

AQA A-LEVEL ECONOMICS • 7136

ECONOMICS



EXAM QUESTION PACK

3.2.6.2 TRADE

SCORE

/2153

PERCENTAGE

%

STEMUP

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1.

Essay 3

Over the past 20 years, the growth of world trade has averaged 6% per year, twice as fast as the growth in world output. As countries become ever more interconnected, they experience both economic opportunities and threats.

Evaluate the view that international trade always benefits nations.

[25 marks]

2.

A country experiences a large net capital outflow. All other things being equal, the most likely consequence of this in the short run will be a decrease in

A its exchange rate.

☐

B its net income from overseas investments.

☐

C its rate of interest.

☐

D the value of exports and imports.

☐

[1 mark]

3.

Extract B describes the trade figures as 'disappointing'.

Explain how the data in **Extract A (Figure 2)** show that the UK's trade performance has been 'disappointing' given the fall in the value of the pound since November 2015.

[4 marks]

4.

A large Asian steel-producing country dumps its surplus steel on the world market. All other things being equal, if the demand for steel is price elastic, the most likely consequence for the EU market for steel will be to

A reduce excess capacity in the EU steel-making industry.

☐

B reduce the value of steel imports into the EU.

☐

C shift the demand curve for EU steel workers to the left.

☐

D shift the supply curve of EU steel workers to the left.

☐

[1 mark]

5.

Between 2014 and 2018, the pound fell by more than 20% against the dollar and euro. Some argued that this would benefit the UK's macroeconomic performance, but others claimed that a lower exchange rate will cause problems.

Assess the view that a depreciation of the pound against other currencies is likely to improve the UK's macroeconomic performance.

[25 marks]

6.

The UK's labour productivity increases by only 10% over a five-year period. Over the same period its main trading partners increase their productivity by 25%. All other things being equal, the most likely consequence for the UK is

- A** a decline in UK imports from its main trading partners.
- B** a 15% deterioration in its balance of trade on the current account.
- C** a loss of competitiveness against its main trading partners.
- D** the imposition of a 15% tariff on imports to maintain international competitiveness.

☐☐☐☐

[1 mark]

7.

Between 2014 and 2018, the pound fell by more than 20% against the dollar and euro. Some argued that this would benefit the UK's macroeconomic performance, but others claimed that a lower exchange rate will cause problems.

Explain why the value of a currency may fall in a floating exchange rate system.

[15 marks]

8.

Which one of the following combinations, **A**, **B**, **C** or **D**, shows the essential characteristics of a customs union?

	Internal trade barriers	Common external tariffs	Common currency	
A	Yes	No	Yes	☐
B	No	Yes	No	☐
C	Yes	Yes	No	☐
D	No	No	Yes	☐

[1 mark]

9.

INVESTIGATION

Scenario

You are an economist working for an organisation which investigates ways to improve the standard of living of UK citizens.

You have been asked to review changes in living standards and inequality since the 2007–2008 financial crisis.

As part of this investigation, you are to provide answers to the following question.

Study **Extracts A, B and C**, and then use these and your knowledge of economics to help you answer this question.

Explain how a sustained slowdown in the world economy is likely to affect living standards in the UK.

[15 marks]

10.

In 2015, Lithuania joined the eurozone, adopting the euro as its currency. Since then, the euro has appreciated by more than 15% against the pound sterling. Some have argued that this will reduce economic growth in Lithuania and other countries within the eurozone.

Evaluate the costs and benefits for a country of joining a currency union, such as the eurozone.

[25 marks]

11.

In 2017, the UK's annual budget deficit was 2.3% of GDP, the lowest level since 2001. In 2017, the UK's deficit on the current account of the balance of payments fell to 3.3% of GDP, the lowest level since 2011.

To what extent do you agree that reducing the budget deficit is more important to the UK's macroeconomic performance than reducing the current account deficit on its balance of payments? Justify your answer.

[25 marks]

12.

Extract F (lines 17–19) states: 'Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies.'

Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development.

[25 marks]

13.

The savings ratio is the proportion of national income that is saved. The UK savings ratio reached 10.6% in 2015 but fell to 3.9% in 2017. This indicates rising consumption and a fall in savings across the economy. Economists debate whether or not this change in consumption and savings is beneficial.

To what extent do you agree that a fall in savings is beneficial for the UK economy? Justify your answer.

[25 marks]

14.

Extract E (lines 10–11) states: ‘US tariffs on \$200bn of Chinese imports came into effect in September.’

With the help of a diagram, explain how the imposition of a tariff may affect the volume of imports.

[9 marks]

15.

Explain how the data in **Extract D** (Figure 1) **and** (Figure 2) show why the US may have decided to implement protectionist policies.

[4 marks]

16.

Which one of the following is an expenditure switching policy that would help to reduce a deficit on the balance of payments on current account?

An increase in

A government expenditure on public goods.

☐

B income tax to reduce consumer expenditure.

☐

C quotas on exports of demerit goods.

☐

D tariffs to raise the price of imports.

☐

[1 mark]

17.

Since 1992, the UK has had a floating exchange rate, and between August and December 2019, the pound sterling rose by around 10%. In the recent past, several nations, such as Japan, Switzerland and China, have actively intervened to influence the value of their currencies.

Evaluate the possible impact on the cost of living **and** the standard of living in the UK of a sustained rise in the value of the pound sterling against other currencies, such as the euro and the US dollar.

[25 marks]

18.

Since 1992, the UK has had a floating exchange rate, and between August and December 2019, the pound sterling rose by around 10%. In the recent past, several nations, such as Japan, Switzerland and China, have actively intervened to influence the value of their currencies.

Explain how a government or central bank can intervene to prevent the value of its currency rising.

[15 marks]

19.

Extract F (lines 7–8) states: ‘Economists said the data reinforced the view that the slump in South Korea’s trade-reliant economy would continue beyond this year’.

Using the data in the extracts and your knowledge of economics, evaluate policies which could be used to boost South Korea’s exports and increase its trade surplus.

[25 marks]

20.

The table below shows different combinations of performance for three macroeconomic indicators.

Which one of the combinations, **A**, **B**, **C** or **D**, is most likely to indicate an economy experiencing an economic boom?

	Imports	Price level	Job vacancies	
A	Decreasing	Increasing	Decreasing	☐
B	Decreasing	Decreasing	Increasing	☐
C	Increasing	Increasing	Increasing	☐
D	Increasing	Decreasing	Decreasing	☐

[1 mark]

21.

After considering **Extract D**, and the original evidence in **Extracts A**, **B** and **C**, would you recommend that the UK government provides financial and other support to companies involved in the production of commercial aircraft? Justify your recommendation.

[25 marks]

22.

Which one of the following is a role of the World Trade Organisation?

- A** Helping countries settle disputes over tariffs and quotas ☐
- B** Lending money to countries with balance of payments problems ☐
- C** Monitoring the stability of the international monetary system ☐
- D** Providing loans at low rates of interest to low-income countries ☐

[1 mark]

23.

Extract B (line 2) states: ‘...there were signs that economies were in the midst of a global slowdown’.

Explain how a global slowdown can affect employment in the UK.

[10 marks]

24.

Essay 3

Over the past 20 years, the growth of world trade has averaged 6% per year, twice as fast as the growth in world output. As countries become ever more interconnected, they experience both economic opportunities and threats.

Explain reasons for changes in the value of exports from the UK to the rest of the world.

[15 marks]

- 25.** An economy experiences an increasing negative output gap. Which one of the following combinations of outcomes most accurately describes the likely effects of this?

	Imports	Inflationary pressure	Unemployment	
A	Falling	Falling	Rising	☐
B	Falling	Rising	Falling	☐
C	Rising	Falling	Rising	☐
D	Rising	Rising	Falling	☐

[1 mark]

26. Essay 2

In 2018, the European Commission estimated that Bulgaria and Romania were both experiencing positive output gaps whilst the UK was experiencing a negative output gap. Persistent output gaps can cause problems for economies which may be addressed by supply-side improvements.

Explain the main problems for an economy of having a large positive output gap.

[15 marks]

27. Essay 1

The UK has been running a deficit on its balance of trade in goods and services since 1998. Expenditure-reducing and expenditure-switching policies can both be used to correct a trade deficit. However, the UK government has focused on other objectives rather than achieving a trade balance.

Assess the view that floating exchange rates are always better than fixed exchange rates.

[25 marks]

28. Essay 1

The UK has been running a deficit on its balance of trade in goods and services since 1998. Expenditure-reducing and expenditure-switching policies can both be used to correct a trade deficit. However, the UK government has focused on other objectives rather than achieving a trade balance.

Explain how expenditure-switching policies can be used to reduce a deficit on a country's balance of trade in goods and services.

[15 marks]

29. Extract E (lines 7–9) states: 'It was hoped that policy measures, including a reduction in tariffs... would help to reduce inflation'.

With the help of a diagram, explain how a reduction in tariffs could help to reduce inflation.

[9 marks]

30.

Extract C (lines 13–14) states: ‘Some argue that African governments should be doing more to improve the living standards of their citizens, rather than relying on foreign firms.’

Using the data in the extracts and your knowledge of economics, assess the view that to improve the living standards of their citizens, African nations should pursue policies to attract foreign direct investment (FDI).

[25 marks]

Mark schemes

1.

Areas for discussion include:

- definitions/explanations: international trade
- explaining the alternatives to international trade such as protectionism or closed economies
- different stakeholder groups for analysis such as firms, households, the government or in terms of the macroeconomic objectives or other objectives such as the environment
- explaining the benefits of trade such as:
 - benefits from comparative advantage
 - economies of scale
 - increased competition
 - lower prices
 - access to more diverse markets
 - trade creation
 - export-led growth and employment
 - encouraging FDI
 - increased product and process innovation
 - welfare gains
 - improving international relations/reducing conflict
- explaining the potential drawbacks of trade such as:
 - loss of domestic industry
 - structural unemployment
 - potential loss of infant/sunset industry arguments
 - leakages to the circular flow if a net importer
 - environmental damage due to transportation
 - trade deals may cause political arguments
 - potential trade of demerit goods/illegal goods/weapons
- using real-life examples of where international trade has helped or damaged industries in the UK or the rest of the world
- whether protectionist policies or having a closed economy would have benefited different nations rather than trade
- the limitations of trade such as assumptions about the model of comparative advantage
- the different industries that LEDCs and MEDCs end up specialising in and the effects of this in terms of development
- the different experiences of LEDCs and MEDCs regarding the terms of trade or problems of primary product dependency
- considering living standards in LEDCs may be damaged in terms of worker exploitation or the environment
- considering the term 'always'
- the inability of some nations to be able to fully exploit their comparative advantage
- considering both the positive and negative impact of MNCs on different nations.

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 judgments 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1–5 marks

[25]

2.

A

[1]

3.

Response	Max 4 marks
- includes evidence that shows that the UK's trade performance has been disappointing given the fall in the value of the pound - clearly explains how this data is evidence that the UK's trade performance has been disappointing given the fall in the value of the pound.	4 marks
- includes evidence that shows that the UK's trade performance has been disappointing given the fall in the value of the pound - unclear explanation of how this data is evidence that the UK's trade performance has been disappointing given the fall in the value of the pound.	3 marks
- includes some limited evidence that shows that the UK's trade performance has been disappointing given the fall in the value of the pound - limited explanation of how this data is evidence that the UK's trade performance has been disappointing given the fall in the value of the pound.	2 marks
- includes evidence that does not clearly show that the UK's trade performance has been disappointing given the fall in the value of the pound - no explanation of how this data is evidence that the UK's trade performance has been disappointing given the fall in the value of the pound.	1 mark

Relevant issues include:

- explanation of relevant terms/phrases such as 'fall in the value of the pound', 'disappointing trade performance'
- explaining that a fall in the exchange rate should make the UK more internationally competitive, increasing exports, decreasing imports and reducing the trade deficit
- the balance of total trade is in deficit throughout the whole of the period from November 2015 to November 2016, indicating the value of exports has not overtaken the value of imports
- the total trade deficit ranges from £0.3bn in December 2015 to £5.3bn in September 2016, indicating either a falling value of exports or rising value of imports
- the total trade deficit ends larger than it started. In November 2015, the deficit was £2.5bn whereas in November 2016 it was £4.8bn
- the goods balance is in deficit throughout the whole period from November 2015 to November 2016 indicating the value of exports of goods has not overtaken the value of imports of goods
- the goods deficits range from £8bn in December 2015 to £13.8bn in September 2016
- the deficit in goods ends larger than it started. In November 2015, the deficit in goods was £9.5bn whereas in November 2016 it was £12.1bn
- the balance in services did not improve over the whole period. It started at £8bn in November 2015 and ended at £8bn in November 2016.

Note: Accept figures that are within a range of + or – £0.5bn.

[4]**4.****C****[1]**

5.

Areas for discussion include:

- definitions/explanations: macroeconomic performance, depreciation
- explaining the causes of a depreciation in the currency
- explaining the impact of depreciation on the price of imports or exports
- explaining the impact of a depreciation of the pound on economic growth
 - such as the effects on AD
 - such as the potential rise in FDI
- explaining the impact of a depreciation of the pound on unemployment
 - such as a rise in exports and the subsequent increase in the derived demand for labour
- explaining the impact of a depreciation of the pound on inflation
 - such as the impact on demand-pull inflation from rising exports
 - such as the increased cost of raw materials or other imports
- explaining the impact of a depreciation of the pound on the current account of the balance of payments
 - such as increased international competitiveness and a rise in exports
 - such as the relative price of foreign goods becoming more expensive and a fall in imports
- considering the extent of the fall in currency and its subsequent impacts
- considering whether the currency self-corrects to some extent
- considering short-run and long-run implications of depreciation, e.g. on economic growth
- considering the Marshall-Lerner condition, elasticities and the 'J-curve' effect
- considering whether it has any impact in the long run, e.g. will the inflationary impact of the depreciation erode its effects?
- considering the short-run and long-run impact of a fall in the exchange rate on living standards.

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 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]

6.

C

[1]

7.

Relevant issues include:

- definitions/explanations: exchange rate, floating exchange rate, depreciation, the role of the FOREX market
- giving examples of depreciation (such as a numerical example)
- explaining that the value of a currency is determined by the demand for and supply of the currency
- explaining why a fall in demand for or increase in supply of currency will lead to a fall in the equilibrium exchange rate
- identifying and explaining reasons why the demand for currency may fall such as:
 - a fall in exports
 - a fall in inward FDI
 - a fall in tourism
 - a fall in the interest rate causing a reduction in hot money flows into the country
 - speculation
- identifying and explaining reasons why the supply of a currency may increase such as:
 - a rise in imports
 - a rise in FDI going abroad
 - a rise in tourism to another country
 - a fall in interest rates leading to a rise in hot money flows out of a country
 - speculation
- explaining government intervention which may occur if the floating exchange rate is not a “free” float.

The use of relevant diagrams, such as a diagram showing the supply of and demand for currencies, 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]

8.

B

[1]

Level of response	Response:	Max 15 marks
Level 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 and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	11 – 15 marks
Level 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 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
Level 1	A weak response provides an answer that: • has one or more relevant issues identified • 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 and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	1 – 5 marks

Remember: AO4, ie evaluation, is not being assessed through this question.

Relevant issues include:

- why a slowdown in the world economy is likely to reduce UK exports
- the impact of a fall in exports (an injection into the circular flow of income) on UK national income
- possible multiplier and accelerator effects
- the impact on employment and unemployment in the UK
- the impact on the incomes of people directly affected by the fall in exports
- consequences for different regions of the UK
- the impact on world commodity prices and the consequences for inflation in the UK
- consequences may depend on which regions of the world economy are most affected by the slowdown in economic activity
- some may consider broader issues that may affect how the slowdown affects UK living standards, e.g.
 - the growth of protectionism
 - the UK's departure from the EU
 - changes in the sterling exchange rate
 - other changes within the UK economy
- linking the issues above to living standards
- use of data in **Extract C**.

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

[15]

10.

Areas for discussion include:

- definitions/explanations: currency union, the eurozone, exchange rate systems
- explaining the benefits of joining a currency union such as:
 - stability of currency allowing for business planning
 - trade creation due to reduced transaction costs
 - possible benefits from increased specialisation and gains from comparative advantage
 - price transparency between fellow members
 - possible reduced inflation due to reduced import costs
 - attracting inward investment
 - protection for smaller countries from financial crisis or speculation
- explaining the costs of joining a currency union, such as:
 - changeover costs or menu costs to firms
 - the inability to have control over the instruments of monetary policy
 - 'one size fits all' interest rates
 - possibly not an optimal currency area due to cultural/language barriers
 - possibly limits to fiscal policy such as the EU growth and stability pact
 - no scope for a competitive devaluation
- considering political factors
- considering short-run costs and benefits against long-run costs and benefits
- considering from different countries' perspectives, such as the potential stability of currency union outweighing the negative effects
- considering the actual experiences of some European countries (such as Greece)
- considering the difficulties of exiting a currency union, once one is established.

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 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1 – 5 marks

[25]

11.

Areas for discussion include:

- definitions/explanations: budget deficit, current account deficit, balance of payments, macroeconomic performance
- arguments why a budget deficit may need to be reduced:
 - it adds to national debt
 - it could cause crowding out
 - possible loss of credit status leading to increased costs of government borrowing
 - future generations facing rising tax rates
 - possibility of future cuts in spending on merit/public goods
 - it could be inflationary
- arguments why a current account deficit may need to be reduced:
 - it could indicate lack of productivity
 - it could cause depreciation of currency
 - possible risk of capital flight
 - it could cause problems for a country's reserves
 - a surplus on the financial section of the balance of payments increasing international indebtedness
 - deflationary pressure
 - it could indicate structural weaknesses
 - effects on jobs such as structural unemployment
- considering that both issues are not mutually exclusive, an improved supply-side performance could help both
- considering whether the budget deficit is cyclical or structural
- considering the components of the current account of the balance of payments
- considering the UK's ability to attract FDI will help finance the capital account and may off-set any problems on the trade deficit. However, this may also benefit the UK's budget deficit in terms of job creation and generating tax revenue
- deficits on both may be necessary and advantageous, they may both benefit living standards in terms of more goods being consumed or boosting AD
- considering that trade-offs may take place with the other macroeconomic goals

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 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 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1 – 5 marks

[25]

12.

Areas for discussion include:

- definitions/explanations: protectionism, economic development, emerging economies
- explaining different forms of protectionism such as tariffs, quotas, non-tariff barriers or export subsidies
- explaining the benefits of protectionist policies such as:
 - infant industry arguments
 - sunset industry arguments
 - helping to diversify domestic industry
 - raising of government revenue
 - safeguarding jobs
 - insulating against economic shocks
 - prevent dumping
 - correcting a current account deficit
- explaining the costs or problems of protectionism such as:
 - retaliation
 - higher prices on the cost of living
 - potential job losses in other industries not protected
 - encouraging inefficient business to stay in the market
 - firms don't benefit from economies of scale
 - the benefits of comparative advantage are not achieved
 - reduced competition and other efficiency arguments
- linking arguments to economic development in terms of growth or wider issues such as social development of a nation
- considering short-term gains of protectionism against long-run development
- considering the experiences of nations such as Brazil or China in terms of development over the past few decades
- considering other ways to achieve development other than protectionism such as supply-side policies, aid, or free-trade
- considering the nature of the goods traded by different nations.

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 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 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1 – 5 marks

[25]

13.**Areas for discussion include:**

- definitions/explanations: savings, macroeconomic performance
- explaining causes of a fall in the savings
- explaining the significance of the savings ratio
- explaining how a fall in savings is likely to affect economic growth such as:
 - in the short run in terms of consumption being a component of aggregate demand (AD)
 - in the long run creating more investment if AD is rising
 - possibly limiting bank lending if there are insufficient funds
- explaining how a fall in savings is likely to affect unemployment such as:
 - cyclical unemployment is likely to fall if consumption rises
- explaining how a fall in savings is likely to affect inflation such as:
 - increasing demand-pull inflation if consumption rises close to productive capacity
 - a rise in labour costs and cost-push inflation if the economy is close to productive capacity
- explaining how a fall in savings is likely to affect net trade such as:
 - a rise in imports
 - potential domestic inflationary pressure making the UK less competitive and reducing exports
- considering the possibility that higher savings would have led to increased long-term investment
- considering the position of the economy in the economic cycle and how this impacts on the wider economy
- considering the volatility of savings and whether the changes are temporary or long lasting
- considering the possible stabilising (or destabilising) effects that savings can have
- considering the paradox of thrift.

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 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 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1 – 5 marks

[25]

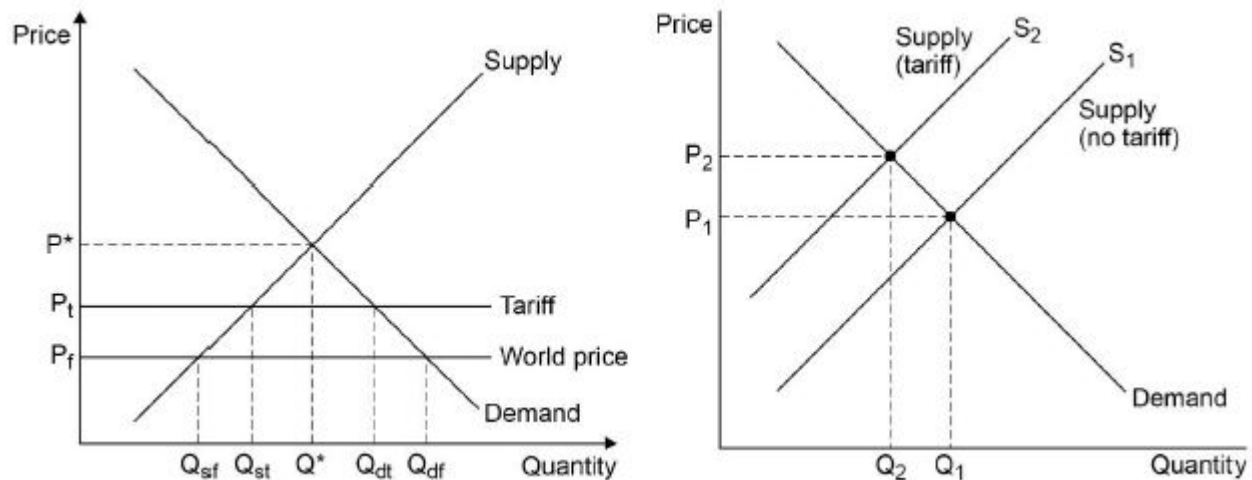
Level of response	Response:	Max 9 marks
3	- is well organised and develops one or more of the key issues that are relevant to the question - shows sound knowledge and understanding of relevant economic terminology, concepts and principles - includes good application of relevant economic principles and/or 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 - 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

A tariff diagram is expected which shows the imposition of a tariff. In its simplest form, a candidate may use simple supply and demand analysis with a supply curve shifting to the left.

Relevant issues include:

- definitions/explanations: tariff, protectionism, imports, value of imports, volume of imports
- explaining why a country may choose to place a tariff on imports such as for:
 - correcting a current account deficit
 - retaliatory reasons
 - political reasons
- linking the imposition of a tariff to making imports less competitive
- linking the tariff to individuals switching to domestic producers instead
- linking the tariff to a falling volume of imports
- relating the volume of imports to the price elasticities of supply and demand of the good the tariff is placed upon
- explaining that the change in the value of imports is determined by what happens to the price and the quantity
- use of the diagram to support the analysis.

