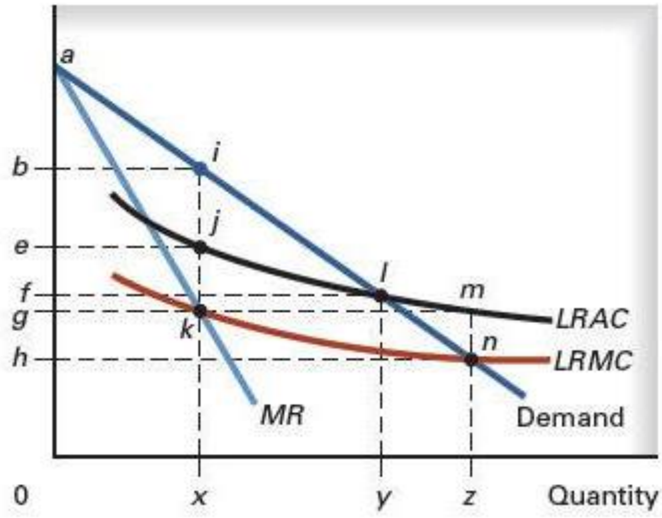
Indicative content:



Understanding of the meaning of a natural monopoly: continuous economies of scale/falling LRAC.

Allocative efficiency: P=MC (unlikely as large losses would be made)
Evaluation: If nationalised the government could provide subsidies. Regulation could reduce the price closer to MC.

Productive efficiency: operating at minimum AC (continuous economies of scale mean that lowest AC will not be reached)
Evaluation: The firm will be nearer to minimum AC than if there were a number of smaller competing firms in the industry.

Dynamic efficiency: Firms improve their productive efficiency over time lowering LRAC at all levels of output. Innovation/research/investment will improve dynamic efficiency. Natural monopolies have less incentive to invest etc. as they have no competition.
Evaluation: Regulators may force natural monopolies to invest their abnormal profits (Ofwat in the UK water industry). If state owned government may direct all abnormal profit to be used for investment.

X-inefficiency: natural monopolies are under no pressure to reduce X-inefficiency/organisational slack as they face no competition.
Evaluation: Regulators may compel natural monopolies to address X-inefficiencies by the use of pricing formulas such as RPI-X.

Candidates who confuse natural monopoly and pure monopoly maximum band 2 for AO1 and AO4.

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3 (a)	**Explain the main costs of inflation to an economy.** **[10]**	
Band	AO1	AO3
	6 marks	4 marks
3	**5-6 marks** Excellent knowledge Learner has an excellent knowledge of **at least two of the costs** which may arise from inflation. A top band response will have a well-developed understanding of the costs of inflation.	
2	**3-4 marks** Good knowledge Answers in this band will lack the development and detail of a band 3 answer.	**3-4 marks** Good analysis Each cost of inflation is explained in detail showing a clear line of reasoning between inflation and how it impacts on economic agents and the economy.
1	**1-2 marks** Limited knowledge Learner can only demonstrate a narrow or superficial knowledge of the costs of inflation and depth of understanding may be limited.	**1-2 marks** Limited analysis Limited analysis of how inflation imposes costs on economic agents and the economy. Chains of reasoning are not clear or superficial.
0	**0 marks** No valid knowledge	**0 marks** No valid analysis

Indicative content:

Loss of price competitiveness; balance of payments damage falling exports rising imports.
Risk of depreciation of exchange rate; speculative outflows
Uncertainly and instability – less investment and the economy less attractive for FDI.
Cost push inflation may damage growth and cause unemployment
Redistributive effects to lenders and away from savers.
Fall in the real value of incomes/savings - especially those on fixed incomes
Fiscal drag - income earners being dragged into higher tax bands thus paying more income tax negative effect on incentives.

Risk of policy response - central bank might increase interest rates to tackle inflation
Danger of deterioration in industrial relations due to conflicts over pay bargaining.
Menu/shoe leather costs; constant updating of price lists/searching for the lowest prices and holding less cash and making additional trips to the bank.
Distortion of the price mechanism; allocative, rationing and signalling functions of price.

