AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.2.2.6 DETERMINANTS OF LONG-RUN AGGREGATE SUPPLY

SCORE	PERCENTAGE
/591	%

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1.

Introduction	• The nature of public sector debt • The relationship between deficits and debt • The EU and fiscal rules.
Developing the response to the question: **Application**	Drawing on the information in the extracts: • Eurozone recovery slowing **(Extract B)** • Taxation affecting investment **(Extract B)** • Ireland creating conditions to increase lending **(Extract C)** • Crowding out **(Extract C)** • High levels of public debt **(Extract C)** • Significant trade partners **(Extract C)**
Developing the response to the question: **Analysis**	Arguments as to how reduced public sector debt in other economies may effect UK: • methods of reducing public sector debt • equity and different income groups • impact on UK exports/FDI • impact on UK growth (short-run and long-run) • impact on the balance of payments on both current and capital accounts. • impact on employment/unemployment • impact on inflation. • impact on investment and confidence • impact on ratings agencies and bond yields • crowding in/crowding out arguments • standards of living • Keynesian multiplier Consideration of how reduced public sector debt domestically is also worthy of credit.
Evaluation	• How 'impact' is measured and the importance of various macroeconomic performance indicators • The differences between the relationships with each nation ie countries which provide us with net exports possibly having a bigger impact • Consideration of 'at the same time' as being with each other or with the UK • The rate at which debts are being reduced • Consideration of whether Government debt is in fact a problem • Consideration of FDI and how this might be affected

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	• Will the private sector actually have more freedom to invest both domestically and abroad with reduced Government intervention • Whether debt reduction causes crowding in or crowding out and the effects on AD. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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2. **Issues and areas for discussion include**

Introduction	• definition of supply-side reforms • the balance of trade in goods • improvement: reduced deficits or from deficit to surplus.
Developing the response to the question (analysis and application)	• aggregate supply • aggregate demand • productive capacity • cost-push/demand-pull inflation • productivity • the concept of competitiveness • supply-side reforms in outline • objectives of reforms, e.g. flexibility, mobility, quality, lower unit costs, choice, structural change • individual reforms relevant to the trade in goods • the significance of overseas demand for UK exports and UK demand for imported goods • other policies not linked to the supply side • use of diagrams • references to the real world.
Evaluation	• the nature, extent and effectiveness of UK reforms in relation to those of other countries • whether or not supply-side reforms can in any way compensate for decades of deindustrialisation so that imported goods are an inevitability • the long-term nature of reforms so that deficits may persist in the short and medium terms • the significance of changing tastes in world markets • supply-side reforms at a time of a sustained global downturn • supply-side reforms concentrating on lowering unit costs rather than quality and choice, so imports remain attractive, exports no more attractive • whether supply-side reforms will always be a story of 'too little, too late' • relative merits of supply-side policies to other policies that can be used to reduce deficits eg significance of exchange rates • a final judgement, perhaps in the context of recent UK experience. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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3.

Explanation:

Definition: As there is no single definition for this, any suitable definitions can be credited: eg The ability of an economy to sell goods and services in or to other countries and linking to the theory comparative advantage or in terms of lower costs of production or price/non price competitiveness

Analysis:

For Example: A fall in corporation tax may reduce a firms costs therefore the firms expected profits may rise and improve confidence which may be a catalyst for investment which may increase spending on both human capital and physical capital which may lead to productivity advancements allowing firms to sell goods for cheaper on international markets.
Use of appropriate diagrams, eg AD/AS
Reference to the UK or other economies.

[9]

5.

Areas for discussion include:

- UK experience of recent years
- definitions of inflation and deflation
- why price stability is a key objective
- impact of inflation on UK competitiveness
- impact on growth/employment/trade
- the distributional impact of inflation and deflation
- mild v high inflation
- impact of anti-inflationary policies on the economy
- why deflation may lead to even lower spending by consumers/firms
- impact of deflation on the real value of both public and private sector debt
- impact on confidence of households and firms
- effect on business profits
- benefits of deflation
- impact on other macroeconomic objectives
- malign v benign deflation
- policy options to deal with deflation
- extent and magnitude of each problem
- reference to other economies, e.g. Japan, EU , including differences between the situation in the UK and other economies

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

[25]

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6. **Issues and areas for discussion include**