Expected diagrams are:



[9]

15.

Response	Max 4 marks
- includes evidence that show why the US may have decided to implement protectionist policies - clearly explains how this data is evidence as to why the US have decided to implement protectionist policies.	4 marks
- includes evidence that show why the US may have decided to implement protectionist policies - explanation of how this data is evidence as to why the US have decided to implement protectionist policies.	3 marks
- includes some limited evidence that show why the US may have decided to implement protectionist policies - limited explanation of how this data is evidence as to why the US have decided to implement protectionist policies.	2 marks
- includes evidence that does not clearly show why the US may have decided to implement protectionist policies - no explanation of how this data is evidence as to show why the US have decided to implement protectionist policies.	1 mark

Relevant issues include:

- the meaning of ‘protectionist policies’
- the value of US imports from China have risen over the period from \$440.4bn in 2013, to \$505.5bn in 2017 (an increase of 14.8%) or \$539.5bn in 2018 (an increase of 22.5%)
- the value of US exports to China have risen, but at a slower rate. Exports have risen from \$121.7bn in 2013, to \$129.9bn in 2017 (an increase of 6.7%) or have actually fallen in 2018 to \$120.4bn in 2018 (a fall of 1.1%)
- the trade deficit increased over the whole period from \$318.7bn in 2013 to \$375.6bn in 2017 or \$419.2bn in 2018
- US trade with China was always in deficit throughout the period despite a reduction from \$367.3bn in 2015 to \$347bn in 2016
- the ratio of US imports to exports widened over the period from 3.62:1 in 2013 to 3.89:1 in 2017 and 4.48:1 in 2018
- explaining the large widening deficit to the decision to implement protectionist policies
- linking each of these issues to the possible effects of protectionist policies on the value of imports and exports.

Note: Candidates may combine discussion of figure 1 and figure 2 in their answers or discuss each figure separately.

[4]

16.

D

[1]

17.

Areas for discussion include:

- definitions/explanations: cost of living, standard of living, rise in the value of the pound, exchange rate
- explaining the possible causes of a rise in the value of the pound
- explaining the cost of living in terms of the change in CPI/RPI
- explaining how a sustained rise in the value of the pound may affect the cost of living:
 - by reducing import costs (such as raw materials)
 - by leading to improved purchasing power (such as cheaper foreign holidays)
- explaining how a sustained rise in the value of the pound may affect the standard of living:
 - due to the impact on incomes and employment
 - due to the impact on consumption possibilities
 - due to the impact of the consumption of merit/demerit goods
 - due to the impact on education/health due to changing patterns of consumption
 - due to domestic job losses leading to lower disposable income
- considering the impact depends upon different stakeholder groups (for example those on fixed incomes may be more impacted)
- considering that the appreciation of the currency may be self-correcting eventually
- considering the possible subjective nature of living standards
- considering that due to the volatile nature of exchange rates, firms may not pass on benefits depending on the elasticities of demand
- considering the overall benefits of exchange rate changes may be offset by changes in other macroeconomic objectives.

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 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 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1 – 5 marks

[25]

18.

Relevant issues include:

- definitions/explanations: central bank, currency, exchange rate, value of currency, appreciation
- explaining the difference between a managed float and free float
- explaining why countries may wish to intervene in the currency markets
- explaining the FOREX market and the supply and demand of currency
- explaining the role of reserves of foreign currency, or perhaps gold
- explaining the difference between 'direct' currency manipulation or 'indirect' through influencing the market
- linking currency manipulation to 'fixing', 'pegging' or currency 'ceiling'
- explaining the flow of 'hot money'
- explaining how governments or central banks can prevent the value of a currency rising:
 - by selling the domestic currency and buying foreign currencies, or gold, adding to foreign exchange reserves
 - by reducing interest rates to make the holding of domestic currency less attractive and reducing the flow of hot money
 - by increasing the money supply (as long as this is linked to increased supply of currency on FOREX such as increased import consumption)
 - easing exchange controls and/or encouraging overseas investment
 - the use of sovereign wealth funds to buy overseas assets, eg China investing in US government bonds.

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]

19.**Areas for discussion include:**

- definitions/explanations: policies, trade surplus, economic growth
- explaining the trade surplus in terms of the value of exports and imports
- explaining how a trade surplus could add to aggregate demand (AD)
- linking net trade to injections to the circular flow
- linking net trade to the multiplier effect
- explaining policies which may be used to boost a trade surplus such as:
 - supply-side policies (R+D, education, infrastructure)
 - exchange rate manipulation
 - protectionism
 - expenditure-reducing policies (although this isn't really the emphasis of the context)
 - ending the trade war with Japan
- explaining the drawbacks of each method and limitations such as:
 - supply-side policies (time lags/expense)
 - exchange rate manipulation (misallocating resources)
 - protectionism (retaliation)
 - expenditure-reducing policies (damaging other macroeconomic objectives)
- explaining the effects of external shocks on trade
- explaining how global shocks, such as a pandemic, may lead to unavoidable disruption of trade
- considering the effects of a trade surplus on output, employment and investment
- considering the capital and financial accounts and their potential impacts on the economy
- considering how long-run economic growth can be created by a trade surplus
- considering possible trade-offs with other macroeconomic goals
- considering the possible effects on exchange rates in the long run
- considering the extent to which South Korea can manipulate its trade outcomes in a globalised world.

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 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 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1 – 5 marks

[25]

20.

C

[1]

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
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:

- market failure as a justification for government support
- damage to the environment as source of market failure in the commercial aircraft industry, eg greenhouse gas emissions, noise pollution
- the high cost and risk may, without government support, lead to inadequate spending on R&D and capital investment
- to support investment in human capital where the existence of positive externalities may be a source of market failure and, if left to the private sector, may mean spending is too low
- to support growth and employment in the less prosperous regions where market failures may mean that they do not develop sufficiently, eg immobility of labour, inertia, cumulative causation and local multiplier effects
- may help to promote improvements in productivity and competitiveness
- external benefits (spin-offs) for other industries arising from developments in the commercial aircraft manufacturing industry
- supports UK manufacturing helping to achieve a more diversified, balanced economy
- may be needed to match the support provided by other countries
- may be needed in the short run to support the industry when there is a significant economic shock
- impact on employment
- impact on short-run and long-run economic growth
- government support as an injection into the circular flow of income and related multiplier effects
- impact on exports and the balance of payments
- may lead to over-reliance on government support, inhibiting improvements in productivity and efficiency
- may make it difficult for new firms to enter the market
- distorts the pattern of comparative advantage, supporting inefficient industries reducing the gains from trade
- may breach WTO rules and allow other countries to impose tariffs and other trade restrictions in retaliation
- implications for taxation, other categories of public expenditure and the budget balance
- various arguments relating to government failure, eg information failures, administrative costs, political motivations
- a supported recommendation.

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

An answer that does not include any evaluation, either throughout the answer or in a supported recommendation, must not be awarded more than 13 marks.

[25]

22.

A

[1]

Level of response	An answer that:	Max 10 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 - may include a relevant diagram to support their explanation.	8–10 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 to support their explanation.	4–7 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 diagram but the diagram is likely to be inaccurate in some respects or is inappropriate.	1–3 marks

Relevant issues include:

- meaning of global slowdown/employment/recession
- higher unemployment abroad
- lower incomes/falling demand/falling investment abroad
- fall in demand for UK exports – consumer goods/capital goods/raw materials
- fall in AD/negative multiplier/accelerator effects
- confidence/gloomy expectations
- firms unwilling to invest/fewer jobs created/falling employment
- short-term/long-term effects.

[10]

24.

Relevant issues include:

- definitions/explanations: trade, exports, value of exports
- explaining the value of exports in terms of the quantity/volume and price of exports
- explaining how changes in the pattern of trade can affect trade values
- the significance of trade and exports to the UK economy
- using relevant examples to illustrate the changes in the value of exports
- explaining comparative advantage and possibly giving a numerical example of comparative advantage
- explaining possible reasons for changes in the value of exports from the UK to the rest of the world such as:
 - changes in comparative advantage
 - changes in protectionist/free trade policies in other countries
 - leaving or changing membership of trading blocs such as the EU
 - consideration of trade diversion/trade creation arguments
 - exchange rate changes
 - changing quality/reputation
 - de-industrialisation
 - economic growth (or decline) in other nations
 - external shocks
 - innovation and invention (both product and process)
 - technological improvements that have led to reductions in cost of transport and communications.

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]

25.

A

[1]

26.

Relevant issues include:

- definitions/explanations: output, output gap, positive output gap, economic cycle
- linking positive output gaps to booms
- reasons which may have caused an economy to end up in a positive output gap
- linking positive output gaps to real output growing faster than productive potential
- if the output gap is persistent it will eventually lead the economy to overheat

- explaining the problems which may be caused by positive output gaps such as:
 - demand-pull inflation as too much money is chasing too few goods
 - cost-push inflation due to labour shortages
 - wage-price spirals
 - rising imports as consumption is rising and possible leakages rise
 - falling exports if inflationary pressure occurs
 - an increase in the current account deficit
 - unsustainable asset price rises
 - potential effects on the exchange rate
- linking the 'problems' of the economy having a large positive output gap to the causes such as low productivity growth.

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]

27.**Areas for discussion include:**

- definitions/explanations: exchange rates, floating exchange rate, fixed exchange rate, exchange rate systems
- explaining the possible ways in which 'better' can be assessed by linking this to the macroeconomic objectives
- how floating exchange rates work and the factors that may cause supply and demand of currency to change
- linking floating exchange rates to FOREX
- explaining the possible advantages of being on a free-floating exchange rate system (or the disadvantages of being in a fixed system) in terms of:
 - automatic correction/stabilisation
 - allowing monetary policy freedom, for example interest rate manipulation
 - reduced needs for currency reserves and government intervention
 - speculation may be reduced
 - depreciation may improve injections leading to benefits of growth and employment
- explaining the possible advantages of being in a fixed exchange rate system (or the disadvantages of being in a floating system) in terms of:
 - avoiding sudden fluctuations which may alter costs and imports/exports
 - encouraging confidence and investment
 - encouraging trade
 - possibly avoiding transaction costs if fixed in a monetary union
- the nature of a fixed system, whether it is in a monetary union or not
- considering real-life examples and the fact that very few nations actually work on a truly fixed system
- whether currencies do actually correct or stabilise trade
- the possible trade-offs that can occur, for example a depreciation may improve short-run growth at the expense of inflation
- that speculation is more prevalent in a floating rate system although it may become more serious in a fixed rate system when it becomes obvious that the currency is over or undervalued (the one-way option problem).
- considering managed floats rather than truly 'fixed' systems
- considering real-life examples such as: the Bretton Woods system, the ERM, Danish Krona fixed to the euro and attempts by some other countries, particularly in Africa, to fix their currencies to the US\$ or the euro.

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 judgments 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1–5 marks

[25]

28.

Relevant issues include:

- definitions/explanations: expenditure-switching policies, trade, trade deficit, balance of trade
- explaining the difference between expenditure-switching policies and expenditure-reducing policies
- how expenditure-switching policies cause a shift in consumption away from imports and towards domestic consumption and exports
- reasons for wishing to reduce a trade deficit
- explaining expenditure-switching policies linked to protectionism in terms of:
 - tariffs
 - quotas
 - non-tariff barriers
 - export subsidies
- explaining expenditure-switching policies in terms of exchange rate manipulation in terms of:
 - direct government intervention in terms of buying and selling currency
 - indirect intervention in terms of manipulation of interest rates
- explaining expenditure-switching policies in terms of supply-side policies and making domestic goods and services more competitive
- the relative effects on the volume and value of imports and exports
- the impact on net trade.

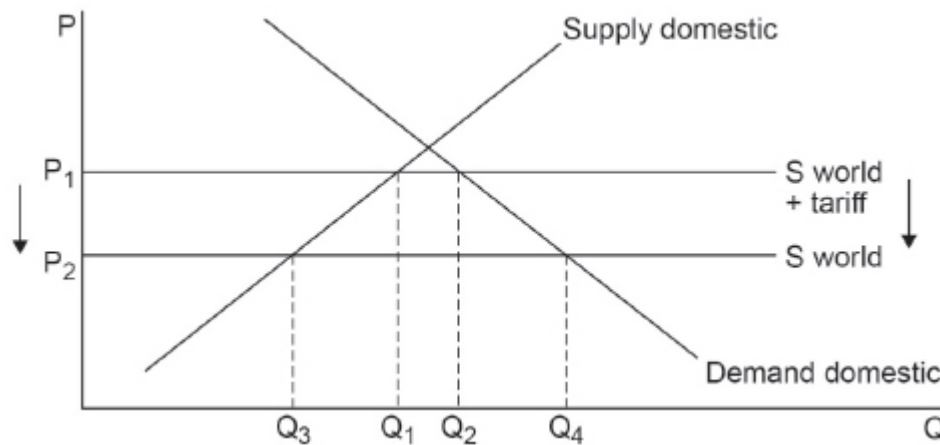
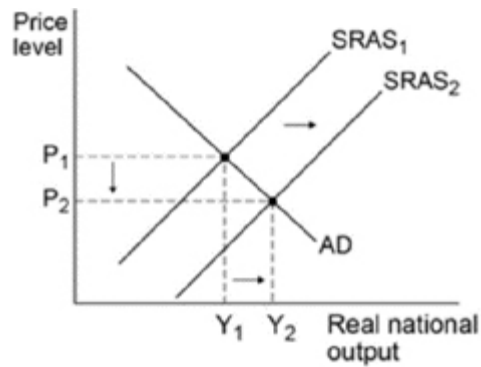
Level of response	Response	Max 15 marks
3	A good response provides an answer that: • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes 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]

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 • 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 showing a rightward in SRAS is expected, however a micro diagram illustrating the effect of removing a tariff and the resultant effect on price is equally acceptable.

Expected diagrams are:



Relevant issues include:

- definitions/explanations: tariff, inflation
- linking the reduction in tariffs to falling import prices
- the concept of the basket of goods and its 'weighted' components
- linking falling import prices to a fall in the general price level
- linking the fall in import prices to issues such as being able to obtain raw materials cheaper
- linking falling import prices to costs and the determinants of SRAS
- contributing to a reduction in cost-push inflation
- the impact of reducing tariffs on competition and the prices charged by domestic firms
- linking falling prices to falling inflation or disinflation
- linking falling import prices to rising demand for imports, reducing demand-pull inflationary pressure.

[9]

30.**Areas for discussion include:**

- definitions/explanations: foreign direct investment (FDI), living standards
- explaining how living standards can be measured in terms of monetary measures such as GDP per capita
- explaining how living standards can be measured in terms of qualitative factors such as education, health, inequality, the environment, human development and sustainability
- alternative measures of living standards such as the Human Development Index (HDI)
- explaining the benefits of FDI on living standards in terms of:
 - employment
 - incomes and consumption possibilities
 - economic growth and GDP per capita
 - multiplier/accelerator arguments
 - human development/skills progression
 - potential improvements in infrastructure created by MNCs
 - possible health implications of increased formal, regular employment
 - generating more government tax revenue which may be spent on merit/public goods without creating debt
 - crowding in arguments
- explaining the drawbacks of FDI on living standards in terms of:
 - exploitation of workers by MNCs
 - damages to the environment caused by MNCs
 - possible inflationary pressures causing the cost of living to rise
 - 'footloose' industries causing instability in employment for example
 - repatriation of profits acting as a leakage from the circular flow
- considering that governments may not benefit from rising tax revenues as they may have been forced to offer tax breaks
- how global shocks, such as the pandemic, may lead to changes in investment beyond the control of the domestic government
- the alternatives to attracting FDI to improve living standards such as aid and the possible problems of tied aid
- other possible alternatives such as government spending and the potential problems of rising debt
- other possible alternatives such as the promotion of free trade or protectionism and the potential problems of each method
- whether the government should intervene at all or if the free market would provide better solutions
- the possible inequalities caused by FDI and the possible regional differences
- issues such as corruption affecting the distribution of the benefits of FDI.

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 judgments 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1–5 marks

[25]

1.

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

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

[9 marks]

2.

'The UK economy has recently been in the grip of its worst recession for 60 years.'

Explain possible reasons for an economy moving from a period of prosperity to one of recession.

[15 marks]

3.

The Global Context Extract B (lines 5–8) argues: "It now seems unlikely that economic 'powerhouses' such as India and China will provide support for the global economy through trade and investment. Such support might have helped avoid world recession and restored economic growth."

Explain the term 'world recession' **and** analyse how **both** trade **and** investment can help to bring about economic growth.

[9 marks]

4.

The European Union Context Extract D (lines 13–14) argues that it 'is not difficult to understand why the pound has fallen against the euro and other currencies'.

Explain what is meant by 'the pound has fallen against the euro and other currencies' **and** analyse **two** determinants of such a fall.

[9 marks]

5.

The Global Context Extract B (lines 35–37) concludes: 'Globalisation must surely have played its part in the success of the UK economy...whatever problems it may also have created.'

Using the data and your economic knowledge, to what extent do you agree with the view that globalisation has been of benefit to UK macroeconomic performance?

[25 marks]

6.

An economy which is enjoying rapid economic growth experiences a significant rise in the external value of its currency within a floating exchange rate system.

Explain the factors which may lead to a rise in the exchange rate of a currency within a floating exchange rate system.

[15 marks]

7.

'Failure to get a new trade deal would put another dark cloud over the world economy.'

Source: PETER MANDELSON, EU Trade Commissioner, July 2008

Explain the main economic determinants of a country's demand for imports.

[15 marks]

8.

‘Failure to get a new trade deal would put another dark cloud over the world economy.’

Source: PETER MANDELSON, EU Trade Commissioner, July 2008

Evaluate the significance for the UK balance of payments on current account of increased use of protectionist policies around the world.

[25 marks]

9.

‘Inflation needs to be avoided at all costs but it is nowhere near as damaging to an economy as deflation.’

To what extent might it be argued that inflation is preferable to deflation?

[25 marks]

10.

The European Union Context Extract Extract D (lines 27–28) states that ‘the impact of the increased government borrowing arising from budget deficits across the EU is of concern amongst some economists’.

Using the data and your economic knowledge, assess the impact on the UK economy of increased government borrowing by EU governments.

[25 marks]

Extract D: Is EU unity threatened?

Europe, and indeed much of the world, was shaken by the depth of the economic downturn from 2008. Many countries, including the UK, saw the solution to be a return to Keynesian economics and, therefore, tolerance of large budget deficits. This was coupled with significant monetary expansion, so that, in the UK for example, the Bank of England Bank Rate was cut to 0.5% in 2009, accompanied by a policy of 'quantitative easing' (increases in the money supply). 1
5

The UK pressed other EU governments to embark on fiscal expansion. Not all shared the UK's enthusiasm and, at best, wanted only a much more modest fiscal stimulus than was the case in the UK. However, events sometimes overtook such wishes. Ironically, given the scale of the UK fiscal stimulus, until the latter part of 2009 the UK was the only major economy to remain in recession. This may reflect the greater significance of the housing and financial sectors in the UK compared to other EU countries. 10

The fiscal position of many EU countries has given rise to concern. Italy, for example, now has a national debt (the total outstanding debt of central government) of around 120% of GDP, even though its annual budget deficit is not exceptionally large. Some countries have shown a greater determination than Italy to cut their deficits. In December 2009, for example, Ireland announced sharp cuts in public sector wages. But it is certainly not just Italy which has shown complacency. The EU's Stability and Growth Pact limits annual borrowing to 3% of GDP. EU governments are under increasing pressure to return to this target by 2014. 15
20

The short- to medium-term benefits of fiscal expansion during downturns cannot be denied. Government spending can initiate a powerful stimulus to an economy through the multiplier process. Aggregate demand therefore rises. The UK Pre-Budget Report put government spending at £676 billion. Tax cuts will give households more spending power. Coupled with cheap credit and retail price discounts, recovery can therefore be helped through increased consumption. 25

However, the impact of increased government borrowing arising from budget deficits across the EU is of concern amongst some economists. It may eventually force the authorities to increase interest rates, lead to 'crowding-out' of private sector activity and make public spending cuts and tax increases an inevitability. In the UK, for example, a VAT rate of 17.5% was restored in January 2010 following a temporary cut to 15%. Equally, the 2009 Pre-Budget Report announced an increase in National Insurance contributions. 30

The problem in trying to assess the impact of fiscal expansion is, of course, not knowing what might have happened without it. Certainly, some economists are quick to attribute the end of recession in France and Germany in 2009 to such fiscal loosening. Indeed, it is difficult to argue that, for any country in the EU, economic growth and employment cannot be beneficial to some extent at a time when business and consumer confidence are both at a low level. 35

Whether such a policy eventually causes inflation to make an unwelcome return remains to be seen. At that point, EU members may experience a greater urgency to balance budgets and reduce monetary expansion. 40

Source: various sources, 2010

12.

The Global Context Extract B (lines 33–34) argues that ‘the living standards of developed countries, including the UK, will be affected by economic growth in Africa’.

Using the data and your economic knowledge, assess the view that living standards in the UK are likely to benefit from sustained economic growth in the economies of Africa.

[25 marks]

THE GLOBAL CONTEXT

Extract B: Living standards

Economists can generally agree on the causes of economic growth such as investment, innovation and improvements in productivity. There is greater disagreement over the consequences. An important part of the debate is the impact of economic growth on living standards. The debate has become more complex as measurement of living standards has taken on greater sophistication. GDP per capita (income per head) remains one of the basic measures.

Supporters of continued economic growth point to increased consumption possibilities, greater welfare, more support for the disadvantaged and more resources for health, education and infrastructure.

Opponents of unlimited economic growth point to the rapid depletion of exhaustible natural resources and environmental deterioration. The Copenhagen Summit of December 2009 brought the latter issue into sharp focus once again.

Various indices, such as the Human Development Index, incorporate a number of factors into their calculations in order to give as comprehensive a view of living standards as possible and to allow more accurate international comparisons. Factors include life expectancy, infant mortality and nutritional levels.

The Legatum Institute publishes a global survey annually, popularly known as a 'prosperity index'. It brings together data on, for example, economic growth, welfare, happiness, crime and healthcare. This data is then used to rank countries.

The 2009 index ranked 104 countries. The UK was placed 12th (its best position for three years). Low scores for key public services kept it out of the top ten. All African countries were in the bottom half of the index.

However, the continent of Africa is undergoing economic change. The World Bank points to a rapid transformation in some countries. Mozambique has seen annual average growth of 8% in the last decade, Kenya has emerged as a major global supplier of cut flowers and Rwanda is developing tourism very successfully. While Lesotho is developing its clothing industry, Ethiopia is starting to manufacture footwear. Can we look to Africa for the next wave of 'emerging economies', to follow India and China? In 2009, Africa as a whole had the world's third highest rate of growth behind India and China. Africa's role as a major supplier of raw materials to China also illustrates its increasing economic links with the rest of the world.