Falling real incomes for those whose income does not rise in line with inflation.
Danger of inflation getting out of control and becoming hyperinflation.

Allow any other relevant points

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<table>
<tr><td>3 (b)</td><td colspan="3">Evaluate possible polices that could be used be to reduce the rate of inflation.
[20]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td><td>AO4</td></tr>
<tr><td>6 marks</td><td>6 marks</td><td>8 marks</td></tr>
<tr><td>3</td><td>5-6 marks
Excellent knowledge

Excellent knowledge of possible counter inflation polices that could be introduced to reduce the rate of inflation.

At least two key policies are identified and understood in terms of how they would be intended to operate.</td><td>5-6 marks
Excellent analysis

An excellent analysis of how counter inflation policies will reduce the rate of inflation.

Learner has a clear line of argument to explain how policies will reduce inflation.

It is likely that at least two different policies will be analysed and it will be very clear exactly why each policy reduces inflation.</td><td>6-8 marks
Excellent evaluation

An excellent critical evaluation.

Learner comes to a clear view as to the circumstances under which counter inflation policies either do not work or have limitations.

Evaluation is an integral part of the answer throughout OR there is a comprehensive reasoned judgement.</td></tr>
<tr><td>2</td><td>3-4 marks
Good knowledge

Good knowledge of how counter inflation policies can work.

At least two appropriate policies are identified.

The outline of how each policy is intended to operate is not fully developed, meaning that full understanding is not really demonstrated.</td><td>3-4 marks
Good analysis

A good analysis of why counter inflation policies will reduce the rate of inflation.

The answer may be strong on only 1 policy with limited development of others.

Alternatively, the answer may attempt to explain links between the policy and inflation but may not be fully detailed in terms of approach.</td><td>3-5 marks
Good evaluation

Answers in this band have qualified arguments but the answer lacks a fully rounded approach.

Policies are well qualified in terms of either their effectiveness or side-effects.

Evaluation will not be integrated OR there is no comprehensive reasoned judgment.</td></tr>
<tr><td>1</td><td>1-2 marks
Limited knowledge

Limited knowledge of counter inflation policies.

Assertions are made but there is no real knowledge which would demonstrate an understanding of how these policies are meant to operate.</td><td>1-2 marks
Limited analysis

A limited analysis of why counter inflation policies impact on the rate of inflation.

Analysis is limited possibly to a diagram-based assertion in which the impact of policy is shown.</td><td>1-2 marks
Limited evaluation

A basic attempt to show how counter inflation policies may not work or may be ineffective.

Evaluation may be superficial with little development.</td></tr>
<tr><td>0</td><td>0 marks
No valid knowledge.</td><td>0 marks
No valid analysis.</td><td>0 marks
No valid evaluation.</td></tr>
</table>

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Indicative content:

Higher interest rates: will reduce AD (transmission mechanism) and demand pull inflation. BUT ineffective in dealing with cost push inflation – higher interest rates will increase firms' costs and possibly cause inflation. Although higher interest rates will raise the exchange rate and reduce cost push pressures from imports.

Higher rates of income tax: reduces disposable income and AD and via negative multiplier effects reduces GDP. BUT will not affect cost push/ imported inflation.
Wage and price controls: will reduce cost push inflation – break the wage price spiral. Reduction in inflationary expectations. BUT distorts the price mechanism, difficult and costly to administer. Also wage controls bring governments into conflict with trade unions.
Reduce indirect taxes such as VAT; reduces prices BUT less government revenue and indirect taxes are used to correct market failure.

Reduction in the money supply: will bring monetary inflation under control and reduce inflationary expectations. BUT doubts exist as to the strength of the link between money supply growth and inflation, hard to define what the money supply is/time lags. Quantitative tightening; selling existing government bonds back to the markets is an option when wishing to reduce the money supply.