Introduction	• deflation v inflation • criteria for assessing the economic impact of deflation • the relevance of the issue to the last few years
Developing the response to the question:	• the shorter term benefits in terms of consumer demand for goods and services falling in price • competitiveness • impact on profits and hence possibly on investment and on sustainability of businesses • the impact on confidence, especially where deflation is a feature of a recession • economic growth • employment • trade flows and the impact on the balance of payments on current account • inward investment • UK experience • the potential impact on consumer demand • the impact on the real value of debt, important particularly in light of high UK home ownership • the impact on the exchange rate • any other valid issue
Evaluation	• whether or not deflation has set in worldwide or just nationally • the extent of the deflation • the duration of the deflation • the flexibility/resources the government/central bank has to deal with the problem • the extent of damage to consumer and business confidence • how much it impacts on profits • whether deflation causes consumers to keep delaying purchases hoping for even lower prices *Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of deflation. However, this must be considered as low-level evaluation and awarded accordingly.*
Also give credit for:	• relevant use of evidence and examples from other economies • diagrams

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	• an overall judgement on the issues raised

[25]

7.

Level of response	An answer that:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	**7-9 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	**4-6 marks**
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1-3 marks**

An AD/AS diagram is expected, illustrating the possible effect of investment on AD and/or LRAS.
A PPF diagram could also be used.

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Relevant issues include:

- definition of economic growth; what is meant by investment
- impact of investment on capital stock
- impact of investment on LRAS
- impact of investment on productive capacity
- impact of investment on productivity and efficiency
- impact of investment on AD and possible multiplier effects

[9]

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8.

It is hoped that candidates will be able to display a good knowledge of recent supply-side reforms (both government policy and private sector initiatives) and then be able to arrive at an informed judgement by relating the impact of them to demand-side initiatives.

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:

Introduction	• the economic cycle with particular reference to recession • the nature of supply-side reforms • brief reference to alternative policies for helping recovery • macroeconomic objectives.
Developing the response to the question:	• more detailed references to supply-side reforms such as welfare-to-work, mobility policies, training and education • the way in which supply-side reforms may help reduce conflict between macroeconomic objectives such as growth and inflation • supply-side reforms helping to achieve sustained growth • supply-side reforms and the UK experience • policies designed to influence aggregate demand (AD) • a balanced approach to managing the economy, for example, managing AD with the short / medium term in mind while developing supply-side reforms designed to have a long-term impact.
Evaluation	• consequences may all depend on the nature and scale of the reforms • is 'avoidance' wishful thinking when alleviation is probably a more realistic aspiration, especially when placed in an international context? • supply-side reforms can give an underlying strength to an economy which might help avoid recessions • the net effect may be small if Africa compensates for the decline of other UK markets (temporary or permanent) • global recession which impacts on any one economy may require an immediate (perhaps Keynesian) response on the demand side and continuing demand management policies • the limited immediate relevance of supply-side reforms whatever the economic shock suffered • the inability of markets to deal at all with serious shocks to the macro-economy even where there have been supply-side reforms • such a response may also be seen as most appropriate even if a downturn is peculiar to one economy

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	• the benefits of supply-side reforms becoming apparent in a global recession when other economies begin to recover • a strong impetus for supply-side reforms may only appear because of a recession rather than as a consequence of recession (and so the changes in the economic cycle come first) • the prospect that supply-side reforms can help sustain periods of high economic growth and prevent any downturn, e.g. they help avoid or control inflation as an economy grows. • it should not always be assumed that recessions have no benefits, eg providing an impetus to efficiency drives and structural reform, and supply-side reforms may ease this process • the value of comparing interventionist versus free-market supply-side measures. *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 supply-side reforms, but with no attempt to place them into the context of the question or to prioritise them explicitly. This must be considered as low-level evaluation and awarded accordingly.*
Also give credit for:	• reference to the experiences of other economies • diagrams • an overall judgement on the issues raised

[25]

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10.