As a result of this economic change, living standards in Africa will no doubt improve. Additionally, the living standards of developed countries, including the UK, will be affected by economic growth in Africa. Export markets for both goods and services will strengthen, as will investment opportunities, and natural resources will become more accessible.

But how long before the UK faces stiff competition from Africa in agriculture, manufacturing and service activities? No one can accurately predict the impact on the UK economy but the careful monitoring of developments in Africa will become increasingly necessary.

Source: various sources, 2010

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

Evaluate government policies which might bring about a reduction in the UK deficit on the balance of trade in goods and services.

[25 marks]

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

Explain the main factors which might help determine the volume of UK exports and imports.

[15 marks]

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

Explain the various macroeconomic policy objectives **and** their importance to an economy.

[15 marks]

17. **The European Union Context Extract D** (lines 35-36) argues that 'a more ambitious set of common macroeconomic policies would help speed recovery in the EU'.

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

[25 marks]

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

Discuss how rising oil prices might affect the macroeconomic performance of an economy.

[25 marks]

THE EUROPEAN UNION CONTEXT

Extract D: Is European Union (EU) unity threatened?

In March 2009, the Hungarian Government asked Germany for €190 billion to prevent what it saw as a new economic 'Iron Curtain' from going up across Europe. The term 'Iron Curtain' was intended to remind Europeans of the Soviet-era divide between the poorer Communist East and the more prosperous, free, democratic West. Hungary argued that, without such help, the contrast between the richer and poorer members of the EU would only widen further. Germany's refusal of Hungary's request symbolised, for many, the deepening divide between the EU's richer and poorer members.

The contrast in fortunes is seen by newer members of the EU, such as Latvia, Lithuania and Hungary, as one which can only worsen during the recession and which may threaten the EU's existence in the long term. On the other hand, some people in the more-established members of the EU, such as the UK and France, have become increasingly disillusioned with the EU and especially with the level of assistance now expected from these more-established members by the newer members.

At the Brussels Summit of March 2009, the Czech Prime Minister warned of 'the greatest crisis in the history of European integration'. Gordon Brown, for the UK, spoke of the need for unity and common policies. The Single European Market, for example, is seen as an evolving policy which can foster prosperity for all and bring closer integration.

Cyclical unemployment is now widespread, however, and has been growing faster in the Eastern members of the EU than in those of the West. This could increase tensions between Eastern and Western members of the EU. The impact of cyclical unemployment on both individuals and whole economies can be serious, as incomes and output fall and welfare-dependency becomes more widespread.

Nevertheless, it would be wrong to argue that the wealthier members of the EU have been totally immune to the problem. The Netherlands, the worst affected Western member, experienced a 34% rise in unemployment between January 2008 and March 2009. There was a much greater rise in Latvia and Lithuania, both in the East.

During a recession, questions are likely to be asked about the future of the EU as policy disagreements emerge. Supporters claim that the EU is a force for good and needs to be strengthened, rather than weakened or abandoned. In this way, it is argued, East-West tensions can be kept at bay.

Such supporters feel that an enlarged EU, with open markets based on the Single European Market policy, helps spread benefits of membership across the whole organisation and offers the best chance of rapid recovery. In the UK, however, many see openness as a threat to jobs and to living standards.

In the current climate, it has also been argued that a more ambitious set of common macroeconomic policies would help speed recovery in the EU. Fiscal and supply-side policies come into this category, as well as monetary policy, even though only 16 members of the 27-member EU have adopted the euro. Even so, limited agreement on monetary policy, such as interest rates, could be of benefit.

The UK has not had the leading role in EU recovery policies that it has had globally, but it has shown a willingness to play its part in fostering unity and economic revival so that Europe can make a vital contribution to international recovery. Talk of disunity and the break-up of the EU can only cause instability and hinder economic recovery. This is something that members can ill-afford, particularly the UK. Growth, jobs and stable prices are desperately needed.

Source: various sources

20.

In 2009, the World Bank described the Chinese economy as a “relative bright spot in an otherwise gloomy global economy” (**The Global Context Extract B**, lines 34-35).

Using the data and your economic knowledge, assess the consequences for the UK economy of China’s continued economic growth during a global recession.

[25 marks]

21.

‘The long-term progress made towards a free-trade world must be maintained. Calls for greater protectionism would lead to a disastrous collapse of global economic activity.’

Explain **three** protectionist policies that a government could introduce to reduce a deficit on the current account of the balance of payments.

[15 marks]

THE GLOBAL CONTEXT

Extract B: China: a bright spot in a gloomy world

China, despite its recent rapid growth, has not remained immune to the economic downturn as some economists had hoped. However, it remains an economy which is looking to the future with some optimism. It continues to invest in the production of raw materials and resources in other countries. The consequent increased global investment should give a much-needed boost to jobs and growth in countries benefiting from it. Despite this investment, growth in demand from China is likely to continue to push up world raw material prices in the long term.

Certainly, China has shown an increased recognition of the need to play its part in bringing about global recovery. For example, in a recent international agreement to boost the funds of the International Monetary Fund (IMF) by \$500 billion, China has agreed to contribute \$40 billion, compared to the UK's \$15 billion. The IMF can now fulfil its promise of loans to such countries as Poland and Mexico, which should contribute to the greater global stability needed for recovery.

Nevertheless, China, fearing inflation, has expressed its concern about the policy of some leading central banks, including the Bank of England, of quantitative easing (increasing the money supply) in order to bring about economic revival by increasing aggregate demand. China also knows that its policy of holding down the external value of its currency in order to boost export-led growth is only likely to be successful if a global revival of demand is achieved. For example, China saw a 25% decline in exports in 2008. The depressed UK market will have contributed to this decline.

The other major world economies are keen to keep talking with China and win its approval for a host of measures to bring about recovery. They want to engage China in more long-term talks as well. These will include international financial reforms and environmental policies, especially as China's industrial growth continues to create negative externalities.

China has every reason to be optimistic about its future prospects. In June 2009, the *Organisation for Economic Co-operation and Development* (OECD) forecast growth for that year of 7.7% and 9.3% for 2010. To a country used to double-digit growth figures, this may seem like a recession. However, such figures are a far cry from the negative growth seen in many parts of the global economy, including the UK economy.

Nevertheless, the ongoing concern of the Chinese Government is reflected in the decision to give a \$565 billion fiscal stimulus to its economy in 2009. It is also considering protectionist policies, which may impact on those countries hoping to increase exports to China. For the World Bank, however, the Chinese economy remains a 'relative bright spot in an otherwise gloomy global economy' and countries such as the UK are keen to see China help pull the global economy out of recession.

China has reacted coolly to suggestions that a solution to the world's economic problems lies in the hands of two powers: itself and the US. Although the UK has played a leading role in international discussions on recovery, such an assertion may yet prove to have a ring of truth. What is certain is that co-operation is vital in ensuring that appropriate policies are followed to bring about a new era of sustained growth.

Source: various sources, 2009

23.

'The long-term progress made towards a free-trade world must be maintained. Calls for greater protectionism would lead to a disastrous collapse of global economic activity.'

Assess the view that the progress made towards free trade has brought significant economic benefits **both** to the UK **and** to the rest of the world.

[25 marks]

24.

The Global Context Extract B (lines 29 –30) states that ‘the UK needs to have a strong economy to be able to respond successfully to all types of global event ...’.

Using the data and your economic knowledge, assess the significance to UK macroeconomic performance of major global events such as sports competitions, natural disasters and economic downturns.

[25 marks]

25.

The European Union Context Extract D (lines 33 –34) argues that the ‘UK must not be blind to the potential problems of Turkey’s possible membership of the EU and must also be in a position to grasp the opportunities which are sure to appear’.

Using the data and your economic knowledge, assess the potential economic consequences for the UK if Turkey joined the EU.

[25 marks]

THE EUROPEAN UNION CONTEXT

Extract D: Turkey – gateway to Asia

Turkey has been in talks since 2005 regarding possible membership of the European Union (EU). While further enlargement of the EU causes some concern, serious consideration needs to be given to Turkey. Its geographical position links Europe and Asia. Since Asia is currently driving world economic growth, Turkey can be an important strategic gateway to Asia for the EU. 1
5

The UK Government supports Turkey's application for EU membership but questions still persist. If Turkey joins the EU, can the UK successfully take up the resulting trade and investment opportunities? Will the UK be overwhelmed by imports and cheap migrant labour? Will UK businesses be determined enough to grasp any opportunities?

Turkey has a population of 75 million, which is expected to rise to 100 million by 2020. The average age is just 27 and it has vast economic potential. Turkey's GDP is ranked 18th in the world, and GDP per capita is £7163. Like the UK, there has been some negative growth in recent years but the economy recovered to achieve 11% growth in the first quarter of 2010. Between 2002 and 2007, Turkey's annual average economic growth of 7% was far greater than that of the UK. 10
15

About 50% of Turkey's exports are to Europe, with textiles being particularly important. Machinery and semi-manufactured goods are major imports. The UK does not yet rank alongside countries such as Germany, Italy, China and the US as important exporters to Turkey, but opportunities certainly exist.

Turkey has had a reputation for economic instability. Since 2005, for example, inflation has been between 5% and 12%. Unemployment has remained in double figures: 10% of the labour force in 2005 and 14% currently. However, Turkey now boasts a relatively modest budget deficit of between 4% and 5% of GDP. 20

Despite a degree of instability, Turkey is seen as an attractive centre for investment. For example, the country received £115 bn in foreign direct investment in 2009. However, Turkey's infrastructure still leaves much to be desired. 25

UK businesses need to consider the potential economic opportunities. Lord Digby Jones, formerly of the *Confederation of British Industry* (CBI), points out that Turkey's recent economic growth is from a low base. According to Lord Jones, "Whereas a little bit of growth in a prosperous country such as Germany does not make much difference, in a developing country such as Turkey millions of people get richer". This is perhaps an exaggeration, especially in the short run, but a valid point is being made. 30

The UK must not be blind to the potential problems of Turkey's possible membership of the EU and must also be in a position to grasp the opportunities which are sure to appear.

Source: news reports, 2010

The Global Context Extract B (lines 13 –15) refers to the possible benefit to the UK and other economies if countries hosting major sports competitions become more open to investment in the long term.

Explain the term 'investment' **and** analyse **two** possible economic benefits for the UK when it is investing overseas.

[9 marks]

Extract D: The fiscal remedy for recession

The recession of 2009 brought renewed interest amongst EU governments in a so-called Keynesian approach to spending their way out of recession. They were desperate to avoid a prolonged period of negative growth and the accompanying mass unemployment. 1

In the UK, as well as within the eurozone, fiscal rules were abandoned as the fight for economic recovery began. The Stability and Growth Pact of the eurozone, to which the UK had also adhered in an informal way before the recession, limited budget deficits to 3% of GDP and a nation's debt to 60% of GDP. Such constraints were often far exceeded and increasing concerns were being expressed. In May 2010, the new UK Government became a prominent voice within Europe for a reversal of fiscal policy, with public spending cuts and tax increases. 5 10

The UK Government's policy was given some support by the economic crisis unfolding in Greece, a member of the eurozone. The Greek Government needed to be 'bailed out' by fellow member states if it was not to default on its debts. It had a budget deficit of 14% of GDP and a national debt of 115% of GDP in 2009, a year when its GDP also fell by 2%.

There was concern in the EU that such a situation had been allowed to develop, with increasing calls for EU-wide controls. France and Germany were pressing for an EU institution such as the European Commission to provide such a role, with the power to impose an EU-wide fiscal policy on all member states and not just the eurozone. 15

The UK Government opposed any such powers over member countries. However, it had gone as far as to establish an Office for Budget Responsibility (OBR), intended to keep the Government's tax and spending plans under control by providing a reality check on the state of the nation's finances. The OBR, however, does not have the powers that some were envisaging for the EU. 20

In a climate of greater stability in 2010, some still believed that an EU-wide fiscal policy needed to be a key part of the evolution towards a federal state. It cannot be denied that the best way forward must be that which delivers macroeconomic stability across the EU. Whether this comes about through member governments each developing a policy of fiscal responsibility or through a fiscal policy imposed by the EU on all member states remains open to debate. 25

Source: various sources, 2010

THE GLOBAL CONTEXT

Extract B: Winners and losers

The debate over the consequences of globalisation for individual countries continues. Inevitably, there will be benefits and costs, winners and losers. For example, whilst the UK has experienced deindustrialisation, its service sector has been successful in world markets.	1
As the debate continues, one aspect of globalisation cannot be disputed: that the greater integration of economies has meant that major events occurring in one part of the world will have an impact not just on the affected country or region but are now much more likely to have global significance.	5
Some events are known about well in advance of them actually happening. Major sports competitions are an example. In 2012, for instance, the UK will host the Olympic Games. Similarly, Russia and Qatar will host the football World Cup in 2018 and 2022 respectively. The economic impact of such events on host countries is likely to be positive. For other countries, the immediate impact is likely to be more limited. However, the UK and other economies could benefit if these events make the host countries more open to trade and investment in the long term.	10
Other events are far less predictable or are completely unpredictable. For example, how might the UK cope with a disruption to gas and oil supplies if relations with Russia deteriorate or political turbulence in the Middle East escalates? What path to recovery will the UK take following the devastating effects of the 2008 US financial crisis?	15
Generalisations about the economic impact of natural disasters are often unhelpful. Hurricane Katrina in 2006, which caused billions of dollars of damage in the New Orleans area of the USA, had minimal economic impact on the rest of the world. However, the Japanese earthquake and tsunami in 2011 are on a different scale. Japan accounts for 7% of world GDP. There are fears that the scale of the damage may lead to a return to recession in Japan, as fearful Japanese consumers spend less and save more. Global supply chains originating in Japan, such as car components supplied to the rest of the world, have been severely disrupted. The UK, as well as Japan's other trading partners, will struggle to maintain exports to the Japanese market until stability is restored.	20
Like any other country, the UK needs to have a strong economy to be able to respond successfully to all types of global event and to secure sustained economic growth. Important factors include high productivity, resource mobility, innovation, skilled labour, a strong infrastructure in its widest sense and general flexibility in the economy. The ability to make use of these supply-side qualities will, however, also depend on aggregate demand. The impact of major global events on UK aggregate demand will inevitably vary considerably, positively or negatively, with unknown consequences for macroeconomic performance.	25
	30
	35

Source: news reports, 2010/11

UK exports of goods which, in 2002, were valued at £187 billion, had risen to £228 billion in 2009.

The deficit on the UK balance of trade in goods rose from £48 billion in 2002 to £82 billion in 2009.

Evaluate the view that an increasing deficit in UK trade in goods is a major problem for the UK economy.

[25 marks]

31.

The European Union Context Extract D (lines 16–18) suggests that France and Germany would like the EU to have ‘the power to impose an EU-wide fiscal policy on all member states and not just the eurozone’.

Using the data and your economic knowledge, assess the possible economic consequences for the UK economy of an EU-wide fiscal policy requiring all member states to balance their budgets.

[25 marks]

32.

UK exports of goods which, in 2002, were valued at £187 billion, had risen to £228 billion in 2009.

The deficit on the UK balance of trade in goods rose from £48 billion in 2002 to £82 billion in 2009.

Explain **three** possible reasons for growth in the value of an economy's exports of goods.

[15 marks]

33.

The formation of single markets by countries in various parts of the world, including within Europe, has shown that much is to be gained from increased economic cooperation.

Evaluate the possible economic costs and benefits to an EU member state, such as the UK, of being part of the EU single market.

[25 marks]

34.

The Global Context Extract B (lines 2–3) states that ‘India’s economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports’.

Using the data and your economic knowledge, assess the importance to the UK economy of continued economic growth in India.

[25 marks]

Extract B: A passage to India

In July 2010, the UK Prime Minister led a Government delegation to India. The hope was that India's economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports. 1

India's growth in 2010 is expected to be about 9%. Its GDP per capita is \$3100, although over 400 million Indians live below the international poverty line of \$1.25 per day. It has a labour force of almost 500 million but an official rate of unemployment of 11%. Quarterly sector growth is impressive: 1.8% in services, 2.2% in manufacturing and 1.7% in agriculture between January and March 2010. 5

For the Indian Government, inflation and economic growth are top of the agenda. Unfortunately, there is often a trade-off between these two macroeconomic indicators. Inflation jumped from 1.3% in October 2009 to almost 5% in November 2009. However, food inflation was 19%. As in other countries, rising oil costs are also amongst the causes of inflation for the Indian economy. 10

The UK Government still hopes to promote increased UK economic involvement in India. Certainly Indian business has become more involved in the UK. *Tata*, one of India's oldest companies, is now the UK's leading manufacturer through its ownership of *Corus Steel and Jaguar Land Rover*. India is now more likely to be creating jobs in the UK through direct investment rather than 'stealing' them, for example through call-centre activity relocated from the UK. UK business needs to rise to the challenges and opportunities presented in India. Companies such as *Vodafone* (telecommunications) and *BAE Systems* (defence and aerospace) are amongst the recent success stories and it is widely believed that India's increased demand for world-class services, for example financial and legal, can be met by the UK. 15 20

Infrastructure investment is urgent. Each year, about 40% of India's agricultural produce rots before arriving at market because of inadequate storage facilities and poor road and rail links. The Indian Government's plans to spend \$500bn between 2010 and 2013 on new ports, roads, rail links and airports will help to improve the situation. This investment is an export opportunity for UK firms specialising in infrastructure projects. The growth of the Indian economy will also help UK service exporters such as banking, education and health-care businesses. Currently, India accounts for only 1% of UK exports. 25 30

However, India remains fiercely protective, and investment and trade flows from the UK could remain limited. Progress will depend on whether a long-awaited EU-India trade deal becomes a reality and on the outcome of the *World Trade Organization's* global trade talks. Many argue that India can only benefit from increased international trade.

The UK Government said at the time of the Prime Minister's July 2010 visit to India that the UK had a vital stake in India's rise to becoming a global power and in its future prosperity. At the same time, a view was also expressed that the UK needs India much more than India needs the UK. It is hoped that all aspects of the UK's macroeconomy can eventually benefit as India develops further. 35

Source: news reports, 2010

Mark schemes

1.

Explanation:

explain the concept of global investment, eg

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

Analysis:

explain the concept of global investment, eg

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

[9]

2.

Define / explain economic growth and / or recession, perhaps with reference to GDP, criteria for identifying parts of the economic cycle, the UK experience of recent years

Explain possible reasons, eg

- an economic shock such as higher oil prices. Higher oil prices may then impact on inflation since oil can be a significant cost of production and can adversely affect households' cost-of-living. Anti-inflation policy may need to be used such as higher interest rates but such a response, especially if too severe, might slow the economy too much. This and the declining confidence of households and businesses may bring about a downturn and eventual recession
- other external economic shocks, such as the global banking crisis or recession amongst our major trading partners for whatever reason
- deterioration in domestic leading sectors such as construction and the car industry
- high levels of demand domestically causing demand-pull inflation and remedial action by the authorities follows which inadvertently plunges the economy into recession
- government failure to take remedial action quickly enough or the wrong type of action or inadequate action as the macroeconomy deteriorates for whatever reason
- a slump in private sector investment with no compensatory activity in the public sector
- any other valid point.

Make use of diagrams in the analysis.

[15]

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

4.

Define any relevant term

- Explain “the pound has fallen against the euro and other currencies”, perhaps by defining and comparing various exchange rates;
 - use the term depreciation and/or devaluation and compare to appreciation/revaluation;
 - use recent real world values to help illustrate the phrase; the impact on export/import prices; the potential impact on the economy

analyse two determinants of such a fall, e.g.

- Overseas investors become less confident about an economy because it may be showing signs of entering a recession, so they begin to withdraw their funds and sell the currency of that economy while potential new investors, deciding not to invest, bring about a reduction in demand for pounds, causing the currency to depreciate.
 - Relative interest rates
 - Government policies, e.g. increased borrowing
 - Speculation against a currency
 - Capital flows
 - Trade flows
 - Loss of business and consumer confidence as economic forecasts worsen
 - Any other valid determinant

Reward references to the UK/other economies

[9]

Issues and areas for discussion include

Introduction	• explanation of globalisation • how benefit can be measured • macroeconomic performance criteria
Developing the response to the question:	• economic growth • employment/unemployment • inflation/price stability/deflation • trade flows • investment flows • balance of payments • competitiveness • any other valid issue
Evaluation	• not knowing what might have happened to the UK economy had globalisation not become so evident • the assessment may depend on the view taken of how significant or essential globalisation has been in bringing about various domestic supply-side reforms • whether cyclical factors have sometimes prevented the UK from obtaining the full benefit of globalisation <i>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 globalisation. However, this must be considered as low-level evaluation and awarded accordingly.</i>
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

6.

For candidates who:

Define / explain

- exchange rate
- exchange rate system
- appreciation of exchange rate
- the concept of the 'average family'
- floating exchange rate system, perhaps with comparative reference to fixed exchange rate systems.

Explain how the exchange rate of a currency may be caused to rise within a floating exchange rate system, e.g:

- trade flows. As exports are demanded there will be a greater demand for the currency of the exporting country by those overseas customers buying those exports and being required to pay with the foreign currency in question. The country concerned will be importing goods and services. This will require buyers to sell the domestic currency in order to buy foreign currencies with which to buy imports. The increase in demand for the currency arising from higher export sales may be greater than the increase in supply of the currency arising from increased imports, all other things being equal, the exchange rate will rise.
- net inward investment
- speculative movements resulting in increased purchases of the currency
- 'dirty floating', i.e. official intervention in the foreign currency market in a floating exchange rate system in order to buy the currency
- higher interest rates relative to other comparable countries
- external economic stimuli, eg a strong and sustained US recovery which can be related to trade and / or investment flows
- external shocks, eg a banking crisis
- any other relevant factor.

For those candidates who adopt a basic supply and demand approach to the question without citing specific determining factors such as trade, award a maximum of 10 marks for the answer as a whole.

Make use of diagrams in the analysis.

[15]

7.

- define imports;
- relate import performance to export performance, perhaps with an invisible/visible reference;
- explain imports in the context of the balance of payments on current account, perhaps referring to imports explicitly as a debit item;
- put imports into the context of the circular flow of income

explain determinants of a country's demand for imports, eg

- income which allows consumers to demand more goods and services, assuming disposable income also increases with gross income. Some will be purchased from overseas sources, given that UK consumers traditionally display a high propensity to import. This may be for reasons such as consumer preference, as characteristics such as quality and after-sales service are seen to be stronger in imports or because the goods or services in question are no longer produced/supplied in the domestic economy.
- relative prices (terms of trade)
- protectionist policies
- cheaper credit helping to finance purchases
- deindustrialisation
- raw material, component and energy requirements
- the impact of the Single European Market
- exchange rate trends
- cyclical factors, e.g. recession
- a change in comparative advantage

Reward references to the UK economy

[15]

Issues and areas for discussion include

Introduction	• protectionism v free trade • the UK balance of payments on current account • the work of GATT/WTO • the Doha Round of talks • types of protectionism
Developing the response to the question:	• an overview of UK exports/imports; manufactures v services • competitiveness of exports, e.g. productivity trends, innovation, design, other non-price factors which might compensate for increased protectionism or mean that we are at a greater disadvantage if these factors remain weak • the potential significance of the exchange rate • supply and demand elasticity conditions as far as exports and imports are concerned • the danger of further deindustrialisation and the consequent impact on the balance of payments on current account • the potential significance of the EU trade bloc and whether even more of our trade is with the EU as protectionism elsewhere increases • account in the context of impediments to trade of various kinds • any other valid issue
Evaluation	• the impact on the balance of payments may depend on the extent of the increased protectionist policies • the impact may depend on the level of protectionism which existed before the further increase in trade barriers • the degree of impact may depend on the flexibility of the supply-side of the UK economy to take appropriate action given the specific nature of increased protectionism • the economic conditions in which the strengthening takes place around the world will be significant • given that the UK may be part of the process of strengthening, it will have to consider the impact on import flows compared to the impact on export performance • of some importance will be the particular elasticity conditions for exports and imports • the different parts of the current account might be affected in different ways <i>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 protectionism. However, this must be considered as</i>

	<i>low-level evaluation and awarded accordingly.</i>
Also give credit for:	• relevant use of evidence and examples from other economies • diagrams • an overall judgement on the issues raised

[25]

9.