Supply side policies: will improve labour and product market flexibility and remove inflationary pressures in the economy. BUT costly, potential for government failure/unintended consequences and there is a long-time lag.

Allow other policies such as cuts in government spending or anything else sensible.

Answers based solely on demand side polices to reduce demand pull inflation maximum band 2. Band 3 would require another type of policy to deal cost push or monetary inflation.

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4 (a)	**Explain why it may be difficult for governments to achieve their macroeconomic policy objectives at the same time. [10]**	
Band	AO1	AO3
	6 marks	4 marks
3	**5-6 marks** Excellent knowledge Knowledge of **at least two distinct** macroeconomic policy conflicts are clearly explained	
2	**3-4 marks** Good knowledge Knowledge of **at least one policy** conflict is well demonstrated, or two policy conflicts are covered in insufficient detail.	**3-4 marks** Good analysis Clear, detailed explanation of why achieving one policy objective may lead to direct conflict with others. The process through which the conflict occurs is fully developed.
1	**1-2 marks** Limited knowledge Answer successfully identifies the government's key policy objectives and shows some understanding of what those objectives are.	**1-2 marks** Limited analysis There is some explanation as to why one conflict arises, but the analysis lacks depth on other conflicts.
0	**0 marks** No valid knowledge	**0 marks** No valid analysis.

Indicative content:

The specification identifies 5 main policy areas:
Unemployment, growth, inflation/deflation, the current account balance and control of the public sector debt.
Answers might also refer to inequality and environmental issues.
Answers are likely to cover:

GDP/employment and inflation.

AO1
Might be illustrated with AD/AS or SRPC. Higher growth (if driven by demand side policies) can conflict with low inflation as the economy reaches capacity. Attempts to reduce inflation are likely to lower growth (if demand side policies are used)

AO3
Rising growth means that competition in product and labour markets is reduced. Firms face rising factor prices – workers become stronger in pay negotiations as they are less fearful of becoming unemployed and aren't so easy to replace, pushing up wages and therefore costs. Firms can pass on these wage increases because with a buoyant product market, there is less competition between firms. Likewise, shortages of office space may drive up rents and so on, further increasing costs.

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GDP/employment and current a/c balance.

AO1
Higher growth is likely to be associated with higher consumption which is likely to suck in imports, worsening the current account balance.

AO3
Rising growth will mean a higher level of output and consumption, some of which will mean that imports rise, whether directly or as a result of imported components. If growth leads to high inflation, this will further increase the attractiveness of imported products and rising UK prices may also mean that exports become less competitive, further worsening the current account balance.
Controlling debt and growth/unemployment.

AO1
Attempts to reduce the level of national debt through austerity might result in slower growth and higher unemployment due to the negative demand side impacts (Greece in the short run).

AO3
If public sector debt is reduced via tax increases and cuts in government spending, this is likely to suppress the level of AD, unless the economy was already growing strongly. Hence the economy may be likely to grow more slowly in the short run, possibly threatening jobs if GDP actually falls. In turn, this might actually worsen the government's finances, leading to an increase in national debt.

Allow any other well-explained macroeconomic policy conflicts, such as economic growth vs economic development or economic growth and inequality etc.