Explanation

- Define trade, investment, economic growth or any other relevant term except recession.
- Explain the concept of world recession, eg
  - define ‘recession’ or ‘world recession’ (one definition would be the UK official definition applied to the global economy of two successive quarters of negative GDP growth)
  - explain likely features of recession such as lower investment, higher unemployment, lower inflation or deflation (do not credit in such an explanation reference to negative GDP growth if this has already formed part of a definition, unless some points are added in order to provide an explanation)
  - comment on ‘world’, perhaps suggesting that it may be a term used when only some key areas of the global economy are in recession; referring to how a key area such as the US might draw other parts of the global economy into recession; make reference to the global nature of the recession of recent years
- Analyse how trade and investment might help cause economic growth, eg

Trade:

- a country’s improved export performance can help create growth by output being increased to meet higher overseas demand and this then stimulating a multiplier effect which will lead to higher output and employment beyond the export sector itself
  - trade as a stimulant to innovation
  - trade as a stimulant to investment
  - trade as an incentive for a range of supply-side reforms
  - trade encouraging competition, so providing a possible stimulant to static and dynamic efficiency

Investment:

- investment is a component of AD so higher investment might produce higher actual growth but it is also a supply-side determinant of growth in that it helps create higher output through increased rates of innovation and labour productivity
  - investment producing growth-inducing structural change
  - investment producing growth-inducing infra-structure developments
  - investment in human capital
  - any other valid point

Reward references to the UK/other economies

[9]

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11.

Introduction	• The meaning of inequality • Differences between income and wealth • UK economic performance measures.
Developing the response to the question: **Application**	Drawing on the information in the extracts: • the rich having a lower MPC and a higher MPS and if incomes of the poor increased consumption would increase **(Extract B)** • US economic growth and US being the UK's main export partner **(Extract B)** • Increased income inequality due to reduced union power **(Extract C)** • trickle-down effects improving living standards **(Extract C)** • promoting incentives and wealth generation and focusing on financial services **(Extract C)** • economic progress often depends on saving and innovation **(Extract C)** • UK financial services making short term with profits and lacking long term investment **(Extract C)**
Developing the response to the question: **Analysis**	Arguments how inequality impacts on UK performance: • impacts on consumption and AD • US as the UK's main export market + other export markets • how supply side reforms have affected UK macro-performance • UK's comparative advantage in financial services • increased savings linking to investment • policies impacting on consumption and investment and different income groups • entrepreneurship, "wealth generation" and the free market. • equity vs efficiency arguments • impact on FDI • asset bubbles • UK banking system and the pursuit of long term investment Analysis of each of the UK's four main macro-economic goals or other social goals or current government targets could be included.
Evaluation	• Does inequality in other countries really impact on the UK economy? • The relative amount of inequality • Does the marginal propensity to consume have such a big impact or are there more important considerations (does increased saving by the "top 1%" have such an impact?)

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	• The importance of exports and FDI in the economy. • Other considerations such as domestic policy or financial crisis creating bigger impacts. • The relative importance of each macroeconomic performance indicator • Whether Government intervention is necessary for the improvement of the economy and if so in what way?
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

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12. **Issues and areas for discussion include**

Introduction	• government borrowing put into its fiscal context • the basic functions of government borrowing, e.g. to finance spending in a way that negates the need to raise taxes or to help supplement the revenue from tax as tax rates are raised • the recent UK experience and/or that of other countries • the significance of the Budget and Pre-Budget reports in the UK
Developing the response to the question:	• an outline of the criteria for assessing concern • the potential impact on inflation/deflation • economic growth • employment • cyclical reasons for borrowing, perhaps argued as essential in the circumstances • business and consumer confidence • the exchange rate • interest rates • the impact on the private sector, e.g. complacency • 'crowding-out' • the potential difficulty of financing a large borrowing requirement • the possible impact on the money supply • the potential impact on future tax-payers • any other valid issue
Evaluation	• the level of concern/acceptability of borrowing may depend on the economic circumstances at the time • concern may depend on the actual level of borrowing • assessment may be coloured by the decisions made by other countries • borrowing needs to be related to the National Debt to help any assessment • the uses to which the borrowed money is put • whether borrowing creates a necessity to raise taxes in the future or to cut spending • whether it breaks any fiscal rules and, in turn, whether this is seen as important (up to mid-2008 the UK Code for Fiscal Stability and the on-going EU Stability and Growth Pact) *Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of increased spending which has led to the need to*

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	borrow more. However, this must be considered as low-level evaluation and awarded accordingly.
Also give credit for:	• relevant use of evidence and examples from other economies • diagrams • an overall judgement on the issues raised

[25]

15.