It is anticipated that candidates will review the various consequences of both inflation and deflation, a review interspersed with evaluative comments, before arriving at a final judgement. Examiners should reward well informed, relevant discussion and conclusion.

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 concept of price stability / price instability • definitions of inflation and deflation • the UK experience of recent years • the UK Government's setting of an inflation target • price stability as a desired objective and its relationship with other macroeconomic objectives.
Developing the response to the question:	• inflation damaging competitiveness with a potential impact on the balance of payments on current account • anti-inflation policies which are potentially harmful to the economy • the impact on business and household confidence • the impact on real income and hence real spending power • the ultimate damage to economic growth and jobs • deflation as being far less common than inflation in many economies • the impact on real incomes and real purchasing power • the dangers of consumer postponement of purchases hoping that prices will fall further • the impact on profits • the impact of lower profits and lower business confidence on investment • the potential benefits of reflationary policies • the benefits of falling prices to competitiveness • the possible harm done to growth and jobs • the impact on creditors / debtors • whether one is more / less anticipated than the other
Evaluation	• the extent of the problem, i.e. how significant the rate of inflation or deflation is • the length of time in which prices rise or fall • the potential benefits of mild inflation which might not be said of mild deflation

	• the relative ease / difficulty of executing, and making effective, policies to deal with either of the problems • the simultaneous experience of other countries • whichever problem prevails, the danger of the authorities overshooting targets, eg. quantitative easing and low interest rates bringing too much reflation and hence more inflation • the difficulty of making a judgement without more detailed information on an actual occurrence and the events surrounding it • both inflation and deflation have redistributive effects and it is impossible to predict which might be the more beneficial • a realistic conclusion is that, whatever the relative impact, neither may be desirable and the authorities should be aiming for a period of sustained price stability <i>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 inflation and / or deflation, 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.</i>
Also give credit for:	• reference to the experiences of other economies • diagrams • an overall judgement on the issues raised

[25]

10.

It is hoped that candidates will place the answer firmly into the context of the EU and not simply base the answer on the impact of the UK borrowing requirement, so that any final judgement is sufficiently comprehensive and relevant.

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	• government borrowing • budget deficit • PSNCR as one technical measure • the EU fiscal position as a whole • the Stability and Growth Pact • proposals for some regulation of fiscal policy independent of government • criteria for measuring the impact.
Developing the response to the question: Application	• line 3 reference to Keynesian economics and tolerance of deficits because of the benefits they can bring • lines 21-22 reference to the multiplier process and aggregate demand • lines 28-29 the potential impact of borrowing on interest rates and (line 40) on inflation • lines 36-39 EU fiscal stimulus counterbalancing any loss of business and consumer confidence
Developing the response to the question: Analysis	• the reasons behind the increased borrowing • the benefits of government spending • the benefits of tax cuts • the potential impact of increased borrowing on interest rates within the EU and whether greater differences emerge between interest rates in the euro area members of the EU and non-euro members of the EU • the dangers of 'crowding-out' of private sector activity amongst member countries • the uncertainty that increasing borrowing can create for households and businesses • the potential impact on the nation's international credit rating and hence on its ability to borrow in the future on favourable terms • the possibility of seeking help from, for example, the IMF and the impact of this • the economic pain associated with eventual remedial measures

	such as spending cuts and tax increases • the impact on the UK if EU fiscal expansion generally provides a stimulus to the UK economy • the impact on the value of the euro and the implications of this for the external value of the pound • any problems which emerge may become EU-wide problems making recovery even harder to achieve • measuring the impact in terms of growth, jobs and prices.
Evaluation	• the relevance of the scale of borrowing • assessment in terms of the net impact, eg do the benefits clearly outweigh any problems? • the economic context in which the borrowing is taking place, eg recession or recovery • whether the fiscal policy is accompanied by monetary expansion and the possible impact of this combination of expansionary policy • the perceived costs associated with fiscal balance or surplus • the speed with which borrowing can be reduced • the confidence that households and businesses have in government efforts to stabilise the fiscal position • whether the EU is at one with fiscal policy around the world or very much out on a limb. <i>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 borrowing, or of higher public spending and / or higher taxation, but with no attempt to place it into the context of the UK and the EU. However, this must be considered as low-level evaluation and awarded accordingly. If these pros and cons are put into the context of the UK and EU, perhaps with an explicit attempt to prioritise, greater credit can be given.</i>
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

12.

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	• sustained economic growth • living standards • reference to general living standards in the UK • criteria on which judgements are to be made.
Developing the response to the question: Application	• line 5 GDP per capita as a basic measure of living standards; higher growth may lead to higher GDP per capita in the UK • lines 17-19 references to aspects of the quality of life, which may or may not benefit from economic growth • lines 29-31 Africa as a major supplier of raw materials which could facilitate UK economic growth and thus impact on living standards • lines 36-37 Africa as a potential competitor to the UK in the world economy with a possible adverse impact on UK growth and living standards • discussion of whether both can be pursued at once
Developing the response to the question: Analysis	• how UK manufacturing might benefit from African demand for manufactured goods and components and hence contribute to economic growth • the potential, eventual competition for UK manufacturing and a consequent adverse impact on growth • the potential benefits to UK financial services helping African development, providing further stimulus to this traditionally successful growth sector • investment opportunities opening up in Africa • greater accessibility to African raw materials and energy supplies, helping to facilitate UK economic growth • benefits to other UK services, e.g. tourism • an assessment of the net effects on UK economic growth and therefore on living standards • the impact on employment, the more successful and competitive Africa becomes, and hence on average incomes • the possible adverse impact on manufacturing regions of the UK, while more service based regions may benefit, so adversely affecting disposable income in the former • the overall impact on income per head depending on the UK response to developments in Africa • the impact on UK living standards if African development begins to

	allow successful encroachment on other UK markets • growth and the quality of life, allowing a widening out of the discussion on living standards.
Evaluation	• a comparison of short run and long run effects • the economic changes in Africa may be so gradual and piece-meal as to have little measurable impact on the UK • however, countries such as Mozambique growing rapidly in the last decade, albeit from lowly positions, may bring pressure to the developed world sooner than was originally thought • the net effect may be small if Africa compensates for the decline of other UK markets (temporary or permanent) • the potential benefits of African expansion in the context of UK recession, opening up markets which had not been envisaged just a few years earlier • the difficulty of making generalisations, eg parts of Africa providing new sources of energy and raw materials to help UK growth while others begin to present competition for UK manufacturing • the possibility of having to avoid generalisations because of the diverse character of the continent, so that comments on the potential impact on the UK economy and its living standards are only pertinent to individual economies; stark contrasts between various parts of Africa are likely to persist • the possibility of complementarity, eg African expansion of secondary activities requiring and stimulating the UK tertiary sector. • the environmental impact and the increasing demand on resources arising from growth in Africa, possibly impacting on the UK, eg higher oil prices. <i>Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of growth in the context of living standards, with no attempt to place it into the context of the UK / Africa and with only limited reference to living standards. However, this must be considered as low-level evaluation and awarded accordingly. Marginally more credit could be given to this type of evaluation if placed in the context of the countries concerned.</i>
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

14.

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 balance of trade in goods and services - the balance of payments accounts - surplus/deficit.
Developing a response to the question:	- supply-side policies - exchange rate manipulation - protectionist policies - controlling aggregate demand in order to constrain import growth and release more output to the export sector - adoption of an export-led growth strategy - control of inflation if this is perceived to be the cause of the problem - expenditure-switching policies compared to expenditure-dampening policies.
Evaluation:	- the need to distinguish between those policies which offer a possible short-term improvement and those which offer a potential cure for the problem in the long term (e.g. a reference to expenditure-dampening v expenditure switching). - the need to distinguish policies which can be regarded as realistic in the current climate, e.g. supply-side policies, from those which might be politically unacceptable, e.g. protectionism - some policies may not bring immediate improvement, eg the long-term nature of supply-side policies; exchange rate manipulation and the J-curve effect - there may be less significance attached to the deficit if it is seen as part-and-parcel of a maturing economy which, although successful in the trade in services, has lost much of its industrial base, thus needing to import more finished goods - the underlying issue of whether or not a deficit really matters if it does not impede economic growth and job creation and does not damage investor and business confidence.
Also give credit for:	relevant use of evidence and examples from the UK / other economies

[25]

15.

For candidates who:

Define/explain

- exports/imports
- balance of trade in goods and services
- define / explain the term global investment, eg expenditure to generate future income; spending on capital equipment to increase output, perhaps to displace labour; human capital
- the balance of trade in goods and services in the context of the current account or the balance of payments as a whole
- the possible nature of a country's exports and imports given its own stage of development
- the UK may adopt a strategy of export-led growth. This may be because it is perceived as the most rapid way of achieving economic growth and/or because it feels itself to be very competitive in world markets. It may recognise that a good export performance will initiate a multiplier effect which should benefit the economy beyond the export sector and that exports may well encourage supply-side improvements such as innovation and higher productivity to sustain good external performance
- favourable terms of trade (examiners note that this term is not included in the specification but candidates may well discuss relative export/import prices even if the term is not used)
- the need for imports of raw materials, energy and/or finished goods, e.g. because the UK has lost so much of its industrial base
- a sustained favourable exchange rate motivates an export drive
- absolute/comparative advantage, e.g. UK comparative advantage in financial services
- the impact on UK exports of overseas recession, especially the US and the EU as far as the UK is concerned
- exchange rate movements
- relative inflation rates
- relative rates of productivity (traditionally unfavourable for the UK) and impact on competitiveness
- the ability of the UK to impose protectionist policies

[15]

16.

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

Explain macroeconomic policy objectives, e.g.

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

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

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

[15]

17.

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:	• common macroeconomic policies • economic recovery • the significance of the rest of the EU to the UK • the criteria by which the impact on the UK economy might be assessed.
Developing a response to the question:	• the implications for economic growth • the impact on employment / unemployment • the consequences for the balance of payments on current account • the effects on the £ / € exchange rate • the greater likelihood of avoiding a period of deflation • the dangers of inflationary pressures building up • the further development of the SEM in a period of recovery and increasing prosperity.
Evaluation:	• the possible significance of a slow recovery • the possible supply problems if recovery is too rapid • whether the UK can take advantage of EU recovery • whether the advantage lies more with the rest of the EU in terms of exporting to the UK than for the UK exporting to the rest of the EU • the significance of EU recovery for the UK relative to recovery taking place elsewhere in the world, i.e. in markets which have significance for the UK • whether or not recovery has implications for the movement of labour in and out of the UK and how this affects the UK labour market.
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams

[25]

18.

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:	• reference to the quote in the question • the recent experience of rising oil prices • criteria for assessing macroeconomic performance
Developing a response to the question:	• the implications of this for the pattern of production • consequences for the balance of payments on current account • inflation • the impact of inflation on jobs • the impact of inflation on economic growth • rising oil prices and business and consumer confidence • implications for government revenue and expenditure • the impact on export performance
Evaluation:	• whether the oil price increases are simply building on past price increases or whether they represent a supply-side shock of which there has been little or no recent experience • whether or not petrol taxes are reduced to compensate for higher oil prices • mature economies having less dependency on oil • whether price increases are sustained over a long period of time • whether, as in the UK's case, an economy is also an oil exporter as well as an importer • whether rising economic growth and inflation-reducing forces are in evidence to dull the impact of rising oil prices
Also give credit for:	• relevant use of evidence and examples from the UK / other economies • diagrams

[25]

20.

It is hoped that candidates will clarify the criteria by which consequences can be measured and then relate China's growth to the performance of the UK economy in an evaluative way.

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:	• recession • economic growth • criteria for assessing consequences
Developing a response to the question:	• reference to the growth performance of the Chinese economy • reference to the problems of the UK economy • why continued growth of a major economy may be important to another country in recession • economic growth • the balance of payments • employment / unemployment • investment flows • inflation • China's growth perhaps causing inflation exacerbated by the UK pursuing a potentially inflationary policy of quantitative easing and fiscal expansion • the impact on the UK of China taking increasing control over world resources by its investment • China's contribution to the IMF which might ultimately be of benefit to the UK • impact on the exchange rate.
Evaluation:	• the extent to which China wishes to share the 'proceeds' of growth with other countries by importing more goods • although the phrase 'global recession' is used it may be that some other UK markets are not faring too badly, so making China's contribution to UK economic performance less significant • the ability of the UK to maintain / increase market share in China • China is pushing ahead with export-led growth which may not be in the long-term interests of UK manufacturing • the extent to which the UK economy welcomes Chinese investment in its economy and whether China reciprocates. <i>Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of growth and with no attempt to place it into the context of the UK/China.</i>

	<i>However, this must be considered as low-level evaluation and awarded accordingly.</i>
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams

[25]

21.

For:

- defining protectionism or protectionist policies and / or deficit on the current account of the balance of payments
- classical / strategic trade theory
- explaining in broad terms the nature of protectionist policies and the distinctions which may be drawn between them
- placing protectionism into the context of progress towards free trade
- reference to the WTO.

For explaining three possible protectionist policies:

Tariffs on imports may be introduced to make imports more expensive than domestic output because they are duties or taxes imposed on the price of imports. Demand for these imports may be reduced but this will depend very much on elasticity conditions. If the demand for these imports is elastic, the import bill will fall (*ceteris paribus*) and so help the current account.

Quotas / voluntary export restraints (VERs).

Export subsidies

Exchange rate policy

Exchange controls / Limits on currency conversion.

Non-tariff barriers to inhibit trade, e.g. cumbersome health and safety regulations that create costs to exporters regarded as unreasonable.

Domestic government's favouritism towards home producers when awarding contracts which cannot necessarily be economically justified (public procurement policy).

Any other valid argument

Use of diagrams to help support an explanation, e.g. the standard tariff diagram.

References to the UK and / or other economies.

If more than three policies are considered, reward the best three.

[15]

Introduction	• the world economy and economic diversity within it • free trade • progress towards a free-trade world – the role of GATT and latterly the WTO • the dangers of increased protectionism • how 'benefit' might be measured.
Developing the response to the question: Application / Analysis	• trade spearheading globalisation and the benefits this can bring • the principle of comparative advantage • specialisation • economies of scale • efficiency • the impetus to improving competitiveness in price and non-price ways • the pace of innovation • the benefits of greater choice • prospects for economic growth • trade in preference to aid to help development • employment prospects • the drive for greater competitiveness forcing down prices and hence helping to achieve low inflation • implications for the balance of payments • the impact on less successful economies of a free-trade world • use of diagrams • reference to the UK and / or other economies.
Evaluation	• a consideration of who might be the major beneficiaries • the possibility of structural unemployment as comparative advantage changes between countries • economic shocks in one part of the world are more likely to affect other parts • the difficulty of drawing conclusions which are too generalised as to be virtually meaningless • on-going protectionism even by countries involved in WTO talks such as Doha which might limit benefits • a consideration of 'significant' economic benefits • the possible problems of measuring economic benefits • how the 'losers' might be helped, if at all, and if there is a willingness to do so

- if free trade is so beneficial why does an underlying protectionism persist?
- benefits for some sectors of an economy, damage to others
- trade blocs (free trade for members v protectionism towards non-members)
- the need for WTO talks to make much more progress before benefits can be cited without significant qualification
- a final judgement on the perceived benefits of progress towards free 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.

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

[25]

Introduction	• macroeconomic performance • the possible nature of major global events such as sports competitions, natural disasters and economic downturns.
Developing the response to the question: Application	• the stimulus to countries hosting major events benefiting other countries (lines 5-8) • the distinction between predictable and unpredictable events (lines 16-19) • the importance of such events forging stronger economic ties between countries (lines 13-15) • the need for a strong economy in order to take advantage of opportunities (lines 29-30) • US financial crisis (line 19) • the Japanese earthquake and tsunami in 2011 (line 23). • use of AD / AS analysis • the multiplier • economic cycle
Developing the response to the question: Analysis	• economic growth • stability of prices • employment / unemployment • the balance of payments on current and capital accounts • creating a strong economy in order to be able to respond to the stimuli of global events • the possibility of global events having a negative impact and the ability of an economy to respond • analysis of fundamental factors such as productivity, quality of resources, flexibility • references to the UK and / or other economies • use of diagrams.
Evaluation	• what we might regard as “significant” • what we decide to be the key measure(s) of “significance” • the likelihood of major global events not being good news, e.g. disruption to oil supplies • how we might be perceived to be economically weak by other countries because of our possible inability to play a key role as an event unfolds • is the impact of any major global event nothing more than transitory? • with so many potential “players” internationally any one country

	can't always expect to have a significant role to play • the short term impact of an “event” in contrast to long term sustaining of, and benefits from, trade and investment links • possible contrasting abilities to respond to positive events as opposed to negative ones or vice versa • a final judgement on the overall significance. <i>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.</i>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

Introduction	• criteria for measuring economic consequences • nature of potential problems • nature of potential opportunities • the EU • the issue of enlargement of the EU.
Developing the response to the question: Application	• Turkey's geographical position (line 3) • an expected population in Turkey of 100m by 2020 (line 10) • Turkey's vast economic potential (line 11) • Turkey's impressive growth for at least 5 years, 2002 – 2007 = 7% (lines 14 – 15), 2010 first quarter = 11% (lines 13 – 14) • Turkey's reputation for economic instability (line 20) • high inflation in some recent years in Turkey (lines 20-21) • an attractive centre for investment (line 24) • migration and the impact on UK PPF • consequences for UK AD as the EU expands • export-led multiplier.
Developing the response to the question: Analysis	• the diverse nature of member countries of the EU • the UK approach to the EU and to enlargement in particular • demands upon the EU budget and hence upon individual members • Turkey as part of the SEM and the likely flow of cheap imports to UK • cheap migrant labour impacting on the UK labour market and social and economic infrastructure • Turkey as an additional market for the UK • investment opportunities • investment income coming back to the UK • the benefits of its established links with Asia • UK economic growth • UK unemployment • UK balance of payments • UK inflation / deflation • reference to other economies • use of diagrams.
Evaluation	• Turkish membership may be seen as the “straw which breaks the camel's back” as EU enlargement gathers pace

	• short term v long term considerations • the ability of the UK to take up opportunities successfully • the UK's possible inability to take up opportunities in the context of having to shoulder some of the problems which Turkey's membership may give rise to in the EU • the possibility that the UK macroeconomic indicators do not all head in the same direction (for example, Turkey as a stimulus to economic growth but migrant labour causing an unemployment problem) • the difficulty of giving "values" to pros and cons pre-membership and therefore being unable to take up a decisive stance with confidence • the impact could change over time as circumstances change • continuing enlargement, including Turkey, potentially providing ammunition to the Euro-sceptics in government and beyond causing the UK to remain by choice on the sidelines of the EU. An assessment of the significance of this issue for the UK • a final judgement on the overall impact on the UK economy. <i>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.</i>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

27.

Explanation

For defining investment, for example, that which is spent on capital equipment which can be used to create output and / or improve efficiency.

Investment and its linkage with aggregate demand

Investment as an injection into the circular flow

Investment and human capital

Overseas investment, such as FDI, portfolio investment or investment by multinational companies.

Examples of investment.

Use of technical terms, e.g. gross / net investment; private / social capital; physical / financial capital.

For use of a relevant diagram, e.g. circular flow

Analysis of benefit

Overseas investment spearheading trade links boosting the export sector. Overseas investment can spearhead trade links thus helping to boost the UK export sector. This in turn can be the growth inducing factor for the economy, especially by generating an export multiplier leading to an economic stimulus of the sector.

Stronger international linkages benefiting the balance of payments on current account.

The potential benefits to domestic employment.

Profit, interest, dividends (PID) from overseas investment and uses to which these might be put.

Any other valid analysis.

Use of appropriate diagrams, e.g. AD / AS.

References to the UK economy in the analysis.

[9]

Introduction	• the trade in goods • the balance of payments on current account – deficits and surpluses • criteria for assessing the impact of a deficit • the potential nature of the problem in the context of the UK economy.
Developing the response to the question: Application / Analysis	• the possible determinants of a successful export performance • possible determinants of imports • whether competitiveness in world markets is an underlying issue and is the real cause for concern • Whether global macroeconomic conditions provide part of the answer and whether they will be a temporary phenomenon • whether deficits arise from a loss of comparative advantage • the part played by the exchange rate at any one time and whether this is a temporary difficulty • whether non-price factors must be seen as a cause for concern • deindustrialisation as part of the explanation over the long term • the impact of deficits on other macroeconomic indicators – growth and employment • the compensatory role of invisibles • the compensatory role of capital flows • the possibility that a deficit might be a reflection of rising living standards in a country • use of diagrams • reference to the UK and/or other economies
Evaluation	• how persistent the deficit is • how large the deficit is, for example, in relation to GDP • whether it has an impact on the exchange rate and the consequences of this • the ability to borrow, if necessary, to finance the deficit • whether, in reality, it has had any lasting adverse impact on growth or jobs • whether the attempts to reduce it cause more problems, e.g. deflation of AD • whether the deficit brings higher living standards, if only in the short term • is the deficit indicative of a country 'living beyond its means'? • it may lead to calls for increased protectionism which may cause

long term problems

- the need to distinguish actions to control the deficit from actions to bring about a long term solution
- international opinion of the deficit
- whether it brings intervention by the IMF
- a final judgement.

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.

[25]

Introduction	- the nature of the EU perhaps with reference to institutions - the UK position within the EU - fiscal policy and budgetary positions - criteria for assessing consequences.
Developing the response to the question: Application	- Lines 1–3: the remedial Keynesian approach now denied to member states - Line 4: the abandonment of fiscal rules - Lines 11–14: the crisis in Greece arising from fiscal looseness - Lines 19–23: the UK Government seeming to be a step ahead of some in the EU especially with the setting up of the OBR. - Keynesian multiplier - Budgetary positions - Current account deficits.
Developing the response to the question: Analysis	- the general economic consequences any individual economy might expect in trying to achieve a balanced budget - the consequences for the EU as a whole of achieving that position - the idea of 27 nations being required to follow the same policy - the reasons for the policy - the impact on economic growth - the impact on living standards in the short term and long term - the impact on employment/unemployment - the impact on the UK's balance of payments on current account - the impact on inflation - the possibility of deflation - the impact on types and levels of government spending - the changes in taxation and the possible impact of the changes - use of relevant diagrams - reference to other economies.
Evaluation	- whether or not the policy is introduced for economic reasons or to reflect a particular political philosophy may influence judgement on the policy - the time given for any one country to achieve a balance - the UK's original fiscal position at the time the policy is introduced - for how long a country will be expected to continue with the policy - whether or not the policy will be effectively enforced - whether the UK pursues the policy mainly through tax increases or

	public spending cuts or a combination of both • whether it will be short-term 'pain' for long-term benefit • the differing impact on particular sections of the UK population • whether additional private sector activity will compensate • whether monetary policy has the same constraints imposed • the problems which 'one-size-fits-all' policy tends to generate for individual nations • a final judgement on the overall impact on the UK economy. <i>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.</i>
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[25]

32.