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4 (b)	**Discuss the extent to which the use of expansionary fiscal policy is appropriate during economic downturns.** **[20]**		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5-6 marks** Excellent knowledge Excellent knowledge is shown of expansionary fiscal policy appreciating that both tax cuts and government spending might form part of it.	**5-6 marks** Excellent analysis (reversible) Excellent analysis of how expansionary fiscal policy will be beneficial in terms of helping the government to achieve its policy objectives during an economic downturn.	**6-8 marks** Excellent evaluation (reversible) Evaluation points are well developed showing why the expansionary fiscal policy might not be desirable. An overall judgement draws together issues from both sides of the argument and/or there may be an integrated approach to evaluation.
2	**3-4 marks** Good knowledge Good knowledge of expansionary fiscal policy showing good understanding of either rising G or falling T.	**3-4 marks** Good analysis Good analysis of how expansionary fiscal policy will be beneficial in terms of helping the government to achieve its policy objectives during an economic downturn. Chains of reasoning showing how expansionary fiscal policy can solve a downturn are not fully developed.	**3-5 marks** Good evaluation A strong two-sided answer with effective points on both sides of the argument in which it is clearly shown that expansionary fiscal policy might be either ineffective or counterproductive in an economic downturn, but which never directly answers the question set in terms of coming to a reasoned conclusion.
1	**1-2 marks** Limited knowledge Limited knowledge of expansionary fiscal policy showing some understanding of either rising G or falling T.	**1-2 marks** Limited analysis Limited analysis of how expansionary fiscal policy will be beneficial in terms of helping the government to achieve its policy objectives during an economic downturn. Analysis is brief and superficial lacking both breadth and depth.	**1-2 marks** Limited evaluation A basic attempt is made to show that expansionary fiscal policy might be either ineffective or counterproductive in an economic downturn.
0	**0 marks** No valid knowledge	**0 marks** No valid analysis	**0 marks** No valid evaluation

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Indicative content:

AO1
Expansionary fiscal policy involves (automatic or discretionary) stimulation of AD using tax cuts and/or increases in government spending.
Government spending increases might be in the form of current or capital spending or increased transfers.
Tax cuts may be either direct (on incomes and wealth) or indirect (taxes on expenditure).

AO3
In principle expansionary fiscal policy can be desirable during economic downturns.
Automatic stabilisers (in the form of progressive taxes and benefit payments) will help to prevent any downturn from being as serious as it might be, but most answers will focus on discretionary policy.
In spending terms US research suggests that infrastructure projects and increased benefit payments seem to have the most impact on employment, whereas cutting payroll taxes is one of the more effective forms of tax stimulus.
At one level, fiscal expansion can be quite efficient because of the possibility that it might be partly self-financing – by expanding GDP, the tax base may increase and unemployment fall, meaning that the increased deficit may be less.
Stronger answers are likely to develop either specifics of particular stimuli in terms of how they are likely to impact on growth and jobs or will explain processes such as the multiplier in detail, linking clearly back to the original expansion.

AO4
Fiscal expansion may be unnecessary, ineffective or undesirable.
It may be unnecessary if product and labour markets are fully flexible, because the economy will quickly recover to the NAIRU via self-stabilising processes.
Even if the economy isn't self-stabilising, a fiscal expansion runs a number of risks:
Driving up bond yields and therefore creating increasing finance costs for the government.
Building up national debt, meaning that LR tax increases may be necessary. Under particular circumstances, expectations of such tax increases my mean that the fiscal expansion is ineffective (Ricardian equivalence).
Higher bond yields may create ripple effects through financial markets, crowding out private sector investment and hence both reducing the impact of the expansionary policy in the short run and possibly slowing potential growth in the long run.
Government spending projects may create expensive white elephants that have to be financed in the longer run, creating a drain on future taxpayers. Likewise, tax cuts can prove to be hard to reverse, creating the risk of a US style permanent budget deficit.
Excessive government support can allow inefficient (zombie) firms to survive, meaning that when the economy does recover, stronger more efficient companies are deprived of the resources that they need to maximise their economic impact.
Some forms of fiscal stimulus may not be particularly effective, leading to an increase in national debt with no meaningful effect on growth and jobs (cuts in some direct taxes might fall into this bracket.
Some may consider which taxes are cut, making links to equity issues

Allow any other relevant points

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5 (a)	**Explain why poor governance can be an obstacle to economic growth and development in LEDCs. [10]**	
Band	AO1	AO3
	6 marks	4 marks
3	**5-6 marks** Excellent knowledge Knowledge of at least two problems caused by poor governance. There is an understanding that poor governance and corruption are not synonymous.	
2	**3-4 marks** Good knowledge Knowledge of problems caused by poor governance may lack sufficient depth.	**3-4 marks** Good analysis Clear, detailed explanation of why the problems caused by poor governance hinder both economic growth and development
1	**1-2 marks** Limited knowledge There is some knowledge that poor governance can cause problems, but there is little explanation. .	**1-2 marks** Limited analysis There is a link made between the problems of poor governance and economic growth and development, but chains of reasoning are not well-developed.
0	**0 marks** No valid knowledge	**0 marks** No valid analysis