Explanation:

For a relevant explanation of circular flow: eg A model which demonstrates the flow of money between households and firms and going on to explain the role of injections/leakages or linking the circular flow to measures of national income/output /expenditure.
For a diagram of the circular flow

Analysis:

For Example: Increased growth in the US could lead to rising disposable income of US citizens who may increase their spending this may be on UK's goods or services which would lead to increased export earnings for the UK which would increase the output of UK firms and therefore AD of which exports are a component which therefore increases the national income of the UK.
Use of appropriate diagrams, eg a diagram showing increased AD on an AD/AS diagram or increased FDI from overseas increasing both AD and AS
Reference to the UK or other economies.

[9]

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Mark schemes

1. A

[1]

3.

Level of response	An answer that:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	**7-9 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	**4-6 marks**
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1-3 marks**

An AD/AS diagram is expected, illustrating the possible effect of investment on AD and/or LRAS.
A PPF diagram could also be used.

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Relevant issues include:

- definition of economic growth; what is meant by investment
- impact of investment on capital stock
- impact of investment on LRAS
- impact of investment on productive capacity
- impact of investment on productivity and efficiency
- impact of investment on AD and possible multiplier effects

[9]

4.

Areas for discussion include:

- UK experience of recent years
- definitions of inflation and deflation
- why price stability is a key objective
- impact of inflation on UK competitiveness
- impact on growth/employment/trade
- the distributional impact of inflation and deflation
- mild v high inflation
- impact of anti-inflationary policies on the economy
- why deflation may lead to even lower spending by consumers/firms
- impact of deflation on the real value of both public and private sector debt
- impact on confidence of households and firms
- effect on business profits
- benefits of deflation
- impact on other macroeconomic objectives
- malign v benign deflation
- policy options to deal with deflation
- extent and magnitude of each problem
- reference to other economies, e.g. Japan, EU , including differences between the situation in the UK and other economies

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

[25]

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5.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21-25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16-20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	**11-15 marks**

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2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6-10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes analysis which is, at best, very weak • includes attempted evaluation which is weak and unsupported.	**1-5 marks**

Relevant issues and areas for discussion include:

- the stability of the Brazilian economy
- political and social stability
- the rule of law and corruption
- whether the investment is likely to be profitable and whether it is secure
- the nature of any capital controls
- the infrastructure in Brazil
- the skills and abilities of the workforce
- financial and other support from the government
- regulations on business
- the tax regime; both corporate and individual taxes
- availability of finance
- the prospects for future growth of the Brazilian economy
- the size of the Brazilian car market and the potential for future growth
- access and proximity to businesses that can support the car industry, eg component suppliers
- potential for exporting cars from Brazil, eg access to other markets in the Americas
- the prospects for the value of the Brazilian currency, the real, and its stability

[25]

7.

Explanation

For defining / explaining • Deflation / Inflation • Malign / Benign deflation • Methods of measurement (CPI/basket of goods)	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

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Award 1 mark for each step in a logical chain of reasoning:

For example: The use of supply-side policies **(1 mark)** such as subsidies for research and development **(1 mark)** may lead to the creation of improved efficiency in production techniques **(1 mark)** which may lead to improvements in productivity **(1 mark)** and therefore increase the output per worker **(1 mark)** which may mean fewer workers are needed to produce the same amount of goods **(1 mark)** which will reduce the average unit cost **(1 mark)**. This may be passed on to customers in the form of lower prices **(1 mark)** will lead to a fall in cost-push inflationary pressure **(1 mark)** and potentially benign deflation **(1 mark)**. **Other examples include:** Falling oil and other commodity prices, any component of aggregate demand falling for a reason such as high interest rates affecting consumption, lack of confidence reducing investment, increased international competition, government attempts to reduce the budget deficit by spending cuts or recession in the Eurozone damaging exports.	**Up to 15 marks**
Use of diagrams to help support explanations, e.g. AD falling, SRAS increasing, LRAS increasing	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

[15]

8. B

[1]

9.

For defining / explaining • Government spending by area • Current / capital / transfers • The budget or fiscal policy.	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

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Award 1 mark for each logical link in the chain of reasoning:

For example As a method of redistributing income **(1 mark)** where taxation has been raised (allow 1 mark for taxation as a source for spending) enabling government to spend on means-tested **(1 mark)** such as housing benefit (**1 mark for examples**) or universal **(1 mark)** benefits such as the winter-fuel allowance **(1 mark)** which will reduce inequality **(1 mark)** by increasing the incomes of the poorest in society **(1 mark)** and correcting a potential market failure **(1 mark)**. Other examples include: boosting AD, Keynesian multipliers, supply-side policy, influencing the pattern of economic activity through subsidies, provision of merit goods, public goods and correcting other market failures.	**Up to 15 marks**
Use of diagrams to help support explanations, e.g. AD increasing, LRAS increasing, trade cycle, correcting market failures (such as positive externalities in consumption) or subsidy.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

[15]

10.