For

- defining exports or export of goods
- value v volume
- placing exports into the context of trade in goods and services
- placing exports into the context of the balance of payments on current account.

Comparative advantage is established or strengthened where an economy can produce a good at a lower opportunity cost than another country and therefore has a greater likelihood of improved competitiveness and more efficient use of resources, so that sales should rise in foreign markets. In the UK the financial services sector has developed this advantage. Reward an illustrative numerical example of comparative advantage.

Rising incomes overseas.

Improved productivity in the exporting economy.

A lower rate of inflation compared to trading partners or perhaps deflation in contrast to competitors' inflation.

Government support for the export sector.

Exchange rate depreciation.

Changes in export prices.

Any other valid cause.

Use of diagrams to help support explanations, e.g. comparative advantage, exchange rates.

Reward references to the UK economy.

Award a maximum of 12 marks if 3 reasons are not considered.

If more than 3 reasons are considered, reward the best 3.

[15]

Issues and areas for discussion include

Introduction	• the concept of a single market • other examples of single markets • the development of the EU single market • possible criteria for assessing benefits in outline.
Developing the response to the question (analysis and application)	<i>It will be perfectly legitimate for a candidate to cite benefits and, by evaluating these, to identify costs (or vice versa), eg competition as a spur to efficiency, but in evaluation, the UK not able to match the achievements in efficiency seen in some other member states with higher unemployment being a potential cost (consequence) of this.</i> • economic growth • economies of scale • comparative advantage • specialisation • efficiency, with inefficient firms failing (static v dynamic efficiency) • productivity • competition • choice of goods and living standards • mobility of resources • harmonisation of economic policies possible • trade expansion/trade creation • standardisation of national regulations • greater ease of doing business between members • investment • the single market as a 'driver' to further enlargement of the EU in general (although some would see this as a cost) • costs for the UK associated with being geographically separate from the rest of the EU and peripheral to the core • unemployment • low wages arising from mass immigration • a steady weakening, perhaps ultimately loss, of UK economic links with the rest of the world as trade diversion becomes more prevalent • costs associated with a 'survival of the fittest' scenario • bullying by dominant members into accepting economic policies seeking to strengthen the single market which are not in UK's long-term interests • regulations not necessarily being removed but imposed at EU, rather than national, level • use of diagrams • references to the real world.

Evaluation	• much of any objective evaluation may rest on to what extent the single market is allowed to develop ultimately • non-EU countries which did have strong economic ties with one or other members of a single market may find them weakening (trade diversion taking place), eg the Commonwealth and UK • progress can be slow, eg the single market in services still needs to be developed, and yet some members are largely dependent on services • a single market may not mean fewer regulations faced by members but just regulations raised to organisation, rather than national, level and this may not be efficient from the national perspective or, ultimately, from the single market perspective • threat of competition for an individual economy from lower-cost members with implications for the balance of payments and jobs, perhaps irrespective of the efficiency gains in the higher-cost country • labour mobility does not always deal with surplus/shortage problems very neatly and individual countries may suffer • migration driven not by economic factors (e.g. prospects of employment) but the supportive mechanisms in place in the recipient countries (eg welfare and health-care), perhaps causing a heavier burden on an economy's public finances and downward pressure on wages • higher living standards for all cannot be assumed; improvements may well be patchy • any economic benefits such as higher growth can be diluted by developments beyond the single market, notably global recession • the possibility of any one member being continually pressured to accept developments e.g. the single currency and/or a common fiscal policy • the drawing of different conclusions is possible when considering the likelihood of a two-speed EU, ie euro members v non-euro members • a final judgement on the potential benefits of the single market for a country such as the UK. Some central facts: access to 500m people; over half of UK trade is with other members of the single market; estimated that 3.5mn UK jobs are linked to export of goods and services to the remainder of the single market; another estimate suggests that member countries trade twice as much with each other as they would in the absence of the single market. <i>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.</i>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

Introduction	• economic growth • other macroeconomic performance indicators • the contrasting economies of India and the UK.
Developing the response to the question: Application	• Line 3: reference to increased exports • Lines 6–8: impressive quarterly growth which, if maintained, could create spin-offs for the UK • Line 18–19: GDP, multiplier, accelerator • Line 19: inward investment from India • Lines 24–28: benefits for the UK from India's infra-structure development • Line 31: the limitations for the UK if India remains 'fiercely protective'.
Developing the response to the question: Analysis	• how it is expected that India might develop in the future • the current importance of India to the UK and how this might change in the future • the potential impact on UK economic growth • the potential impact on the UK balance of payments both on current and capital accounts • the potential impact on employment/unemployment • UK structural change influenced by economies such as India • the impetus that stronger links with India may give to supply-side reforms • the impact on productivity and competitiveness • the impact on investment flows • use of diagrams • reference to other economies.
Evaluation	• India needs to be put into the context of other significant fastdeveloping nations which may all eventually play a part in UK macroeconomic performance • India needs to be put into the context of our currently important trading partners – the US and the EU • India may decide to remain protectionist in terms of certain types of investment and trade • how more effective, if at all, some of our competitors are in penetrating the Indian economy • the net trade flow • the net investment flow

- whether the UK produces what India's development requires, and, if not, whether the UK is able and willing to carry out the required structural change
- how supportive the UK government is of private sector efforts in penetrating the Indian economy
- whether or not India's growth and development continues in the current global economic climate
- a final judgement on the overall likely importance of India to the UK economy.

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.

[25]

1. Weaknesses in the UK balance of trade in goods persist, with a deficit of £27.6 bn in the third quarter of 2011, compared, for example, to £23.3 bn in the same quarter in 2010.

Discuss the possible contribution of supply-side reforms to achieving an improvement in the UK balance of trade in goods.

[25 marks]

2. The formation of single markets by countries in various parts of the world, including within Europe, has shown that much is to be gained from increased economic cooperation.

Explain the main features of a single market, such as that which exists within the European Union (EU).

[15 marks]

3. Weaknesses in the UK balance of trade in goods persist, with a deficit of £27.6 bn in the third quarter of 2011, compared, for example, to £23.3 bn in the same quarter in 2010.

Explain **three** reasons for a country such as the UK experiencing persistent deficits in the balance of trade in goods.

[15 marks]

4. **The European Union Context Extract D** (lines 28–29) states that it ‘is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone’.

Using the data and your economic knowledge, assess the possible impact on the UK economy if a number of countries leave the eurozone.

[25 marks]

5. In November 2011, the UK inflation rate was 4.8%, the rate of unemployment was 8.3%, while Bank Rate remained at 0.5%.

Explain **two** economic consequences for an individual **and two** economic consequences for an economy of an increase in its price level.

[15 marks]

6. **The European Union Context Extract D** (lines 39–41) argues that the ‘best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU’.

To what extent would you agree that the EU is likely to offer the ‘best hope for stronger UK economic growth’ over the next few years? Justify your answer, using the data and your economic knowledge.

[25 marks]

7.

The Global Context Extract B (lines 36–37) states that, if other MENA economies were to follow Jordan’s lead, there would be a ‘significant strengthening of MENA’s economic importance in the global economy’.

To what extent, if at all, should developed countries such as the UK be concerned about a significant strengthening of the economic importance of MENA countries in the global economy? Justify your answer, using the data and your economic knowledge.

[25 marks]

8.

‘Globalisation has made many economies more prosperous, but all economies have been made more vulnerable to economic shocks.’

To what extent, if at all, have the economic consequences of globalisation differed between developed and developing countries?

[25 marks]

Extract D: Economic growth or a double-dip recession?

In the third quarter of 2011, UK real GDP rose by 0.6%. Within this, manufacturing output increased by just 0.1%, while services such as banking and finance showed a 0.7% increase. Unemployment was around 8% of the labour force.	1
Such weak growth figures are a reflection of the economic situation within the European Union (EU) as a whole. The likelihood is that the next few years for the UK economy will be bleak. This pessimism is shared by other EU countries.	5
Prospects do not look good for the EU economy as a whole but, of course, the detailed picture varies between member countries. There has been a general deterioration in confidence. Intense financial turmoil in money and capital markets is affecting both investment and consumption. Deficit-reduction programmes are also suppressing domestic demand. Weaknesses in the global economy are holding back UK and EU exports. In mid-2011, the hope had been expressed by some economists that exports would be a major driver of economic growth, but such optimism proved groundless.	10
Attention has again turned to domestic demand within the EU. The projected decrease in inflation in the UK and in other member countries, coupled with limited wage growth, should at least limit any further significant erosion of real disposable income. However, there is continuing concern over the level of household debt which may yet constrain demand. Overall, the fears of a double-dip recession still loom large.	15
Within the UK, there is a debate over the relative importance of the various potential sources of growth in the next few years. There is a view that tightening of fiscal policy in the UK, together with similar policies in other EU countries, is damaging consumer demand and business confidence unnecessarily. The UK think-tank, the Institute for Public Policy Research (IPPR), argues for changes to be made to UK fiscal policy, and supports more severe spending cuts only when the economy improves.	20
The Institute therefore points to three possible solutions to the problem of slow UK and EU growth. These are: increases in government spending; substantial increases in global demand; and households and firms being given stronger incentives to spend more, for example through tax cuts. While growth in demand is seen as an important determinant of economic growth over the next few years, elements of government spending and incentives to business can make important contributions to the strengthening of the supply side of the economy.	25 30
None of the solutions offered by the IPPR seems likely to occur at the moment. The UK Government appears to be determined to maintain its tight fiscal policy, arguing that it is the only basis for sustained long-term growth. The global economy is far from stable, with increased talk by some of greater protectionism, although the emerging markets, such as India and Brazil, offer some hope for UK and EU exports. Households lack the confidence, and often the ability, to increase spending, while companies lack the optimism to invest. It needs to be borne in mind that the EU remains the UK 's most important single trading partner by far. The best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU.	35 40

Sources: news reports, 2012

Extract B: A decade of change, challenge and opportunity

This year, ten years will have passed since the downfall of Saddam Hussein in Iraq. Over these years the Middle East and North African countries (MENA) have continued to witness economic and political instability, culminating in the recent so-called 'Arab Spring' uprisings in countries such as Egypt, Libya and Syria.	1
The <i>Organisation for Economic Cooperation and Development (OECD)</i> distinguishes two groups within the MENA region. The resource-rich economies, such as Iraq, Saudi Arabia and Dubai, are recognised as being different from those seen as resource-deficient, such as Egypt and Jordan. For both groups, however, and despite the political problems for some, the OECD is optimistic about future growth.	5
The OECD argues that, as the global economy recovers, demand for goods and services from European and emerging markets in particular will encourage development of MENA's manufacturing and service sectors. Just as the UK, for example, enjoys a comparative advantage in financial services, some MENA economies are now developing attractively priced manufactured goods. Tourism is also ripe for further development.	10
However, although the OECD points to economic progress having been made, recent years have highlighted challenges which need to be faced in the MENA economies if there is to be further progress. Improvements in labour productivity and hence competitiveness are essential for increased trade with the rest of the world. More foreign investment in infrastructure and manufacturing plant is desperately needed, with advanced countries such as the UK having a role to play here. Unemployment remains persistently high in some MENA countries, as does inflation.	15
Jordan is beginning to show what can be done to bring about a more successful economy. Through productivity improvements, it is now one of the most competitive MENA countries. This has helped it to negotiate a number of significant free trade agreements, including those with the EU and the US. Exports have brought increased economic growth to Jordan, as has domestic investment.	20
One of the benefits of economic success can be a higher standard of living. The Human Development Index (HDI) allows international comparisons of living standards. The Arab states of the Middle East have seen an improvement in the index from 0.444 in 1980 to 0.641 in 2011. The latter figure can be compared with 0.862 for the UK.	25
Income per head, access to healthcare and education, life expectancy, the quality of the environment and a fair distribution of income are key factors in any assessment of living standards. The UK and other developed countries need to remember that higher living standards can mean bigger markets for goods and services.	30
In many of the MENA economies, there is still much to be done to achieve sustained economic success. But, where Jordan leads, others will begin to follow. To do so would see a significant strengthening of MENA's economic importance in the global economy.	35

Source: news reports, 2012

'Globalisation has made many economies more prosperous, but all economies have been made more vulnerable to economic shocks.'

Explain the term 'globalisation' **and** the role that multinational companies play in the development of globalisation.

[15 marks]

12.

‘Economic shocks can bring with them significant consequences for macroeconomic performance, as the UK knows only too well.’

Evaluate the likely impact of world economic growth **both** on the UK economy **and** on individuals in the economy.

[25 marks]

13.

The European Union Context Extract D (lines 19–26) refers to economies which, if they left the eurozone, would no longer be obliged to follow such a strict policy of fiscal restraint and could enjoy other economic benefits.

Explain the phrase ‘policy of fiscal restraint’ **and** analyse **one** potential economic benefit for an economy if it leaves the eurozone.

[9 marks]

14.

The economies of Mexico, Indonesia, Nigeria and Turkey (MINT) have all been identified as the next main emerging market economies with high rates of growth. However, there are warnings that what goes up will eventually come down.

Explain why economies may go from periods of economic growth to recession.

[15 marks]

Extract D: Can the eurozone survive?

Before the global recession of 2008, the euro had emerged as a successful major currency, making travel and trade for member countries much easier. Those countries traditionally with weaker currencies, such as Italy, Greece and Spain, were given a degree of stability which fostered economic growth. Some leading economists and politicians were urging the UK to adopt the euro, seeing it as a major step towards the full integration of the UK into the European Union (EU). 1 5

The global recession changed everything. By 2011, there were many in the UK relieved that we were still outside the eurozone. The growing debt crisis in the eurozone has inevitably had repercussions for the euro. Stronger members found themselves being called upon to offer financial support to those economies in trouble. Media reports began to suggest that the ultimate outcome of the debt crisis would be the break-up of the eurozone, with some of the weaker members such as Spain, Italy and Greece re-adopting their former national currencies. 10

The UK Government has adopted a policy of fiscal restraint in order to reduce annual borrowing and to try to limit the growth of the National Debt (the total outstanding debt of the government). It urged the weaker members of the eurozone in particular to adopt a similar policy if they were to retain membership. 15

However, the potential benefits of leaving the eurozone are not lost on some politicians and economists within the weaker economies. One such benefit is the absence of the same 'one-size-fits-all' interest rate. For example, some countries still in recession in the eurozone saw their interest rates, as set by the European Central Bank, rise to 1.25% in July 2011. This was at a time when the Bank of England kept the UK Bank Rate at 0.5%. Countries could also restore an exchange rate for their own currencies which would give them a competitive edge, rather than being forced to cut wages and jobs. They would also not be obliged to follow such a strict policy of fiscal restraint which remaining members would have to follow. 20 25

There are others, however, both within these countries and beyond, who warn against departure from the eurozone. It is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone. The impact would depend on a number of factors, including how many countries left and which countries these were. It might also depend on the degree of economic instability which departure from the eurozone might cause in those countries as they restored their national currencies, and the impact on the stability of the remaining members of the eurozone. It has to be borne in mind, however, that the EU would still exist. 30

The UK might expect disruption to trade, at least in the short term, with consequences for the balance of payments. Another banking crisis could also emerge. International money, seeking a safe haven, might favour the pound sterling and thus strengthen its external value. These potential developments have implications for UK growth and employment and pose yet another threat to the current recovery. The UK might be relieved to be outside the eurozone. However, the UK is certainly not immune from the possible consequences of its break-up. 35 40

Source: European Central Bank, 2012

16.

'Economic shocks can bring with them significant consequences for macroeconomic performance, as the UK knows only too well.'

Using at least **one example of each**, explain how demand-side and supply-side shocks might harm a country's economic growth.

[15 marks]

17.

'When the exchange rate of a country's currency causes problems, it may be down to free market forces, but government intervention might be to blame.'

Assess the importance of a floating exchange rate to a country trying to achieve macroeconomic stability.

[25 marks]

18.

'When the exchange rate of a country's currency causes problems, it may be down to free market forces, but government intervention might be to blame.'

Explain **three** possible determinants of a country's exchange rate against other currencies.

[15 marks]

19.

In July 2012, the Office for Budget Responsibility concluded that UK Government measures to cut the budget deficit have improved the UK's long-term economic prospects.

To what extent do you agree, if at all, that the implementation of a budget deficit reduction programme will improve the UK's long-term economic prospects? Justify your answer.

[25 marks]

20.

The European Union Context Extract E (lines 1–2) states: 'In recent years, growing disenchantment with the EU has led to calls for the UK to leave the organisation.'

Do you agree with the view that the UK economy would benefit if the UK left the EU? Justify your answer using the data and your economic knowledge.

[25 marks]

21.

The European Union Context Extract E (lines 12–14) points out that UK trade with the EU has created 3.5m jobs in the UK 'either within the export sector or, more widely, through the operation of an export-led multiplier'.

Explain the term 'export-led multiplier' **and** analyse **two** possible economic reasons for an increase in UK exports to the EU.

[9 marks]

22.**THE EUROPEAN UNION CONTEXT****Extract E: Would the UK be left out in the cold by saying goodbye to the EU?**

In recent years, growing disenchantment with the EU has led to calls for the UK to leave the organisation. Supporters and opponents of UK membership have presented coherent arguments. 1

A study by the so-called Bruges Group, which opposes the EU, estimated the annual cost of UK membership to be £65bn. This included an estimated cost to businesses of £28bn to comply with EU regulations and an annual net contribution to the EU Budget of £14.6bn. A member of the EU Commission in 2011 estimated that the Common Agricultural Policy (CAP) causes the UK consumer to pay up to three times as much for food than if the CAP did not exist. The common external tariff raises prices of imports into the EU, including the prices of consumer goods and resources used by businesses. It also protects inefficient, high-cost EU producers. 5 10

Those supporting UK membership point, for example, to the 3.5 million UK jobs created from trade with the EU, either within the export sector or, more widely, through the operation of an export-led multiplier. The Single European Market has helped trade creation and has allowed EU labour to move to the UK, to the benefit of UK businesses. Despite not being in the eurozone, the UK has continued to attract a large share of the world's investment funds so that it is now the third largest recipient internationally. It is claimed that a large part of this is due to EU membership. The EU as a whole has also exerted much greater influence than could any individual EU country in negotiations to further global free trade. One business organisation has argued that non-membership would be like 'sitting outside in the corridors rather than at the decision table'. 15 20

Sources: various, 2012

23.

The Global Context Extract B (lines 15–16) argues: 'An increasing global inflation problem could have serious consequences for all aspects of UK macroeconomic performance, including the balance of payments and employment.'

Using the data and your economic knowledge, discuss the possible impact on the UK balance of payments of an increasing rate of inflation throughout the global economy.

[25 marks]

24. THE GLOBAL CONTEXT

Extract B: Inflation never quite goes away

Governments around the world seeking a cure for inflation accept that such a cure may never be achieved. They recognise, therefore, that the next best thing is effective control in order to secure economic stability and sustained economic growth. Even then, past experience suggests that inflation will never be fully under control. Governments recognise that there may be both national and international forces at work which have a bearing on prices. International causes of inflation are inevitably going to be more difficult, or impossible, for a country to control than those whose origins are from within that country. 1

Some economists might argue that a weak global economy can help to suppress inflation but this weakness, if it persists, will have costs in terms of jobs and living standards. In any case, there may still be pessimism about inflation in the long term. As growth strengthens both in emerging and advanced economies, consumer demand, energy costs, primary commodity prices and wage costs are certain to rise. Agricultural commodity prices, for example, have fallen in recent decades but a significant upward trend could occur. 5

Such a trend will be reinforced by the growth of a global population, now over 7 billion. An increasing global inflation problem could have serious consequences for all aspects of UK macroeconomic performance, including the balance of payments and employment. 10

It breeds uncertainty for government, consumers and businesses and raises expectations of future inflation. Because it affects competitiveness and can disrupt trade and investment flows, the impact on both the current and the capital accounts of the balance of payments needs to be assessed. It is also likely that worsening inflation can halt any hesitant recovery. Overall, economic instability can be expected. 20

Source: news reports, 2012

25. Savings often provide the funds for investment. In 1997, the UK saving ratio stood at 13%, at the beginning of the financial crisis in 2007 it was only 5% and by 2014 it had risen slightly to 7%.

Evaluate the likely impact of a fall in the saving ratio on the performance of the UK economy.

[25 marks]

26. Globalisation and outsourcing of manufacturing provides several potential benefits to economies. However, some countries, such as the UK, continue to suffer persistent trade deficits but are unable to resort to import controls.

Explain how the UK Government could reduce a balance of payments deficit on the current account, other than through the use of import controls.

[15 marks]

27. Globalisation and outsourcing of manufacturing provides several potential benefits to economies. However, some countries, such as the UK, continue to suffer persistent trade deficits but are unable to resort to import controls.

Assess the view that, for the UK, the economic benefits of globalisation outweigh the costs.

[25 marks]

28.**THE EUROPEAN UNION CONTEXT****Extract F: Is deflation a bad thing?**

Deflation is the new economic menace threatening European economies including the UK. 1
In the Eurozone in particular, the European Central Bank is considering the use of
quantitative easing to help avoid deflation; but why is it such a problem? Firstly, there is
the argument that deflation delays spending. However, this does not relate to all forms
of consumption. Another reason is the effect on debtors. Prices and perhaps incomes 5
may fall, but the real value of debt increases. For firms experiencing falling revenues,
and households with declining incomes, debt repayments become more of a burden.
Governments can be caught in the same trap, because if prices and incomes fall, so does
tax revenue.

There is an alternative view that moderate deflation is not a bad thing, especially if it is the 10
result of innovation that reduces production costs. Also, some comfort is to be had from
falling or barely rising prices as this goes some way to improve competitiveness. Some of
the Eurozone's economies desperately need to become more competitive and they need to
either reduce costs or increase productivity. However, falling prices deter investment, which
makes productivity improvements far more difficult. 15

Source: news reports, 2014

29.

The European Union Context Extract F (line 1) states: 'Deflation is the new economic menace threatening European economies including the UK.'

Using the data and your knowledge of economics, evaluate the view that deflation in the EU's economies would inevitably be damaging to the UK's macroeconomic performance.

[25 marks]

30.

Since the start of the financial crisis of 2007–2008, the UK, the Eurozone and the USA have adopted quantitative easing (QE) in an attempt to stimulate their economies.

To what extent do you agree that maintaining inflation at the target rate of 2% should be the top priority of UK macroeconomic policy? Justify your answer.