Indicative content:

AO1
Poor governance includes corruption, maladministration, weak judicial systems and more. Issues that may arise from this include:
Failure to effectively raise funds from the tax base because the administrative infrastructure is inadequate.
Lack of confidence in the judicial system can have a negative impact on I and FDI – there is little incentive to start businesses and a lack of intellectual property (IP) rights is likely to restrict innovation.
Corruption can cause a lack of public investment into core services, tax revenue instead being spent on vanity projects or simply embezzled, implying a significant opportunity cost. Similarly, corruption may mean that resources aren't allocated optimally, operating instead to support vested interests.
Systemic bribery can drive up business costs and can limit the access of low-income groups to basic services, increasing inequality as well as breaking the contract between the government and the governed, leading to increased tax avoidance.
Corruption and poor governance reduce genuine competition between firms and therefore results in poor resource allocation, higher prices and lower quality than might otherwise have been the case.
Corruption inside education systems leads to poor outcomes if teachers are underpaid and students have to pay for results –there is little incentive to make an effort and hence the workforce will not have the skills needed to support growth and development.
Allow any other relevant points

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AO3

Economic development refers to sustainable increases in living standards over time.
Each of the issues identified in AO1 (plus any other relevant ones) are likely to have a direct impact on living standards, whether through the impact on per capita income, health, education or rights more broadly.
Inequality will mean that households do not have access to basic health, education and housing, which reduces living standards.
Embezzlement by senior government officials means that public services will be at a higher cost and lower quality than is necessary, again impacting on health, education and income.
An absence of competition and innovation will mean that purchasing power of households will be lower than it might otherwise be, again reducing living standards.
The key for AO3 is that any problem for which understanding is shown is directly linked back to economic growth and development.
Allow any other relevant points

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<table>
<tr><td>5 (b)</td><td colspan="3">Consider how effective the interventionist policies of import substitution and export led industrialisation are likely to be in raising the levels of economic growth and development in LEDCs. [20]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td><td>AO4</td></tr>
<tr><td>6 marks</td><td>6 marks</td><td>8 marks</td></tr>
<tr><td>3</td><td>5-6 marks
Excellent knowledge

Good knowledge is shown of both import substituting and export led/promoting/oriented industrialisation.</td><td>5-6 marks
Excellent analysis (reversible)
Excellent analysis of how both ISI and EOI can create growth and development.

Links between the policies and living standards are clear.</td><td>6-8 marks
Excellent evaluation (reversible)
Evaluation points are well developed showing why ISI/EOI might not be desirable.

An overall judgement draws together issues from both sides of the argument and/or there may be an integrated approach to evaluation.</td></tr>
<tr><td>2</td><td>3-4 marks
Good knowledge

Good knowledge is shown of one of import substituting and export led/promoting/oriented industrialisation with limited understanding of the other.</td><td>3-4 marks
Good analysis

Good analysis of how ISI and EOI can create growth and development. There may be better development of one than the other, or the analysis may focus on growth rather than development.</td><td>3-5 marks
Good evaluation

A strong two-sided answer with effective points on both sides of the argument in which it is clearly shown that ISI and EOI might be ineffective in raising economic growth and development but which never directly answers the question set in terms of coming to a reasoned conclusion.</td></tr>
<tr><td>1</td><td>1-2 marks
Limited knowledge

Some knowledge of import substituting and export led/promoting/ oriented industrialisation is shown, but detail is lacking.</td><td>1-2 marks
Limited analysis

Limited analysis of how ISI and EOI can promote growth and development. Points are not well-developed and chains or reasoning are weak.</td><td>1-2 marks
Limited evaluation