For defining / explaining • Exchange rates • Appreciation • Different exchange rate systems	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

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Award 1 mark for each logical link in the chain of reasoning

For example A free floating exchange rate is determined by the supply and demand of currency on FOREX **(1 mark)**. Speculative activity **(1 mark)** may occur if it is thought there will be a rise in the interest rate **(1 mark)** of a particular economy which will increase the demand of that currency **(1 mark)** as the returns to saving rise **(1 mark)** if money is placed in an economy's financial institutions **(1 mark)**. As the flow of 'hot money' increases **(1 mark)** this may lead to an appreciation **(1 mark but not to be awarded in addition to definition marks)** such as £1 = $1.46 goes to £1 = $1.50 **(1 mark for examples but not use of the example in the preamble)**. Other examples include: trade flows, productivity rates, inward investment, other speculative activities and government intervention.	**Up to 15 marks**
Use of diagrams to help support explanations, currency diagrams, trade cycles and AD/AS diagrams	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

[15]

11. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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

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

Issues and areas for discussion include

Introduction	• Productivity improvements • The EU economy • Macroeconomic performance.
Developing the response to the question: **(Application)**	• Improvements to infrastructure & investment **(Extract E)** • Difficult to improve productivity in some jobs **(Extract E)** • Links to living standards **(Extract E)** • Links to wages **(Extract E)** • Improvements in skills **(Extract E)** • Improvements to competitiveness **(Extract F)** • Solutions to unemployment problems **(Extract F)** • Boosts to welfare and lower prices **(Extract F)** • Product and process innovation **(Extract F)** • Structural weakness and lack of investment **(Extract F)**
(Analysis)	**Arguments why productivity improvements may benefit the UK** • Improvements in efficiency • Lower unit costs for firms and potential for increased profits • Improved competitiveness and the impact on the current account of the balance of payments • If UK productivity improvements can be achieved it may attract FDI and improve the capital account of the balance of payments • Higher wages • Economic growth • Possible boosts to tax revenue **Arguments why productivity improvements may not benefit the UK** • Productivity improvements may not require as many workers and impact on unemployment • Other countries may become more competitive at the UK's expense • If other countries are more competitive then it may divert FDI • Productivity improvements don't necessarily improve living standards • Other issues such as exchange rates may distort productivity gains • Opportunity cost of supply-side policies • Difficulties in measuring the impact of supply-side policies
Evaluation	• Potential conflicts between macroeconomic goals are traditionally reduced through productivity improvements. However, due to globalisation this may not always be the case • The UK's membership of the EU allows productivity improvements to be shared easily due to the free movement of workers and capital although this doesn't appear to have helped the UK's current membership • Knowledge transfer and process innovation have improved between economies however, the UK has still remained behind • Competitiveness relies on many other factors which are not covered by productivity • Consideration of UK's decision to leave the EU *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is*

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	important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

12. **The anticipated diagram would make appropriate use of diagrams, e.g. LRAS shifting right, SRAS shifting right, PPF's or AC curves.**

Relevant issues include:

- Definition of investment.
- Explaining this in terms of a business entity in one country gaining ownership in another.
- Explaining the difference between FDI and portfolio investment.
- Increased foreign direct investment (FDI) by possibly bringing new technology or production processes into an existing firm which may reduce the need for labour to gain the same output and therefore boosts labour productivity.
- Improvements to infrastructure carried out by government capital spending such as improvements to motorways may allow transport costs to fall allowing the company to produce the same output for lower cost and boosts to efficiency and productivity.
- Research and development and increased competition due to FDI.
- Different forms of transport and communication links for infrastructure.

[9]

13.