[25 marks]

Mark schemes

1. 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. <i>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.</i>

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

2.**Relevant issues/logical chains of analysis include:**

- defining a single market (eg a type of trade bloc which is initially a free trade area for goods for the benefit of member countries)
- examples of single markets other than the EU, eg. Agreement on Internal Trade (AIT) in Canada; European Free Trade Association (EFTA)
- identifying an important distinction between a single market and a customs union: in the latter a common trade policy such as the EU common external tariff
- a type of trade bloc initially concerned with free trade in goods
- free trade in services
- working to remove barriers to further economic integration, eg any remaining physical barriers (borders), fiscal (taxes), with the long-term aim of strengthening general economic relations between members
- liberalisation of financial markets to encourage better flow of investment funds
- common policy on government procurement (any member government obliged to consider submission of bids for government contracts from any member country)
- common technical, safety and health standards for goods which may arise from cooperation on R&D
- links may be established with neighbouring countries, eg EFTA + EU = EEA
- often having a strong commitment to supporting the international (multilateral) trading system as spearheaded by the WTO
- diagrams to help support explanations, eg comparative advantage, but diagrams are unlikely in this part of the answer

[15]**3.****Relevant issues/logical chains of analysis include:**

- defining/explaining the balance of trade, visibles/invisibles, the balance of payments on current account, (persistent) deficit/surplus
- high exchange rate which has perhaps appreciated steadily over time. It has made the price of exported goods more expensive and the price of imported goods cheaper. If the price elasticity of demand for exports and imports is elastic less export revenue can be expected. Expenditure on imports will show an increase and hence a balance of trade deficit emerges, all other things being equal
- persistent inflation which compares unfavourably to that of trading partners
- high income elasticity of demand for imports
- supply-side weaknesses such as low productivity
- limited structural changes in the economy so that it no longer produces what world markets want
- deindustrialisation making increased imports of imported goods inevitable
- quality of goods compared to other countries
- economic downturns amongst our trading partners not experienced within the UK so that export sales become more difficult while imports of goods stay buoyant or even increase especially if overseas suppliers are desperate to sell and reduce their overseas prices
- comparative advantage
- protectionism in trading partners not replicated in the UK
- diagrams to help support explanations, eg AD/AS, comparative advantage, tariffs/quotas

[15]

Issues and areas for discussion include:

Introduction	- the Eurozone and the EU - UK status - economic criteria for measuring impact - the likely nature of Eurozone break-up.
Developing the response to the question (Application)	- the degree of stability that had existed before the global financial crisis especially for the weaker members (lines 3–4) - the significance of the debt crisis (lines 8–13) - the importance of eurozone stability for the UK (lines 35–39) - the inability of the UK to be immune from the eurozone problems even though it lies outside the eurozone (lines 39–41) - GDP - injections/withdrawals from the circular flow - cyclical/structural unemployment.
Analysis	- economic instability in the eurozone or more widely in the EU - the impact on the £ - the impact on the euro - the status and stability of the restored national currencies of those economies leaving the eurozone - UK economic growth - UK employment. - UK balance of payments, current and capital accounts, especially the impact on the world economy UK exports - the impact on the UK banking/financial sector - the scale of any UK commitment to 'bail-outs' - diagrams to help the analysis - reference to the real world.
Evaluation	- the significance of which countries actually leave the eurozone - how many countries decide to leave - the policies those countries decide to pursue following their exit - whether or not the exit of some countries leaves the eurozone as a much stronger economic entity with which the UK establishes even stronger economic ties - the relative value of the £ in relation to the newly restored national currencies - if there is a continuing crisis whether or not the UK can compensate by developing stronger economic ties elsewhere in the world - whether the UK and the remaining members of the eurozone pursue policies intended to support the economies exiting from the eurozone - the exit of countries in the context of the state of the world economy at that point and the EU economy in particular - the potential significance of the EU still remaining as an economic entity with, for example, the SEM still intact - reference to what actually happens when this paper is sat by candidates and what is suggested in the data - a final judgment on the issue of countries leaving the eurozone. <i>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</i>

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

[25]

5.

Relevant issues/logical chains of analysis include:

- defining the price level and/or inflation with reference to cost-push and demand-pull or the phrase 'increase in the price level' and/or economic consequences'
- a rise in the price level will erode real personal disposable income when there has been no increase in money wages to compensate. This means that consumption may have to be curtailed and/or the proportion of income saved reduced. The material well-being of the individual is therefore affected as might the quality of life if the individual feels the necessity of working longer hours to compensate
- greater danger of unemployment if competitiveness suffers or anti-inflation measures take effect
- shoe-leather' costs/'menu' costs
- the real value of debts
- the dangers of being a creditor
- uncertainty affecting decisions, notably consumption decisions
- the impact on those on fixed incomes
- the impact on behaviour of rising expectations about inflation
- reduced real value of savings
- the impact on competitiveness if the economy's prices rise faster than those in its trading partners. It therefore becomes more difficult to sell goods and services overseas unless exporters' prices are limited by accepting narrower profit margins. It also means that imports can become more price attractive and so imported goods begin to displace those produced domestically. The current account can therefore be adversely affected
- the impact of policies introduced to combat inflation
- distributional effects
- the impact on business confidence and hence investment
- a cause of unemployment
- inflation can make supply-side reforms more imperative, eg leading to higher productivity, lower unit costs and thus a compensatory factor when considering the impact of price increases
- rising inflation expectations across the economy as a cause of further inflation
- impact on the exchange rate
- short run, long run considerations
- diagrams to help support explanations, eg Phillips curve, AD/AS, MEC

Examiner note: there may be need for flexibility where a candidate argues a case for a factor that we would normally associate with, say, the individual, being relevant to the economy, eg shoe-leather costs and inefficiency in the economy.

[15]

Issues and areas for discussion include

Introduction	• economic growth • general causes of economic growth • the EU • 'the best hope' in relation to what?
Developing the response to the question (Application)	• economic growth theory • trade cycle and recession • fiscal policy and deficit-reduction policy • application to recent/current events so heavily represented in the media • the EU tumbling back into recession (lines 4–6) • variation in prospects between EU member countries (lines 7–8) • strict fiscal policies in UK and in much of the rest of the EU (lines 20–22) • recovery in the global economy (lines 35–36) • hopes for stabilisation in the eurozone (lines 40–41).
Analysis	• how the EU can help UK GDP growth, eg demand for exports, euro and other currencies strengthening against the pound • stimulus from those EU economies recovering more quickly than others • the EU and the single market • stimulus from other parts of the world, eg the emerging markets • UK supply-side reforms giving a competitive edge in albeit depressed markets • the contribution of domestic demand within the UK, eg if fiscal constraints are relaxed on spending, tax cuts are introduced, consumers begin to show a stronger response to low interest rates • the impact of any increase in domestic wage increases should they occur after a period of restraint • UK private sector beginning to more than compensate for the contraction of the public sector • investment trends in the UK • trends in the exchange rate of the £ against other currencies impacting on UK global exports • use of diagrams • references to the UK and/or other economies.

Evaluation	• whatever growth is seen within the EU, other parts of the world may grow more strongly and offer more opportunities to the UK • the speed of recovery particularly in the eurozone • the persistence/exacerbation of economic problems for the UK should the eurozone begin to break up • whether or not the UK is competitive enough against the emerging markets • greater reliance for growth from within the UK if recovery becomes more rapid, perhaps on the back of a looser fiscal policy, increased consumer and business confidence, a stronger government growth strategy • the dangers of discussing just in terms of eurozone/non-eurozone countries; analysis must be of individual EU economies to assess their potential contribution to UK growth in the future and their past importance to the UK economy • in more stable times, the size of population in the EU, total spending power, and the benefits to the UK of the single market • whatever the UK prospects for growth emanating from the EU, the long term sense of limiting UK reliance on one area of the world and developing stronger links elsewhere • a final judgement on the prospects for the UK <i>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.</i>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

Issues and areas for discussion include

Introduction	• criteria for assessing 'significant strengthening of the economic importance' • identification of one or more MENA economies • the range of economic experience in the MENA economies.
Developing the response to the question (Application)	• comparative advantage • labour productivity • production possibilities • supply of resources from the resource-rich MENA economies (line 6) • opportunities for UK financial services (lines 12-13) • the threat from MENA manufacturing (lines 13-14) • further investment opportunities for UK in the MENA economies (lines 18-20) • the potential significance of free trade agreements between MENA and other economies (lines 24-26) • potential benefits to the UK of higher living standards in MENA countries (lines 27-30).
Analysis	• economic growth • employment and unemployment • balance of payments on current account • supply-side reforms • AD/AS analysis • comparative advantage • further structural change in the UK economy • living standards • direction of investment • use of diagrams • references to the UK and/or other economies.

Evaluation	• 'concern' needs to be measured against opportunities in the MENA economies • continuing political instability in the MENA region may dilute any threats to the UK and any opportunities for the UK in the MENA economies • the inflexibility of the UK economy may mean lost opportunities • if and when importance strengthens, the MENA economies' more powerful negotiating position regarding prices of resources needed by developed countries • MENA economies in relation to other opportunities elsewhere in the global economy • opportunities/threats in the UK domestic economy compared to those presented by the MENA economies • how the UK might compare to other economies with similar aims of gaining a foothold in the MENA economies, eg, the emerging markets • the significance of relative inflation rates between MENA economies and the UK, and between the UK compared to other economies showing interest in the MENA economies • the possible greater impact on the UK and a cause for concern if the UK's major markets, the EU and US, continue to have problems • the threat the MENA economies pose to the UK in established UK markets especially in the long term • a final judgement on the economic consequences. <i>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..</i>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

Issues and areas for discussion include:

Introduction	• globalisation • developed and developing economies • criteria which underlie an assessment of economic consequences
Developing the response to the question (application and analysis)	• economic growth • labour flows • capital flows • employment/unemployment, eg structural unemployment • balance of payments on current and capital accounts • trade and trade policy, eg exploitation of comparative advantage • MNC policies, eg branch-plant syndrome • deindustrialisation • the way in which the two categories of countries and governments within them respond to the challenges of globalisation if at all • the response of businesses in the two categories of countries, eg productivity, productive efficiency, efficiency-enhancing techniques such as Just-in-Time (JIT) and Total Quality Management (TQM) (examiners please note that these terms are not in the specification) • exploitation • the impact on the distribution of income and/or wealth • impact on living standards of different income groups & regions • use of diagrams • references to the real world.
Evaluation	• the possible error in just comparing two groups of countries when the diversity of experience and development within them is there for all to see • the relative degree of dominance of MNCs in each category and the nature of MNC policies • relative degrees of vulnerability to major global shocks • only conditional judgments are possible because the global economy is far from the end of the process of globalisation • the degree to which national governments will stand up for the national interest, perhaps in a selfish, nationalistic way • resources available to individual national governments to lend support to national businesses • the potential greater flexibility of response of developing countries to changes arising from globalisation • quantifying different costs and benefits may be difficult, eg not being able to determine what part of a country's environmental costs can be attributed to the globalisation process • a final judgment, eg the extent of benefits will vary across economies, the degree of vulnerability perhaps much less so.

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]

11.

- For a definition of MNCs, eg a corporation or enterprise which manages production or delivers services in more than one country.
- Example(s) of MNCs
- **Explanation:**
MNCs will be heavily involved in foreign direct investment (FDI) which is investment by companies which have their head offices in other countries. It will strengthen economic links between countries and so further the process of global integration.
Investment can establish production units in a number of countries and if necessary initiate a modernisation of production processes.
- fostering trade
- spreading technology
- making developing countries aware of the potential benefits of becoming a part of a globalised world
- encouraging migration of labour
- establishing or strengthening supply chains
- any other aspect of MNCs' work relevant to globalization.
- Use of diagrams to help support explanations of globalisation or the role of MNCs, eg MEC, comparative advantage, AD/AS.
- References to the UK and/or other economies

[15]

Introduction	• Economic growth • The standard of living • The recent global experience.
Developing the response to the question (application and analysis)	• How world economic growth is likely to be achieved • The importance of ensuring that growth is sustainable • Recognition that the impact could be positive or negative in net terms The UK economy: • Aggregate demand • Changes to the incentive to invest and the possible impact on such things as productive capacity • Aggregate supply • Inflation • The environment • The ability to sell overseas and hence the impact on exports • Imports • The balance of payments on current account • The prospects for inward/outward FDI • World growth causing changes to wealth creation in the UK • Employment/unemployment • The impact of world commodity prices. The individual in the UK: • Trend in average income (income per head) • Distribution of income • A possible sharpening of the “haves and have-nots” distinction • Consumption patterns • The wealth effect associated with rising asset prices in a period of growth • Choice of jobs • Quality of life • Quality of life measures such as the HDI and the “happiness index”.

Evaluation	• The extent of world economic growth • World economic growth from what starting point, eg years of stagnation? • The importance of considering where in the world growth is taking place and the bearing this may have on the UK economy • The UK's capability to participate in the growth process and in its rewards • The possibility of the UK economy importing the downside of world growth, eg inflation and a deteriorating environment, without enjoying the benefits, eg more jobs and more spending power • It is easier to measure the economic impact on the individual, ie income per head, than it is to measure changes to the quality of life • What of the individual who has the wrong skills or qualifications to allow occupational mobility or cannot become geographically mobile? • Short term v long term impact for both the individual and the economy • Does the UK economy enjoy higher demand without giving due attention to its supply-side? • Is sufficient attention given to the environment both from the individual's point of view and that of the UK economy? • Whether growth elsewhere is likely to cause net economic benefit or net economic damage to the UK. <i>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.</i>
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]

13.**Explanation**

- Defining/explaining fiscal policy, fiscal restraint, economic benefit.
- Explaining the possible direction of fiscal policy to achieve fiscal restraint, perhaps with some reference to what might be meant by 'strict'.
- Reference to the macroeconomic aims of such fiscal restraint via AD.
- Use of relevant diagrams, eg AD/AS
- Greater freedom in monetary policy, eg setting interest rates so that national interest rates suit national economic trends and deciding on domestic monetary growth. This will allow interest rates to be raised if boom conditions emerge making it possible to adopt a counter-inflation interest rate policy. Equally, ECB rates will not have to be accepted if the national economy experiences a downturn when it would be necessary to lower interest rates in order to raise components of AD in the economy, such as consumption or investment.
- The ability to devalue a restored national currency.
- Greater freedom on fiscal policy.
- Freedom from the 'legal' obligation to offer financial support to other eurozone economies in crisis should it be in a position to do so.
- Any other valid analysis; for example, it would be conceivable for a candidate to argue that there is a general benefit of greater freedom on national policies while retaining the benefits of EU membership such as CAP, SEM, CET, with one or other of the latter being given some weight in an answer.
- Use of appropriate diagrams, eg AD/AS, interest rates.
- The UK/eurozone – £/€

[10]**14.****For defining/explaining:**

- Economic growth (short-run or long-run)
- Recession
- The trade cycle

For Example: An external shock such as the banking crisis which began in 2007 reduced the ability of the financial sector to lend which caused individuals difficulty in gaining credit and therefore causing consumption to fall as consumption is a large component of aggregate demand as AD falls the real national output of the economy falls which could cause a negative multiplier effect and, if real national output falls for 2 successive quarters this is a recession.

Use of diagrams to help support explanations, eg AD/AS or the trade cycle.

Relevant real world examples and/or relevant reference to the UK and/or other economies.

[15]

16.**Relevant issues/logical chains of analysis include:**

- defining economic shock, eg what maybe an unexpected event or one that at least some had predicted which affects an economy either positively or negatively (it is anticipated that the majority of candidates will see shock in negative terms because of the reference to 'harm' and this should not be penalised. Please make sure that credit is not given where the preamble to the question is simply copied out, ie an economic shock is something which can have significant consequences)
- distinguishing a demand-side shock from a supply-side shock, perhaps with examples, such as the euro crisis, the 'credit crunch'; oil price increase or a natural disaster.
- defining economic growth, eg an increase in real GDP or an increase in productive capacity.
- distinguishing between actual and potential growth
- Supply: A significant increase in global oil prices will impact on an economy having to import most or all of its oil from the international market, causing the SRAS curve to shift to the left. Higher oil prices will lead to higher unit costs and hence higher prices and hence cost-push inflation. The impact of inflation on real incomes will affect AD (1mark). Demands from labour for higher wages will worsen the inflation problem. Inflation will cause an increase in unemployment and eventually cause economic growth to falter so that stagflation becomes a real possibility.
- Supply: A significant increase in prices of primary commodities generally and/or food prices.
- Supply: A major war/significant natural disaster/a series of devastating terrorist attacks around the world in major economies.
- Demand: The severity of the Eurozone crisis
- Demand: An unanticipated and sudden downturn in emerging economies such as India and China.
- Demand: credit crunch/crisis in major financial markets
- any other economic shock explained which potentially harms growth
- diagrams to help support explanations, eg AD/AS showing shifts of AD and/or AS, micro supply and demand diagrams, PPF

[15]

17.

Introduction	• Exchange rate • Floating exchange rate • Other exchange rate systems • Macroeconomic stability.
Developing the response to the question (application and analysis)	• Automatic adjustment under a floating exchange rate • The significance of automatic adjustment for macroeconomic stability • Interest rates determined by domestic conditions but nevertheless impacting on the exchange rate • Speculation and its impact • Global economic shocks • Economic growth and stability • The exchange rate and prices • The exchange rate and the balance of payments on current account • The exchange rate and employment • A floating exchange rate and business confidence • The possible significance of intervention by the authorities in an era of managed flexibility • Other factors which are more effective in achieving stability
Evaluation	• The likelihood of automatic adjustment occurring efficiently or at all • Whether other conditions potentially able to secure stability can counteract any destabilising effect of a floating exchange rate or will it be vice versa? • The extent of changes to an exchange rate under a floating system • The impact of economic shocks making it very unlikely that stability can be achieved whatever the exchange rate system in operation • The preparedness of a government to intervene to influence an exchange rate in order that macroeconomic stability can be achieved • In reality, how long is 'a period of macroeconomic stability' expected to be? • Are changes in an exchange rate, within reason, really relevant to achieving macroeconomic stability? • The need to recognise that a floating exchange rate may help to stabilise one aspect of the macroeconomy, eg prices, but not do a great deal for another aspect, eg economic growth. <i>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.</i>
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]

18.

Relevant issues/logical chains of analysis include:

- defining exchange rate/appreciation/depreciation/revaluation/devaluation
- the distinction between various exchange rate systems
- trade flows will affect an exchange rate. If exports increase so too will the demand for the currency of the exporting country by overseas buyers. This will cause the exchange rate to appreciate. Equally, if imports into a country increase, so too will the supply of that country's currency, causing the exchange rate to depreciate
- Investment flows, competitiveness government involvement in FOREX, interest rates and hot-money flows, expectations, confidence
- External factors such as strong US or Eurozone recovery or an economic shock such as an international banking crisis
- diagrams to help support explanations, eg supply of, and demand for, a currency or for exports and/or imports

[15]

Introduction	• The budget and budget deficit • The recent UK experience • Short term long-term • The notion of improvement in economic prospects.
Developing the response to the question (application and analysis)	• Short-term gain versus long-term gain • International credit-agency ratings for the UK and their possible significance • Interest rates and quantitative easing – short term benefit, long-term inflation? • The importance of stabilising the economy • Recession in the short term but the possible long-term weakening of the economy • The contrast with the 'Keynesian solution' • Economic growth • Inflation/deflation • Cost-push inflation at a time of 'austerity' creating problems in the long-term • Competitiveness and the balance of payments on current account • Long-term prospects for employment/unemployment • Cyclical and structural unemployment.
Evaluation	• The severity of reductions in the deficit • The period of time over which so-called fiscal austerity lasts • What is reasonable to consider as 'long-term' when referring to 'long-term economic prospects'? • How the budget deficit is achieved • Whether the improvement in long-term prospects fully compensates for short-term problems arising from the reductions in the deficit • Does the alternative 'Keynesian solution' really hold water under scrutiny? • Are international credit ratings really that significant? • Long-term prospects may improve on one measure, eg inflation, but suffer on another measure, eg growth • The possible self-defeating nature of deficit reduction, ie efforts to reduce a deficit can bring about an increase as the economy worsens <i>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.</i>
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]

Introduction	• Reference to the history of the EU • The history of UK membership of the EU • Changing views about membership over time • The nature of the EU, for example, as a customs union/single market • The possible criteria for making a decision.
Developing the response to the question (Application)	• The estimated total cost to UK of membership Extract E(lines 4 & 5) • UK Budget contributions Extract E (line 6) • The Single European Market Extract E (lines 14 & 15) • Foreign direct investment Extract E lines (15 & 16) • The EEA Extract F (lines 3–5) • The example of Norway as a non-member of the EU Extract F • Trade theory • AD • Economic growth
Analysis	• The notion of economic benefit • Economic growth • Employment • Balance of Payments • Exchange rate • Prices • CAP • SEM • CET • The euro • The EEA.
Evaluation	• The uncertainty surrounding the future outside the EU • Whether a comparison with just one other economy (Norway) is helpful • To what extent, if at all, would trade be affected? • Could the UK re-establish former economic links, for example, with the Commonwealth or is this a myth from non-existent halcyon days? • The difficulty of assessing in a truly objective and precise way the various costs and benefits • The possible UK support for membership to foster and maintain economic ties with the EU in contrast to strong opposition to political ties and loss of national sovereignty • The possible changing views about membership as enlargement of the EU continues • Support for membership increasingly tempered by a fear that the UK will become embroiled in the euro crisis financially when the UK is outside the Eurozone • ‘Sitting on the fence’ has limitations; should the UK fully embrace all aspects of the EU and become ‘full Europeans’ including adoption of the euro? • The possibility of the UK joining the EEA or even NAFTA instead. <i>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.</i>

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]

21.

Relevant issues/logical chains of analysis include:

- defining exports and/or the multiplier
- explanation of the link between the multiplier and AD/use of an arithmetical example
- explaining export-led multiplier, eg the impact of a growing export sector on other sectors of the economy, for example, as those employed in the export sector spend their incomes on goods and services; those businesses in the export sector demanding machinery and technology from other businesses outside the export sector
- use of relevant diagrams, eg AD/AS
- An improvement in the macroeconomy of the EU to which over half of UK exports are sold. Fiscal policy may loosen in the EU, so that consumers' disposable incomes rise and hence their demand for UK goods and services. Equally, unemployment may fall in the EU allowing average incomes to rise and hence consumer demand for UK exports
- UK productivity increases lowering unit costs
- UK/EU relative inflation rates are favourable to the UK
- Quality of UK goods and services
- The exchange rate of the £ against other currencies
- Changing comparative advantage favouring the UK
- appropriate diagrams, eg AD/AS, comparative advantage

[9]

Introduction	• Definition of inflation • Global experiences of inflation • UK inflation and the scenario of 'worsening inflation' • The balance of payments and its various parts.
Developing the response to the question (application)	• Low inflation for achieving economic stability and sustained growth Extract B (lines 2–3) • Reference to energy costs and primary commodity prices Extract B (lines 12 & 13) • The brake on hesitant recovery Extract B (lines 21 & 22) • The dangers of loose monetary policy in the UK Extract C (lines 7–11) • The breeding of 'uncertainty' Extract C (line 11) • Disruption to trade and investment flows (Extract B lines 19 & 20) • Cost-push inflation • Demand-pull inflation • AD/AS analysis • Balance of payments • Competitiveness.
Analysis	• The notion of 'impact' • Measurement of impact in the context of the balance of payments • World commodity prices increases and the UK import bill • UK competitiveness given the authorities' success or failure in controlling inflation • The impact of imported inflation on future balance of payments' performance • Inflation, the UK exchange rate and the balance of payments • The impact of global inflation on the macroeconomy of other countries and how this will inevitably impact on the UK's balance of payments • Investment flows and the capital account.
Evaluation	• Is the problem in almost every part of the global economy and what, therefore, is the relevance of this to the UK balance of payments? • Is the problem one experienced by the UK's major trading partners? • 'Increasing inflation' but is the deterioration still from low initial levels of inflation? • UK inflation compared to inflation amongst our trading partners • A worsening, but still mild, inflation as a stimulant to the world of business, to investment, and the impact on the capital account • An inflation scenario which still compares favourably to the prospect of deflation for the balance of payment • The severity of any anti-inflation policies pursued by other governments which may impact on global demand for UK goods and services • The impact on the current account of success or failure in UK authorities' attempts to deal with any national problem of inflation. <i>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.</i>

Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

25.