A basic attempt is made to show that ISI and EOI might be ineffective in improving growth and development.</td></tr>
<tr><td>0</td><td>0 marks
No valid knowledge.</td><td>0 marks
No valid analysis.</td><td>0 marks
No valid evaluation</td></tr>
</table>

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Indicative content:

AO1
ISI
Key elements of ISI (Import substitution industrialisation) are:
(Not all necessary)
Protectionism to support infant industries
An active industrial policy to support the development of strategic industries, which may include nationalisation of some key sectors and infrastructure investment by the government.
An overvalued exchange rate to allow the low-cost import of capital equipment and technology
The discouragement of FDI to allow domestic firms to thrive.
EPI/ELI/EOI (Export promotion industrialisation, Export led industrialisation, Export-oriented industrialisation)
These strategies aim to create growth and development by encouraging and supporting export sectors in which the country has a comparative advantage, aiming to benefit from richer developed markets. Characteristics often include:
A floating exchange rate
Targeted support for key sectors in the form of low-cost loans and infrastructure such as industrial parks
Openness to FDI
An emphasis on education to build the skills needed for successful industrialisation.
Each of ISI and EOI can contain other elements and not all countries use all of the elements above.

AO3/4
ISI
ISI should lead to the replacement of imported industrialised goods with locally produced ones, often sectors which build on primary product availability. With tariffs imposed on imports, local firms can come to dominate domestic markets and generate economies of scale that may eventually allow them to compete on world markets.
Access to low cost capital equipment and technology via an overvalued exchange rates can also help to kick-start this process, as can low cost energy supplies from state-owned producers and government investment in transport infrastructure.
In South America, ISI eventually ran into problems because, amongst other things:
An overvalued exchange rate meant that firms were constrained by the size of their domestic markets, meaning that it was more effective in larger countries.
The protectionist policies mean that local firms face limited competition and hence tend to be inefficient.
Government spending on infrastructure means that governments tend to run budget deficits which led to rising national debt and crowding out.
EPI/ELI/EOI
EOI should lead to growth and development by increasing the rate of economic growth rapidly as countries target rich, developed markets.
An emphasis on growth sectors and support for education combined with the fact that firms have to compete on global markets can cause rapid growth, especially if the sectors receive appropriate, targeted support.
Nevertheless, EOI often requires a substantial budget and the most successful exponents (the Asian tigers) all had positional or political advantages not necessarily available to other countries.
EOI assumes strong governance and well-informed leaders who are able to target the right sectors and avoid becoming mired in corruption.
Likewise, a risk of EOI is that a country is more exposed to global economic shocks, due to its dependence on export income from overseas markets.

Allow any other relevant points

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6 (a)	**Explain why some countries have long term current account surpluses on their balance of payments.** **[10]**	
Band	AO1	AO3
	6 marks	4 marks
3	**5-6 marks** Excellent knowledge Excellent knowledge of at least two reasons why some countries have current account surpluses. A top band response will have a broad developed understanding of reasons for surpluses.	
2	**3-4 marks** Good knowledge Answers in this band will have fewer reasons outlined or show some lack of understanding.	**3-4 marks** Good analysis Each reason is explained in detail analysing via a clear chain of analysis which shows how relevant factors can lead to a current account surplus.
1	**1-2 marks** Limited knowledge The learner can only demonstrate a narrow knowledge of the reasons for a current account surplus – reasons show limited understanding.	**1-2 marks** Limited analysis A limited analysis of how a current account surplus is caused. The chains of analysis are weak and superficial.
0	**0 marks** No valid knowledge	**0 marks** No valid analysis

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Indicative content:

AO1/AO3

Understanding shown of reasons for a current account surplus: AO1
Analysis of how each factor leads to a current account surplus. AO3