Response	**Max 2 marks**
For the correct answer **20.9%**. The 'unit' (%) **must** be shown.	**2 marks**
For the correct answer **without** a unit shown.	**1 mark**

[2]

14. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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

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

Issues and areas for discussion include

Introduction	• Macroeconomic performance • Trade • Free trade or trading blocs
Developing the response to the question: **(Application)**	• Focussing on improving trade in services (**Extract B**) • Sharing technology (**Extract B**) • Boosting exports, competition and investment (**Extract B**) • Improving international relations (**Extract B**) • Growth of Asian economies in comparison to slow EU growth (**Extract C**) • Problems for trade unions and environmental issues (**Extract C**) • Regional inequality (**Extract C**) • Unfair competition from state subsidised industry (**Extract C**) • Increasing power of MNCs in comparison to elected government (**Extract C**)
(Analysis)	**Arguments why free trade agreements may benefit the UK:** • Effects of increased export opportunities on output and employment • Effects of increased inward investment on output and employment • Impacts on the price of imports / semi-manufactures • Economies of scale and the effects on price level • Boosts to productivity and output • Benefits of competitive markets and sharing of technologies • Boosts to international relations • Improved choice / quality • Comparative advantage and the gains from trade. **Arguments why free trade agreements may damage the UK:** • The UK is unable to use protectionist policies such as quotas, tariffs, export subsidies • Possibly open to more external shocks • Sunrise / sunset industry arguments • May be subject to increased price fluctuations / instability • Loss of potential tariff revenue (although this is not directly received in the EU) • Cultural and strategic industry arguments • May be unable to protect against “dumping” • Environmental issues with increased transportation • Unclear growth and employment effects • Problems for small business in comparison to MNCs • May give an impetus to further deregulation / privatisation.
Evaluation	• The UK being unable to negotiate their own deals due to EU membership at the moment, however after we leave the EU it can conduct its own negotiations. • The EU currently not having deals in place in comparison to other economies • Benefits and costs depending on the various stakeholders points of view and short-term benefits, such as lower prices, may have long-term costs such as increased structural unemployment

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	• Regions of the UK may experience different impacts • Trade deals may be done which don't directly involve the UK but could benefit it or could potentially damage it such as the TPP • References to UK's current situation affecting trade *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss issues not discussed above.

[25]

15. **Anticipated diagrams might utilise the SRAS shifting right, micro diagrams demonstrating falling costs, removal of tariffs/quotas.**

Relevant issues include:

- A relevant definition of comparative advantage.
- The difference between acquired and natural comparative advantage.
- The difference between absolute advantage and comparative advantage.
- A numerical example / diagram.
- Improved communication through developments in technology, such as the internet has allowed individuals to order goods across international borders.
- Further to this, international pay sites such as PayPal facilitate the easy exchange of currency with minimal transaction costs which has increased the volume of goods and services traded abroad.
- The work of the WTO
- Removal of protectionism
- Creation of trading blocs
- Economies of scale
- The role of MNC's
- Financial liberalisation
- Containerisation
- Reduced transport costs.

[9]

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16.

Areas for discussion include:

- definitions/explanations: burden of taxation, taxation, direct/indirect taxation, fiscal policy
- explaining the burden of taxation, expressed, for example, as a % of GDP
- describing the current forms of taxation used in the UK and recent changes
- explaining the principals of taxation such as equity
- giving examples of the various direct and indirect taxes
- identifying the differences between progressive, regressive and proportional tax
- the redistributive impact of direct and indirect taxation
- how falling direct taxes may:
    - incentivise work
    - reduce tax avoidance/evasion
    - influence consumption
    - influence investment
    - any other relevant point
- how rising indirect taxes may:
    - affect inflation
    - reduce consumption of demerit goods
    - affect SRAS
    - affect consumption decisions
    - affect wage demands
- evaluating the size of the shift
- evaluating empirical evidence
- evaluating the period of time over which the shift takes place
- policy myopia and political ideology affecting decisions
- the Laffer curve.

The use of relevant diagrams such as the Laffer curve to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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17.

Areas for discussion include:

- definitions/explanations: monetary policy, deflation, developed economies
- deflation and the different types (malign v benign)
- the effects of deflation
- the nature of developed economies and different experiences of deflation
- the role of interest rates and the transmission mechanism
- the effects of interest rates on investment, employment, saving and consumption
- the link between long-term saving and long-term investment
- the effectiveness of interest rates at very low levels including negative interest rates
- consideration of the MPC's role, primarily in targeting inflation but also in targeting growth
- consideration of differences in the two economies which may determine the effectiveness of monetary policy
- the use of quantitative easing and consideration of its success
- the possible role of the exchange rate in stimulating the economy
- the use of fiscal policy and fiscal stimulus
- considering how government debt may affect the ability to use fiscal policy
- considering how private-sector debt may influence the effectiveness of policies designed to combat deflation
- consideration of the potential conflicts in policy
- the significance of economic shocks and their impact on policies to tackle deflation.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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18. **Relevant issues include:**