Introduction	• Saving ratio • Macroeconomic performance.
Developing the response to the question: Application / Analysis	• Increased consumption benefiting standards of living • Increased short-run economic growth • Positive multiplier arguments • Increased deficits on the balance of payments on current account • Increased problems of personal debt • Demand pull inflationary pressures caused by too much consumption • Over-reliance on credit • Lack of funds in financial institutions for lending and investment • Lack of funds for long-run growth • Effects on confidence • Paradox of thrift arguments (not in specification) • Effects on employment.
Evaluation	• Is the saving ratio important in an economy or is it a by-product of economic conditions? • Has increased economic integration and international finance diminished the importance of the savings ratio? • Savings creating the condition for investment in the long run • Low savings and the effects of future policy changes • Changes in the saving ratio as an effect of having a strong economy rather than the cause of a problem. <i>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.</i>
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]

26.

For defining/explaining

- Globalisation
- Balance of payments on current account
- Trade deficit
- Import controls.

For example: By carrying out supply-side policies such as training and education this would hopefully improve productivity in the domestic market which should improve the potential output per worker which increases the long run productive potential of the economy. This could reduce the general price level which makes domestic goods and services more competitive abroad which may lead to other countries increasing demand for the UK's exports such as financial services in which the UK holds a comparative advantage and if the value of imports remains the same this may reduce the balance of payments on the current account.

Other examples could include: issues such as exchange rate depreciation, expenditure reducing policies or export subsidies.

Use of diagrams to help support explanations, eg LRAS increasing or exchange rate depreciation.

Reference to the UK and/or other economies.

[15]

Introduction	• Globalisation • UK economy • Stakeholders in the economy, households, firms, government and whole economy.
Developing the response to the question: Application / Analysis	Arguments that the UK benefits from globalisation • Comparative advantage arguments – job creation in financial services • Endowment of factors of production – access to goods and services difficult to produce domestically • Increased choice • Lower costs of consumer goods/cost of semi-finished goods and commodities • Benefits from transfer of technology • Welfare gains in terms of trade • Economies of scale arguments • Benefits of international co-operation • Increased FDI. Arguments that the UK loses out due to globalisation • Outsourcing has led to structural unemployment in regions of the UK • Issues surrounding labour migration • Multinational corporations exploiting tax loopholes • Multinational corporations influence over political decisions • More open to economic shocks elsewhere in the world • Potential for imported inflation • Over-dependence on certain markets/possible strategic markets arguments • Lack of control over markets and goods and services • Environmental issues.
Evaluation	• Benefits and costs depend on viewpoint, eg a firm lowering costs may do so at the expense of an individual's job • Globalisation as a source of competition creating more resilience in UK firms • Short-term benefits in comparison to longer term, for example short-term prices may fall but over-reliance could lead to long term losses • Loss of manufacturing could lead to long-run over-dependence on certain economies

	Comparative advantage is dynamic – eg although the UK may benefit in terms of specialising in financial services now, this may not be forever. <i>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.</i>
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]

Introduction	• Deflation • The EU • Macroeconomic performance indicators.
Developing the response to the question: Application	Drawing on information in the extracts: • Central banks' ability to respond (Extract E) • Eurozone 'one size fits all' vs UK's and others ability to respond Extract E • Delaying spending (Extract F) • Effects on debtors (Extract F) • Effects on tax revenue (Extract F) • Reduced production costs/productivity (Extract F) • Improving competitiveness (Extract F) • Deterring investment (Extract F)
Developing the response to the question: Analysis	Arguments as to how deflation in the EU may benefit the UK economy: • Effects on competitiveness if UK also experiences deflation • Benign inflation due to improved productivity helping growth and maintaining low prices • Long run, sustainable economic growth achieving deflation • UK's low stable inflation causing stability in comparison to deflation • Deflation in other economies may make UK a relative safe haven for firms from abroad considering FDI Microeconomic effects such as benefits to first time buyers of possible falling house prices. Consideration of how deflation in the EU may damage the UK economy: • If EU experiences deflation and UK doesn't then UK may become less competitive in relative terms • EU deflation delaying spending and causing a fall in UK exports • Lack of FDI across the EU due to uncertainty • Damaging tax revenues in the UK which may reduce ability of UK Government to meet targets • Possibility that QE and other policy responses by the ECB and European economies as a result of deflation may give boosts to these economies. • Microeconomic effects such as falling house prices causing negative equity.
Evaluation	• The UK as part of the EU possibly suffering deflation • The duration of deflation having a major impact

	• The cause of deflation being vital to understanding the effects • Benign vs malign arguments • The UK's ability to avoid deflation in comparison to other economies • The relative difficulty of combatting inflation when the causes are external in a globalised economy. <i>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.</i>
Also give credit for	• Reference to the UK/other economies • Relevant 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]

Introduction	• Inflation and the types of inflation • The role of the Bank of England • Explanation of the target rate of inflation.
Developing the response to the question: Application / Analysis	• Why the UK has inflation targets • The importance of the other macroeconomic goals • How the independent Bank of England has control of the tools to control inflation • The importance of low inflation greasing the wheels of the economy. • Limitations to the use of policy tools • The importance of inflationary expectations • The effects of deflation • Trade-offs in macroeconomic goals • How inflation can affect growth • How inflation can affect the Balance of payments • How inflation can affect unemployment or vice versa • How focusing on other goals may impact on inflation • How the prioritisation may change • How other policies affect inflation • The role of supply side policy in controlling inflation • Short-run vs long-run considerations.
Evaluation	• Whether control of inflation depends on where the economy is operating in the trade cycle • Whether the UK has the ability to control cost push inflation to the same extent as demand pull • How 'independent' is the Bank of England in setting policy • Historical perspectives compared to current economic policies. • The prospects of inflation as opposed to deflation • The effects on the UK when the UK went outside of the target in the past • The relative importance of inflation compared to other goals • Is there an inevitable trade off with unemployment? • Short-run vs long-run considerations. <i>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.</i>

Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

1.

International trade Extract C (lines 10–11) suggests that ‘Increased protectionism could be damaging as the UK is placing much of its hopes for export success on the growing Chinese market.’

Using the data in the extracts and your economic knowledge, evaluate the view that the use of protectionism is inevitably damaging to economies.

[25 marks]

2.

There are several countries, such as Iceland, Serbia and Turkey, which may join the European Union in the future and so become members of the single market.

Evaluate the view that further enlargement of the European Union would be beneficial for the UK economy.

[25 marks]

3.

There are several countries, such as Iceland, Serbia and Turkey, which may join the European Union in the future and so become members of the single market.

With the help of **either** a numerical example **or** a diagram, explain how the theory of comparative advantage demonstrates that countries can benefit from international trade.

[15 marks]

4.

The European Union Context Extract F (lines 14–18) states: ‘The EU introduced the Stability and Growth Pact ...in order to prevent individual economies from creating instability across the EU. However, EU member countries have struggled to keep to the pact, with only four member countries not breaking the rules.’

Using the data and your knowledge of economics, evaluate the likely impact on the UK economy of other EU countries attempting to reduce their public sector debt at the same time.

[25 marks]

5.

The European Union Context Extract E (lines 8–9) states: ‘There’s a lack of concern about international competitiveness in France.’

Explain what is meant by ‘international competitiveness’ **and** analyse how the international competitiveness of France might be improved.

[9 marks]

6.

The Global Context Extract B (lines 1–3) states: ‘some economists are predicting that the US will play a leading role in driving world economic growth and, as the country which is the UK’s main export partner, this may provide an injection into the UK’s circular flow of income.’

Explain the term ‘circular flow of income’ **and** analyse how economic growth in the US may lead to increased national income in the UK.

[9 marks]

Extract F: Ireland emerges from bailout

Whilst many of the Eurozone members still face instability in their own economies, Ireland became the first economy to emerge from its bailout since the Eurozone crisis began. In its final report on Ireland's progress under the rescue scheme, the European Commission said: 'With public sector debt at 122% of GDP in 2013, Ireland needs to continue with its fiscal reduction programmes, reduce private-sector debt and improve bank profitability to revive lending.'	1
Of the UK's top ten European trading partners, Ireland is the only one with which the UK has a current account surplus. The importance of trade with Ireland is therefore of great significance. The Irish and UK economies are highly integrated and it is not yet clear how further cuts in Ireland might impact on the UK's macroeconomic performance.	5
Public sector debt across many European nations is still at very dangerous levels and Ireland's debt to GDP ratio is the second highest in the EU. Higher national debts may lead to problems such as crowding out, where private sector investment is reduced due to increased public sector borrowing. The EU introduced the Stability and Growth Pact (limiting total debt as a percentage of GDP to 60% and annual deficits to 3% of GDP) in order to prevent individual economies from creating instability across the EU. However, EU member countries have struggled to keep to the pact, with only four member countries not breaking the rules. Both Ireland and the UK have breached the pact since 2008. No doubt more problems lie ahead for the Eurozone.	10
	15

Source: News reports, 2013

THE EUROPEAN UNION CONTEXT

Extract E: The French economy faces problems

The International Monetary Fund (IMF) has warned the French government that, unless it makes major economic reforms to lower its labour costs and avoid tax rises, the economy is likely to experience reduced growth. This view was echoed in a recent survey of bankers, in which France was identified as the most serious threat to Europe's recovery from the debt crisis which has crippled growth and driven unemployment to record highs. The outlook for France, the Eurozone's second largest economy, is more worrying than that for Italy, Spain or Germany.

The Chief Executive officer of the Institute of International Finance said: 'There's a lack of concern about international competitiveness in France.' French President, François Hollande, is failing to revive business investment in the face of one of the world's highest tax burdens. Such investment could generate greater efficiency and higher productivity, especially important if the euro's exchange rate does not always work in France's favour.

An IMF spokesperson, Edward Gardner, also said that French unemployment, which currently stands at 11%, would continue to rise, despite President Hollande's vow to reduce it by the end of the year. 'It reflects in large part a general phenomenon in Europe that the recovery is slower in coming than we had expected.' The euro area's recovery almost came to a halt as the French economy unexpectedly shrank and German growth slowed.

The failure of the French economy to improve is in contrast to the overall success of the German economy and the stronger signs of recovery in the UK. President Hollande now faces difficult choices in reducing government spending to reach European budget deficit commitments. Furthermore, a recent announcement that VAT will rise, despite previous claims that there would be no significant tax rises, may cause further problems for the economy.

Source: News reports, 2013

9.

The Global Context Extract C (lines 7–9) states: ‘These policies, however, have created greater divides in terms of the ‘haves’ and ‘have nots’ which may have consequences for the UK’s macroeconomic performance.’

Using the data and your knowledge of economics, assess the importance for UK macroeconomic performance of increasing income inequality, **both** domestically **and** in other economies.

[25 marks]

Extract C: Incentives and economic performance

1 Could inequality be adversely affecting economic performance? According to some economists, capitalism is not working effectively. Reducing trade union power and creating more flexible labour markets have created greater income inequality. Successive governments have also reduced taxation on companies and high earners (such as the cut in income tax for those earning over £150 000 from 50% to 45%) in order to promote incentives and wealth generation, as well as focusing much of the UK's hopes on the financial services industry. These policies, however, have created greater divides in terms of the 'haves' and 'have nots' which may have consequences for the UK's macroeconomic performance. 5

10 There has been a shift, over the last generation, in the share of GDP from the workforce to shareholders of between 5% –7%, with many low earners finding it difficult to get onto the property ladder. Neo-classical economists cite the trickle-down effect as a way of improving the living standards of all by cutting taxes for upper income groups and business, stating that economic progress depends on saving and innovation which, in turn, depends on the ability to make high profits. However, research by the Tax Justice Network 15 claims that, when there are high levels of inequality, to avoid tax, financial capital often leaves the country, rather than staying in the domestic economy.

20 It has been argued that other policies such as public sector pay rise limits of 1%, benefits rising at 1% rather than inflation-linked increases, and the removal of some housing benefit, as well as the culture of bankers' bonuses, have all contributed to growing inequality. This is likely to have consequences for consumer spending power, but may also help to contribute to reduced inflationary expectations. There has also been criticism of the UK banking system, in that it has been too focused on making quick financial returns rather than long-run investment. Ultimately, these factors may damage the UK's ability to achieve its macroeconomic targets. 25

Source: News reports, 2013

11. THE GLOBAL CONTEXT

Extract B: Will growing inequality damage the US economy?

Some economists are predicting that the US will play a leading role in driving world economic growth and, as the country which is the UK's main export partner, this may provide an injection into the UK's circular flow of income. However, since the 2008 financial crash, there has been debate in the US over whether or not economic growth can be strengthened and, if so, how best to achieve this. Within this debate, there are growing concerns about the specific issue of income inequality. The top 1% of earners have received 95% of the increase in income since the financial crisis. Since 2009, the top 1% have seen their incomes rise on average by 31.4%, whereas the rest of the population has seen a rise of only 0.4%. 1 5

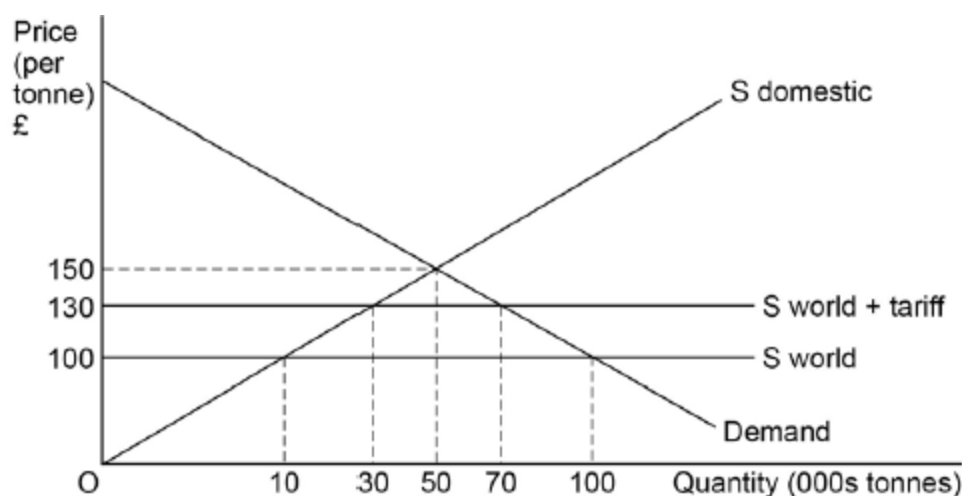
The economist, Joseph Stiglitz, has highlighted inequality as one of the prime reasons why the US has continued to struggle to recover. His basic argument is that the rich have a lower marginal propensity to consume (the proportion of any increase in income spent) and a higher marginal propensity to save (the proportion of any increase in income not spent) than the poor. 10

Such inequality also creates unsustainable 'property-price bubbles' as wealthy individuals increase the demand for property to let out on the rental market which further fuels inflation. Tax receipts, which could be injected into the economy, also end up being reduced, as the rich are able to exploit loopholes to avoid payment of tax. For this reason, Stiglitz argues that it is necessary for the US Government to intervene to deal with inequality. If the incomes of the poor were raised, increased consumption would occur. 15 20

This argument is refuted by Paul Krugman, who states that there are some European economies with much lower income inequality which are also in a mess.

Source: News reports, 2013

12. The following diagram illustrates the demand and supply of a commodity in an economy open to international trade.



After the imposition of a tariff, what is the total value of the revenue received by the domestic producers?

A £3,900,000

☐

B £9,000,000

☐

C £5,200,000

☐

D £9,100,000

☐

[1 mark]

13.

Although international trade has benefited UK consumers greatly over the last century, improvements in transport mean it is becoming more difficult for UK firms to compete against low-cost foreign producers.

Discuss the view that protectionist policies should be introduced to protect UK firms.

[25 marks]

14.

Although international trade has benefited UK consumers greatly over the last century, improvements in transport mean it is becoming more difficult for UK firms to compete against low-cost foreign producers.

Explain why international trade has benefited UK consumers.

[15 marks]

15.

In May 2014, the European Central Bank (ECB) President, Mario Draghi, warned that there was a risk of deflation across economies in Europe.

Explain why deflation may occur in an economy.

[15 marks]

16.

The Balance of Payments Extract F (lines 21–22) states: 'The UK's large current account deficit cannot be ignored easily, and research shows that such deficits are reduced eventually through some combination of slower growth and currency depreciation'.

Using the data in the extracts and your knowledge of economics, evaluate the significance of a large and persistent deficit on the current account of the balance of payments for the UK economy.

[25 marks]

17.

The Balance of Payments

Extract E: Re-balancing the UK economy

The UK government wants to re-balance the economy more towards investment, manufacturing and exports, and away from consumption and government spending. Manufacturing only accounts for around 11% of what is produced in Britain, while the service sector accounts for over three-quarters of UK GDP. 1

Britain, which until recently exported more to Ireland than to the combined BRIC economies (Brazil, Russia, India, and China), wants to export more to emerging economies and help its companies access the fastest-growing markets in the world. 5

In 2012, Britain's trade deficit hit its highest level since 2007. The hope was that with sterling having lost about a quarter of its value since the financial crash five years previously, this depreciation would have boosted exports in the same way that it did during the early 1990s, when the pound depreciated after a sterling crisis. The last time that Britain had a trade surplus was towards the end of that decade, in 1997. 10

Source: news reports, February 2014

18.

The Balance of Payments Extract E (lines 8–10) states that: 'The hope was that with sterling having lost about a quarter of its value since the financial crash five years previously, this depreciation would have boosted exports ...'

With the help of a diagram, explain how a boost to exports would help the recovery of the UK economy.

[9 marks]

19.

Explain how the data in **The Balance of Payments Extract D** show that increasing growth in real GDP frequently leads to an increased deficit in the balance of trade in goods and services.

[4 marks]

20.

The Balance of Payments

Extract F: Warning on UK's current account deficit

The UK is one of only eight countries to see its current account deficit increase since 2008, and its deficit has increased the most. Should overseas investors be worried? The UK has lived with large current account deficits for decades. From the 1940s to the early 1970s, when the country was operating a fixed exchange rate system, the UK was forced to use contractionary policies to keep the balance of payments in check and had to devalue the pound sterling in 1949 and 1967. From the 1980s onward, with the exchange rate floating, persistent current account deficits stopped being a cause for concern.

In the boom years before the global financial crisis, the current account deficit remained large, exceeding 3% of GDP in 2006. With hindsight, this should have rung alarm bells that the economy had become seriously unbalanced, with foreign money flowing into the UK to fund unsustainable public and private sector consumption rather than investment. After the crash, it was widely assumed that the UK economy would recover through higher exports and higher business investment. Indeed, the government's 2010 budget forecasted a current account surplus of 0.9% in 2013, driven by a surge in exports. This forecast proved highly inaccurate as the current account deficit increased.

Although surveys show that business confidence is high, investment fell in the year to the end of September 2013, and the UK's export performance has been poor, despite the depreciation of sterling by approximately 25% in the immediate aftermath of the financial crisis. In contrast, other European economies have seen strong export growth.

The UK's large current account deficit cannot be ignored easily, and research shows that such deficits are reduced eventually through some combination of slower growth and currency depreciation.

Source: news reports, February 2014

21.

In recent years, growth rates in the UK have been low and unemployment has risen. For example, in 2012 output was still below its peak of 2008 and unemployment had risen from 6.4% from 7.8%.

Explain why economic growth is a key objective of UK Government economic policy.

[15 marks]

22.

The Balance of Payments

Extract D: UK trade figures and real GDP growth 2006 - 2012

	UK trade balance			Real GDP (% change on previous year)
	Trade in goods (£ million)	Trade in services (£ million)	Balance of trade in goods and services (£ million)	
2006	-76 842	41 643	-35 199	2.8
2007	-90 535	53 802	-36 733	3.4
2008	-94 261	61 689	-32 572	-0.8
2009	-82 933	59 560	-23 373	-5.2
2010	-98 585	65 733	-32 852	1.7
2011	-100 092	76 832	-23 260	1.1
2012	-108 700	75 319	-33 381	0.3

Source: news reports 2014

23.

Using **Brazil: The Hot 'BRIC'**, explain how Brazil is likely to benefit from inward investment by a UK car manufacturer.

[illegible]

[15 marks]

Extract D: News report – Is Brazil in trouble?

In June 2013, more than a million citizens across Brazil took to the streets to protest against political corruption, poor healthcare, inadequate schools, substandard public transport and crumbling infrastructure. This is in a country which is reported to be spending \$13.3 billion to host the 2014 World Cup and \$18 billion to host the 2016 Olympic Games.	1
	5
In February 2014, the Brazilian currency, the real, is also making the headlines. In recent months it has collapsed against the pound. A year ago, visitors to Brazil would have got 2.70 real for £1 but now the rate stands at 3.61 to the pound. The fall in the value of the real is in response to a widening budget deficit and fears that the government's credit rating will be reduced. In response, the central bank has raised its base interest rate to 10.75%.	10

Brazil: The Hot 'BRIC'

Extract C: How does Brazil compare with the UK?

Selected data for the UK and Brazil (2013 unless otherwise stated)

	UK	Brazil
GDP (PPP)	\$2.39 trillion	\$2.42 trillion
Real GDP per head (PPP)	\$36,600	\$12,100
Real GDP growth per capita (2000–2012)	1.14% per annum	2.27% per annum
Average growth (2000–2012)	1.72% per annum	3.41% per annum
Human Development Index (HDI)	0.875 (World ranking 26)	0.730 (World ranking 85)
Unemployment	7.7%	5.5%
Inflation	2.7%	6.2%
Current account of the balance of payments (%GDP)	–2.41%	–3.83%
Public sector debt (%GDP)	91.1%	59.2%
Budget balance (%GDP)	–7.4%	+1.6%
Industry %GDP	20.5%	26.4%
Services %GDP	78.9%	68.1%
Gini coefficient	34.0	54.7
Share of income of the poorest 10% of the population	2.1%	0.8%
Share of income of the richest 10% of the population	28.5%	42.9%
Years of schooling	16 yrs	14 yrs
Literacy rate	99%	90.4%
Life expectancy	80.3 yrs	73.0 yrs
Infant mortality rate	4.5 per thousand live births	19.8 per thousand live births
Population	63.4 million	201.0 million

Population, % over 65	17.3%	7.3%
Population, % under 15	17.3%	24.2%

Source: The World Factbook 2013–14. Washington, DC: Central Intelligence Agency, 2013.