Price and non-price competitiveness/long run competitive advantage – price, quality, design reliability after sales service etc are better than rival economies.
Undervalued exchange rate – currency manipulation. An undervalued currency gives a country a price competitive advantage over rival economies eg Germany (euro) and China (yuan).
Size of export sector is high- countries with large export sectors help to boost exports as a %GDP (Germany). Importance of Mittelstand in Germany. Many UK firms could export but choose not to for a variety of reasons.
High demand in key overseas markets – domestic products are highly demanded in overseas markets e.g. German cameras, telescopes, washing machines (Miele) all highly engineered and in demand in fast growing markets of east Asia.
Low propensity to import- loyalty of consumers to domestically produced goods. High savings ratio – China.
High productivity-low unit labour costs and thus lower prices.
High levels of investment & R&D/innovation- products are technologically advanced and well-engineered.
Long run rise in global price of exports/fall in price of imports (i.e. improvements in the terms of trade).
Allow any other relevant points

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<table>
<tr><td>6 (b)</td><td colspan="3">Evaluate the view that a current account surplus is always beneficial to an economy. [20]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO3</td><td>AO4</td></tr>
<tr><td>6 marks</td><td>6 marks</td><td>8 marks</td></tr>
<tr><td>3</td><td>5-6 marks
Excellent knowledge

An excellent knowledge of the key issues surrounding a current account surplus.

Response shows a detailed understanding of a number of points on either side of the argument.</td><td>5-6 marks
Excellent analysis

An excellent analysis of how a current account surplus can affect the economy.

The learner shows a clear line of argument explaining the causal relationship between the surplus and the effect on the economy.</td><td>6-8 marks
Excellent evaluation

An excellent critical evaluation.

Evaluation is an integral part of the answer throughout OR there is a comprehensive reasoned judgement.</td></tr>
<tr><td>2</td><td>3-4 marks
Good knowledge

There is a good knowledge of how a current account surplus affects the economy.</td><td>3-4 marks
Good analysis

A good analysis on the impact of a current account surplus on the economy.

There is a good line of argument but clarity of analysis may be lacking in places.</td><td>3-5 marks
Good evaluation

A good evaluation with a number of counter-arguments made.
Evaluation is not integrated and there is no overall critical judgement.</td></tr>
<tr><td>1</td><td>1-2 marks
Limited knowledge

There is a limited knowledge of how a current account surplus affects the economy.
Points may be limited and superficial.</td><td>1-2 marks
Limited analysis

Limited analysis of the impact of a current account surplus on the economy. The line of argument lacks clarity and analysis is superficial.</td><td>1-2 marks
Limited evaluation

A few evaluative points are made but merely as assertions.
Points made are not developed and superficial.</td></tr>
<tr><td>0</td><td>0 marks
No valid knowledge</td><td>0 marks
No valid analysis</td><td>0 marks
No valid evaluation</td></tr>
</table>

Indicative content:

AO1/AO3

Net contributor to GDP-boosting employment and output. Positive net exports are an injection into the circular flow of income and has a multiplier effect.
Accumulation of foreign assets and foreign exchange reserves via financial/capital account deficit eg China.
Spending on domestic goods is high as opposed to buying imports.
Sign of international economic strength/highly competitive economy/high share of world trade.

AO4

Current account surplus may be unpopular with other 'deficit countries' especially if it is associated with an undervalued exchange rate e.g. Germany and China. This could lead to import controls being imposed on surplus countries and a trade war. Seen in recent years with President Trump's protectionist policies (tariffs) against China.
The surplus could mean a fall in employment if it has been caused by a recession.
Surplus may only be cyclical – that is temporary and linked to the trade cycle and not structural.
A current account surplus will boost AD and possibly raise demand pull inflation.
A surplus could put upward pressure on the exchange rate making exports uncompetitive and imports cheap. A floating exchange rate should automatically 'correct' a current account surplus.
Surplus may be a sign of savings being too high (China).
Resources being used to produce goods for other countries – this might imply lower short-term living standards.
A current account surplus will only pose problems if it is persistently high as a % of GDP.

Allow any other relevant points

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