- definitions/explanations: government spending, taxation, economic activity
- explaining the different forms of government spending such as capital/current /transfers
- explaining the levels of government spending
- explaining the reasons for government spending i.e. the redistribution of income and wealth, merit good provision etc.
- explaining how changes in government spending and taxation can influence aggregate demand both directly and indirectly
- explaining discretionary policy
- explaining automatic stabilisers

- explaining the effects of the economic cycle on government spending and taxation
- explaining how changes in government spending could change aggregate supply such as:
  - capital spending on infrastructure
  - training and education
  - subsidies/grants for research and development
  - subsidies/grants for investment
  - tax credits
  - assisted childcare and the effects on labour supply
  - any other relevant point
- multiplier and possible accelerator effects
- explaining the different types of taxation
- explaining how changes in taxation could change aggregate supply such as:
  - reducing income tax creating incentives to work
  - reducing corporation tax allowing firms to retain more profit for investment
  - reducing taxation, possibly making UK firms more competitive abroad and effects on supply
  - using taxation (tariffs) as a form of protectionism, aiding domestic supply
  - any other relevant point.

The use of relevant diagrams such as AD/AS, or labour market diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Note: Unless a candidate considers both government expenditure and taxation, they are unlikely to have 'developed a selection of key issues that are relevant to the question' and therefore unlikely to achieve level 3.

Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11 – 15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6 – 10 marks**
1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context **and/or** data to the question • might have some limited analysis but it may lack focus **and/or** become confused.	**1 – 5 marks**

[15]

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19.

Areas for discussion include:

- definitions/explanations: the balance of payments, the current account, current account deficit
- explaining the difference between a surplus or deficit on current account
- explaining the composition of the current account of the balance of payments
- explaining the historical experience of the UK's current account
- explaining the causes of deficits
- explain possible measures to reduce the deficit such as:
    - exchange rate manipulation
    - changes in interest rates potentially affecting the exchange rate
    - expenditure-reducing policies
    - expenditure-switching policies
    - the role of protectionism
    - government role in export promotion/trade deals
    - the role of fiscal and monetary policy
    - supply-side improvements which might begin to provide a solution to the weakness, such as:
        - competitiveness/unit labour costs
        - investment (human and physical capital)
        - technology, R&D and productivity
        - infrastructure
- consideration of the UK's membership of the WTO and EU restricting its ability to use protectionism
- consideration of whether the deficit is a problem if the capital account is in surplus
- consideration of the impact on other macroeconomic goals of trying to reduce the deficit on the current account of the balance of payments.

The use of relevant diagrams such as AD/AS diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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20.

Relevant issues include:

- definitions/explanations: unemployment, government policies, the natural rate of unemployment
- linking the natural rate to equilibrium in the labour market
- identifying the natural rate as being caused by mainly “voluntary” unemployed workers
- linking the natural rate to structural, frictional or real wage unemployment
- explaining the nature of the supply and demand for labour
- explaining the role of supply-side policies in reducing the natural rate
- considering interventionist or laissez-faire approaches to reducing the natural rate
- explaining the role of wage and inflationary expectations in altering the natural rate
- explaining any of the following:
    - the level of JSA
    - the level of taxation
    - the NMW
    - training schemes
    - transferable skills
    - occupational mobility
    - geographical mobility
    - trade union reform
    - labour market flexibility
    - childcare assistance
    - reducing hysteresis/long-term unemployment
    - reducing wage expectations
    - or any other valid reason.

The use of relevant diagrams to support the analysis such as a long-run Phillips curve or a labour market diagram should be taken into account when assessing the quality of the candidate’s response to the question.

Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11 – 15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6 – 10 marks**
1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context **and/or** data to the question • might have some limited analysis but it may lack focus **and/or** become confused.	**1 – 5 marks**

[15]

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21.

Areas for discussion include:

- definitions/explanations: economic development, market-based strategies, interventionist strategies
- differences and links between economic growth and economic development
- examples of market-based strategies such as privatisation, deregulation, liberalisation of foreign trade, removing restrictions on international investment
- examples of interventionist strategies such as government spending on infrastructure, protectionist policies and government spending on health and education
- the pros and cons of market-based approaches to achieving development
- the pros and cons of interventionist approaches to achieving development
- difficulties in measuring development in terms of economic/human development
- the potential barriers that may hinder India's development
- analysis of the impact of development on formal employment/informal employment
- the progression from the primary sector to secondary sector employment
- whether growth and development are sustainable
- economic/social/political freedom arguments
- costs of development **and/or** growth and their impact on living standards
- the effectiveness of policies that might stimulate development
- protectionism as an aid to development
- the role of investment (domestic and foreign direct)
- key industries in development.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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22.

Level of response	Response	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles **and/or** good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately	**7 – 9 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles **and/or** data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places	**4 – 6 marks**
1	• is very brief **and/or** lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles **and/or** data to the question • may include some very limited analysis but the analysis lacks focus **and/or** becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1 – 3 marks**

An AD/AS diagram is expected, showing a rightward shift of the AS curve, this can either be LRAS or SRAS.

Relevant issues include

- definitions/explanations: productivity, supply side, deflation, price level
- possible causes of increased productivity
- relating productivity to supply-side policies (interventionist or market-based)
- linking productivity to average costs/costs of the factors of production
- linking productivity to increases in the long-run productive potential
- explaining the link between falling costs of production and the general price-level.

[9]

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23.

Areas for discussion include:

- definitions/explanations: inflation, deflation
- explaining the different types of inflation (demand-pull and cost-push)
- explaining the different types of deflation (malign and benign)
- explaining the UK's recent history of inflation and deflation
- explaining the causes of inflation and deflation
- explaining the effects of inflation or deflation upon:
  - individuals, such as inflation causing a higher cost of living
  - borrowers, such as the relative value of debt falling with inflation
  - savers, such as inflation eroding the value of savings
  - those on fixed incomes such as the current government policy of raising JSA at 1% or inflation (whichever is lowest)
  - real interest rates and borrowing
  - firms and investment
  - labour markets, such as individuals with low bargaining power being unable to negotiate higher wages
  - consumption decisions, such as delayed consumption due to deflation
  - international competitiveness
  - activity and stability
- considering the different types of inflation in terms of creeping or hyper-inflation
- considering that inflation may benefit one group but at the expense of another
- considering that the type of deflation may determine the effects
- considering the duration of the inflation or deflation
- considering the ability of the MPC to return to the target of 2% inflation, eg the problem of the lower bound to interest rates (liquidity trap).

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principle but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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24. **Areas for discussion include:**

- definitions/explanations: economic development, MNCs, LEDCs
- positive roles of MNCs in developing nations such as the effects on:
  - employment and job creation
  - economic growth (short-run and long-run)
  - the trade balance (eg increase exports)
  - productivity and international competitiveness
  - infrastructure
  - investment and positive multiplier effects
  - development of human capital
  - knowledge and technological transfer
  - standards of living
- potential negative roles of MNCs in developing nations such as the effects on:
  - the environment
  - the exploitation of workers
  - the destruction of culture
  - the indigenous industries being unable to compete
  - the unfair political influence which MNCs may possess
  - possible tax avoidance
  - the repatriation of profits which is negative on GNP
- explaining the main differences between LEDCs and MEDCs
- examples of MNCs and countries in which they have set up
- the issue that job creation may be limited due to the capital-intensive nature of the FDI and filling management roles from the source nation
- that the role depends upon the objectives of the MNC and that initial positive effects may change over time
- what may happen if the MNC had not been involved in the economy. Would domestic firms have fared better?
- the individual government's ability to control the power of the MNCs may determine whether, on balance, they have a positive impact on development.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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25. **Relevant issues include:**

- definitions/explanations: economic growth, stable growth, LEDCs
- explaining the main characteristics of LEDCs with reference to measurements such as the HDI or GDP
- explaining factors that may be barriers to growth such as:
    - corruption
    - lack of property rights (both physical and intellectual)
    - poor infrastructure
    - a lack of, or poor quality, human capital
    - a lack of, or poor quality, physical capital
    - a lack of savings causing a lack of capital accumulation
    - institutional factors
    - primary product dependency
    - informal employment and a lack of tax revenue.

Note: some candidates may answer this question in terms of why MEDCs find it easier to achieve economic growth. This approach is fine and should be rewarded accordingly.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11 – 15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6 – 10 marks**
1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context **and/or** data to the question • might have some limited analysis but it may lack focus **and/or** become confused.	**1 – 5 marks**

[15]

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