Note: PPP = purchasing power parity

26.

Brazil: The Hot 'BRIC'

Extract B: Brazilian economy

Brazil has a mixed economy with abundant natural resources. It has been the world's largest producer of coffee for the last 100 years and it will shortly become one of the world's top ten oil producers. Brazil also has a strong manufacturing sector. For example, it is a likely source of the A4 paper you use in your printer, and its Bandeirante Corporation has long competed with aerospace giants as a world-class manufacturer in the niche market of short-haul commuter aircraft. By value, it ranks as the 23rd largest exporter in the world. However, the discovery of oil off the coast of Brazil has led to an appreciating currency; this makes life more difficult for domestic manufacturers.	1
Brazil is the world's fifth largest country by both population and total area. It has grown rapidly over the last thirty years and is now the world's seventh largest economy. It has the fourth largest car market in the world. From 1980 to 2011, Brazil's Human Development Index increased by 30.8%. However, Brazil is also well known for its inequality, and there is much rural and urban poverty. Many of its large cities contain crowded and deprived slum districts known as favelas. Brazil's health care system ranks 125th out of 190 countries.	5
Brazil currently dominates Foreign Direct Investment (FDI) into Latin America and in 2011 it attracted about one third of all the FDI into the region. FDI creates jobs and contributes to improvements in human capital as foreign companies often invest in their workforce. New investment has a multiplier effect and the resultant growth in GDP generates higher tax revenues for the Brazilian Government. However, there are also the environmental effects to consider. Many overseas companies that are located in Brazil export part of their output but some of their profits are sent abroad.	10
	15
	20

Source: News reports, October 2013

27.

The table below shows the effective exchange rate index for Country X in 2010 and 2012 (2012 = 100).

Year	Effective exchange rate index
2010	125
2012	100

All other things being equal, which one of the following options provides both the correct percentage change in the index from 2010 to 2012 and a valid reason why this change may have occurred?

	Change in exchange rate	Reason	
A	20%	An increase in interest rates in Country X	☐
B	20%	An increase in interest rates in other countries	☐
C	25%	An increase in interest rate in Country X	☐
D	25%	An increase in interest rates in other countries	☐

[1 mark]

28.**Brazil: The Hot 'BRIC'****Extract A: Who are the BRICs?**

The BRIC label was first coined by the investment bank Goldman Sachs and refers to a group of four large developing countries (Brazil, Russia, India and China), distinguished from other promising emerging markets by their potential to rank among the world's largest and most influential economies by the mid-21st century. Their potential is largely due to their natural resources, the size and structure of their population, their attitudes to investment and trade, and their capacity for technological progress. The four BRIC economies have a combined population of over 2.8 billion, about 40% of the world's population. They also produce more than a quarter of the world's output.

Analysts have suggested that, to enable a country to realise its potential for growth, there is a number of conditions that need to be met. These include:

- a suitable level of human capital, for example, in relation to education, inequality and life expectancy
- a stable macroeconomic environment, for example, as reflected in indicators of inflation, growth and government borrowing
- access to current technologies such as the Internet and mobile communications
- a stable political environment including the rule of law and the absence of widespread corruption.

Source: News reports, October 2013

29.

In 2013 Ethiopia had a relatively high real GDP growth rate of 7% but only 42% of its population had access to improved water sources and life expectancy was only 63 years.

Discuss the view that free trade is more effective than aid in promoting economic development in developing countries such as Ethiopia.

[25 marks]**30.**

According to the principle of comparative advantage, on what does a country's gains from international trade depend?

- A** Its level of money wage rates compared to its trading partners. ☐
- B** It imposing a higher level of tariffs compared to those of its trading partners. ☐
- C** Its greater productive capacity in some goods compared to its trading partners. ☐
- D** Its lower opportunity cost in the production of some goods compared to its trading partners. ☐

[1 mark]

Mark schemes

1.

Areas for discussion include:

- meaning and types of protectionism
- criteria for assessing whether protectionism is damaging, eg resource allocation, employment, growth, environmental impact, social factors
- benefits of free trade as illustrated by the principle of comparative advantage
- dynamic benefits of free trade, eg increased competition, economies of scale
- the problems that may result from free trade
- various arguments for protectionism, eg protection of sunrise and sunset industries, diversification of output, protection of employment, low wage arguments, protection against dumping, raising revenue to correct balance of payments deficits
- protectionism and trading blocs
- trade creation and trade diversion
- protectionism, living standards and inflation
- impact on different economies, eg developed versus developing economies
- protectionism as a means of dealing with domestic macroeconomic problems
- retaliation and 'beggar thy neighbour' policies
- short-run and long-run consequences
- exchange rate changes as an alternative to protectionism or as a form of protectionism, eg emerging economies fixing their exchange rates at a low level to encourage export-led growth.

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.

[25]

Introduction	• The nature of EU single market • Origins of the EU • How 'beneficial' may be measured in terms of macroeconomic performance.
Developing the response to the question: Application / Analysis	• Current EU policies regarding freedom of movement of labour/capital/trade etc. • How more EU members may affect growth • How more EU members may affect inflation • How more EU members may affect the balance of payments • How more EU members may affect unemployment • Trade diversion/Trade creation. • Comparative advantage • Extended overseas markets and economies of scale • The impact on inward and outward FDI • The relative size of the economies of the possible entrants. • The effects on other EU members • The implications of immigration • The possibility that these countries may enter the Eurozone. • Short-run and long-run considerations • The UK's current macro-economic performance in context.
Evaluation	• The importance of which countries join and when? • The relative size of say the agricultural sector of the new markets may affect the UK's proportion of CAP • The 'net contributor' argument in terms of EU funding. • Scope for FDI (both inward and outward) • The relative importance of EU institutions to the UK. • The relative effects on each macroeconomic goal being dependant on the UK's position on the trade cycle • The importance of stability • Important current political considerations • Immigration depending on the net migration size • Economic and social impact of further integration. <i>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.</i>

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]

3.

Explanation:

For defining/explaining

- Comparative advantage
- The difference between absolute advantage and comparative advantage.
- International trade.

For Example: As countries specialise in the provision of goods and services in which they hold a natural or assumed advantage either due to factor endowment or the development of specific advantages due to cost reasons over time due to having a lower opportunity cost then it would be mutually beneficial for to exchange the goods or services they have specialised in, with another country as long as they can establish certain terms of trade which will therefore benefit both countries in terms of increased consumption possibilities which may allow households to consume an increased amount of goods and services which may improve living standards.

For the numerical example it is expected that the candidate is likely to make use of at least 2 'tables' where students initially demonstrates 2 economies where either the two economies are initially producing both goods or already specialising. The other expected table would demonstrate that trade was mutually beneficial in terms of increased availability of both goods.

Use of diagrams to help support explanations, eg production possibility frontiers or consumption possibilities.

Relevant real world examples and/or relevant reference to the UK and/or other economies.

[15]

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

	• 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. <i>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.</i>
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]

5.

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]

6.

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]

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?)

	• 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]

12.

A

[1]

13.**Areas for discussion include:**

- definitions of free trade and protectionist policy in context of international trade
- types of protectionist policy
- potential benefits gained through protectionist policies e.g in relation to growth, jobs the current account of the balance of payments
- the growing UK current account deficit; has been at record levels as a percentage of GDP
- businesses may find it hard to compete against low-cost foreign competition
- improvements in technology, transport etc. make it easier for consumers to buy from abroad
- impact of international trade on government objectives for jobs and the current account balance
- cheaper labour overseas makes it hard for UK businesses to compete on price
- cheap labour is just another form of comparative advantage and should not be seen as unfair
- arguments to justify protection, e.g. infant industry, job protection, prevention of dumping
- membership of the WTO makes it very difficult for the UK to adopt protectionist policies
- EU membership means severe limitations on what protectionist measures can be introduced
- protectionist policies are likely to lead to retaliation from other countries no real evidence that protectionist policies work in long-run – countries with highly protected industries have not outperformed those with more open economies
- discussion of alternatives to protectionism, eg allowing the exchange rate to fall international trade may make it easier to achieve some government objectives, e.g. low inflation and high productivity

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]**14.****Relevant issues include:**

- definition of international trade
- absolute and comparative advantage
- benefits of comparative advantage as long as trade occurs at a mutually beneficial terms of trade
- numerical example to illustrate the principle of comparative advantage
- international trade allows specialisation so countries can benefit from more efficient production which should mean more jobs and cheaper prices for consumers
- availability of consumer goods that cannot be easily produced in UK
- increased choice for consumers which should lead to lower prices and higher quality products
- helps to prevent domestic firms with monopoly power exploiting consumers
- the dynamic effects of international trade on domestic producers, eg through increased competition stimulating improvements in productivity and innovation

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.

[15]

15.**Relevant issues include:**

- lower AD leading to a fall in the price level
- reduction in consumer confidence and spending
- lower business confidence and investment
- price cutting by firms in a period of recession
- recession/deflation in the rest of the world
- falling world commodity prices
- strengthening exchange rate
- technological breakthroughs lowering costs of production
- impact of cheaper imports from low waged economies
- malign v benign deflation

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.

[15]**16.****Areas for discussion include:**

- nature and size of the UK current account deficit in recent years
- why large current account deficits are seen as undesirable, e.g. indicate a lack of competitiveness
- potential benefits of running a current account deficit, e.g. improves living standards in the short run, inflows of FDI to finance the deficit may stimulate growth
- current account deficit has to be financed in some way – either by attracting foreign direct or portfolio investment, by borrowing or by running down reserves.
- policies to correct the deficit are not necessarily desirable, either depreciation of the currency or deflationary policies
- large current account deficit may be seen as unsustainable and foreign lenders may eventually withdraw their investment, leading to a sterling crisis
- if deflationary measures are needed to reduce deficit and this would usually be undesirable due to the effects on output and employment
- so far, long periods of current account deficit do not seem to have been a barrier to achieving other policy objectives
- the changing size of the deficit could be compared to growth, e.g. if the growth of nominal GDP is higher than growth in the deficit then it is less likely to be a serious problem
- UK is relatively successful in attracting overseas investment due to other factors (e.g. low tax rates, viewed as a stable economy) which means that the deficit can be financed.
- a floating exchange rate mean that the government can allow exchange rate to depreciate allowing partial correction of current account deficit – this option is not available to those with a fixed or pegged currency

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]

18.

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 AS/AD diagram is expected, showing a rightward shift of the AD curve.

Relevant issues include:

- meaning of recovery
- exports as a component of aggregate demand
- impact on output and employment in the export-producing sectors
- export-led multiplier effects
- possible accelerator effects

[9]

19.

Response:	Max 4 marks
- includes evidence that shows that increasing growth in real GDP leads to a reduced deficit in the balance of trade in goods and services. - clearly explains how this data is evidence that increasing growth in real GDP leads to a reduced deficit in the balance of trade in goods and services.	4 marks
- includes evidence that shows that increasing growth in real GDP leads to a reduced deficit in the balance of trade in goods and services. - unclear explanation of how this data is evidence that increasing growth in real GDP leads to a reduced deficit in the balance of trade in goods and services..	3 marks
- includes evidence that shows that increasing growth in real GDP leads to a reduced deficit in the balance of trade in goods and services. - limited explanation of how this data is evidence that increasing growth in real GDP leads to a reduced deficit in the balance of trade in goods and services.	2 marks
- includes evidence that does not clearly show that increasing growth in real GDP leads to a reduced deficit in the balance of trade in goods and services. - no explanation of how this data is evidence that increasing growth in real GDP leads to a reduced deficit in the balance of trade in goods and services.	1 mark

Relevant issues include:

- biggest trade deficit £36, 733 million coincides with the fastest growth rate in GDP (3.4%) in 2007
- years of recession (negative growth in GDP) occur when the deficit on balance of trade in goods and services improves in both years (2008 and 2009)
- when growth picks up in 2010 (1.7% from -5.2% in 2009) the deficit on the balance of trade in goods and service deteriorates (£32 852 million from £23 373 million)
- why an increase in the rate of growth of GDP often leads to an increased deficit in the balance of trade in goods and services

[4]

21.

Relevant issues include:

- the nature of economic growth
- short-run versus long-run growth
- UK economic growth and living standards
- UK economic growth, tax revenues, public spending and the budget balance
- UK economic growth, inequality and poverty
- UK economic growth and employment
- UK economic growth and inflation
- UK economic growth and the balance of payments, including export-led growth
- the relationship between the government's wider political and social objectives, eg political and military power, the environment.

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.

[15]

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 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 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 one or more relevant issues identified - 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 and/or data to the question - might have some limited analysis but it may lack focus and/or become confused.	1-5 marks

Relevant issues include:

- impact on employment, unemployment and human capital
- impact on real GDP and aggregate demand
- multiplier and accelerator effects
- effects on long-run growth and productivity
- spill-over effects on other firms
- impact on the balance of payments: exports and import substitution
- impact on the budget balance and public sector debt
- may stimulate spending on improvements to the infrastructure

[15]

27.

B

[1]

29.

Areas for discussion include:

- the difference between economic development and economic growth
- the nature of free trade and preferential trading arrangements
- the role of multinational companies in global trade and economic development
- examples of how global trade policies impact on the economic development of a country, eg removal of tariff barriers into the EU provide an opportunity for greater exports
- factors that contribute to economic development, eg investment in infrastructure, investment in human capital, better health care and sanitation
- export-led growth
- exports as an injection into the circular flow of income with associated multiplier effects
- how export earnings generate foreign currency that can be used to finance imports that are necessary for development
- free trade leads to cheaper imports and can promote improvements in the competitiveness of domestic producers
- trade and comparative advantage
- trade may allow sectors within an economy to develop economies of scale and create opportunities to access new technology
- the view that exports promote self-reliance, whereas aid promotes dependency
- free trade may inhibit the development of infant industries
- free trade may lead to reliance on a limited range of products, maybe a few primary products, and lead to instability
- free trade may result in large, unsustainable current account deficits
- aid might damage domestic producers, eg food aid and agriculture
- aid may be directed at prestige projects and be misappropriated by corrupt officials
- aid can be effective in improving basic living standards and allow people to escape from poverty and disease
- effectiveness of aid depends on the type of aid and how it is distributed.

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.

The use of examples of developing economies should be taken into account when assessing the quality of response.

[25]

30.

D

[1]

1.

The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments.

[25 marks]

2.

In 2014, the UK's contributions to the European Union (EU) budget rose by £2.7bn, making it the second largest net contributor. However, it is argued that the UK benefits much more from the trade and the job creation that EU membership brings.

Evaluate the extent to which individuals and firms in the UK benefit from membership of the EU.

[25 marks]

3.

International trade Extract B (lines 12–13) states 'The Government last night released research suggesting a US-EU agreement sweeping away trade barriers would particularly benefit the automotive, financial and chemical sectors.'

With the help of a diagram, explain the extent to which the removal of a tariff might affect the volume of imports into the UK.

[9 marks]

4.

Explain the phrase 'devaluation of the exchange rate' (**Extract B**, line 12) **and**, with the help of a diagram, analyse how a devaluation of the Chinese currency (the yuan) may affect economic growth in the UK.

[9 marks]

5.

Explain how the data in **International trade Extract A** show that the UK is having more success in trading goods with the rest of the world than with Europe.

[4 marks]

6.**International trade****Extract C: China and Europe risk trade war**

China this week responded to EU anti-dumping tariffs on solar panels with a levy on European wine. However, by attacking wine producers, Beijing has potentially turned a straightforward dispute over state subsidies between Germany and China into a full-blown European trade war.	1
France has effectively been targeted in retaliation for a levy designed to protect German manufacturers in what appears to be a deliberate attempt to increase tensions within the EU. In doing so, experts said that China, which is relatively new to the politics of global trade, has demonstrated smart tactics.	5
The danger is that China may decide to target other seemingly innocent parties if the row escalates, and that might mean the UK. Increased protectionism could be damaging as the UK is placing much of its hope for export success on the growing Chinese market.	10
In the last five years, UK goods exports to China have virtually doubled to £15.9bn and, three years ago, David Cameron set a \$30bn (£20bn) target by 2015 as part of a bilateral deal with Beijing. Including Hong Kong, China is now the UK's fifth largest net trading partner.	
However, China's influence in the UK stretches wider. At the end of 2011, foreign direct investment into the UK from China totalled £1.3bn, the second largest in the EU after Germany. In the last six months alone, China's telecoms giant Huawei has announced plans to invest £1.3bn in a new plant while ABP (a large Chinese investment group), plans to spend £1bn developing the Royal Albert Dock in London.	15
The Government also hopes to attract Chinese money to invest in UK infrastructure as part of George Osborne's 'Plan for Growth'. In other words, China is a key part of the Government's economic recovery plan.	20

Source: ©Telegraph Media Group Ltd 2013

7.**International trade****Extract B: Transatlantic free trade?**

David Cameron today confronted his critics by making the positive case for continuing European Union membership as he held talks with President Barack Obama over a giant US-EU trade deal that could provide a £10bn annual boost to the UK economy.	1
With his party in renewed turmoil over Europe, the Prime Minister sought to reassure the White House (where senior figures in the Obama administration have insisted they regard the UK as a crucial member of the union) that the UK are not looking to leave the EU.	5
The planned agreement would establish a free trade area between the world's two largest trading blocs, creating a transatlantic market of 800 million consumers.	
Writing in today's Wall Street Journal, Mr Cameron says: "This deal could add as much as £10bn to the UK economy and £63bn to US GDP. But the rest of the world would benefit too, with gains that could generate €100bn (£84bn) worldwide".	10
The Government last night released research suggesting a US-EU agreement sweeping away trade barriers would particularly benefit the automotive, financial and chemical sectors. It claimed the deal could be worth £380 a year for each British family.	
Karel de Gucht, the European Commissioner for Trade, has cited the deal as a prime reason for the UK staying in the EU, telling The Independent last week that it would be "clear madness" for the UK to leave in light of such a deal.	15

Source: Adapted from: © www.independent.co.uk 13 May 2013

8.

In 2014, the UK's contributions to the European Union (EU) budget rose by £2.7bn, making it the second largest net contributor. However, it is argued that the UK benefits much more from the trade and the job creation that EU membership brings.

Explain how membership of a customs union, such as the EU, affects the pattern and volume of trade between countries.

[15 marks]

9.

'George Osborne talks about boosting exports and rebalancing the economy, but the Chancellor is not nearly as worried about the trade deficit as he is about the budget deficit.'

To what extent do you agree that a persistent trade deficit is more damaging to the UK's macroeconomic performance than a persistent budget deficit? Justify your answer.

[25 marks]

10.

Extract C (lines 2 – 4) asks: 'Is it time the UK considered manipulating its currency directly and managing its exchange rate in order to reduce the ever-increasing trade deficit and to help improve its performance?'

Using the data and your knowledge of economics, evaluate the view that the UK should focus its monetary policy on managing the exchange rate in order to improve macroeconomic performance.

[25 marks]

11.

It is now nearly a decade since the financial crisis caused a recession in the UK. In March 2009, the Monetary Policy Committee (MPC) set the UK Bank Rate at 0.5%, which was a record low, in order to stimulate economic growth.

Explain the main features of a recession.

[15 marks]

12.

The Office for Budget Responsibility (OBR) forecast that government spending would account for 36% of GDP by 2020 compared to 45% of GDP in 2010.

To what extent do you regard a contraction of the public sector to be beneficial for the UK economy? Justify your answer.

[25 marks]

13.

In January 2009, £1 could buy approximately 1.04 euros on the foreign exchange market. By July 2015, £1 could buy approximately 1.44 euros.

Evaluate the impact on the UK's macroeconomic performance of a sustained rise in the value of the pound sterling against the euro.

[25 marks]

14.

Extract C (lines 21 – 22) states: 'Any kind of deal between the EU and ASEAN economies is still a long way off, and the UK must wait to see how new trade deals affect its macroeconomic performance.'

Using the data and your knowledge of economics, evaluate the extent to which international agreements to increase free trade are likely to be beneficial to the UK's macroeconomic performance.

[25 marks]

- 15.** In January 2009, £1 could buy approximately 1.04 euros on the foreign exchange market. By July 2015, £1 could buy approximately 1.44 euros.

Explain the factors that may lead to a rise in the exchange rate of a currency.

[15 marks]

- 16.** **Extract F** (line 21) asks: 'Why are productivity rates in other economies important for the UK?'

Using the data and your knowledge of economics, evaluate the significance of productivity improvements in the UK **and** in other EU economies for the performance of the UK economy.

[25 marks]

17. INVESTIGATION

Scenario

You are an economist, employed by a firm of economic consultants working for the government. You have been asked to produce a report on the importance of manufacturing for the UK economy. As part of this investigation, you are to provide answers to three questions.

To what extent, if at all, do you consider that the UK manufacturing sector has been in decline since 2003? You must use the data in **Extract B** to support your assessment.

[10 marks]

- 18.** Explain the term 'foreign direct investment' (**Extract E**, line 7) **and**, with the help of a diagram, analyse how foreign direct investment **and** improvements to infrastructure may boost productivity.

[9 marks]

- 19.** Explain the term 'comparative advantage' (**Extract B**, line 17) **and**, with the help of a diagram, analyse **two** causes of increased globalisation in the world.

[9 marks]

- 20.** Using the data in **Extract A**, calculate in £bn, the value of the UK's exports to Taiwan in 2014, if the total value of the UK's exports to the world in that year was £500bn.

[2 marks]

- 21.** The table below shows how much of each of two products can be produced by two countries with the same amount of resources.

	Motorbikes		Cars
Brazil	10	or	5
United States	6	or	2

Which one of the following statements is correct?

- A** Brazil has a comparative advantage in the production of both motorbikes and cars. ☐
- B** Brazil has a comparative advantage in the production of cars. ☐
- C** The opportunity cost of producing motorbikes is higher in the United States than Brazil. ☐
- D** Trade will not take place because Brazil is better at producing both goods. ☐

[1 mark]

22.

The table below shows the average exchange rate and currency valuation estimates for four nations in comparison to the US Dollar in January 2016.

	Average exchange rate to US \$1	Currency valuation estimate
Australian Dollar	1.46	Undervalued by 24%
Brazilian Real	4.05	Undervalued by 32%
Chinese Yuan	6.57	Undervalued by 46%
Danish Krone	6.84	Undervalued by 12%

Which one of the following can be concluded from the data?

- A** The Australian Dollar has appreciated by 24% against the US Dollar. ☐
- B** The Brazilian Real has been devalued by 32% against the US Dollar. ☐
- C** The Chinese Yuan has depreciated the most against the US Dollar. ☐
- D** The Danish Krone has the closest purchasing power parity to the US Dollar. ☐

[1 mark]

23.

The Government has ruled out the possibility of a rise in VAT before 2020 but other indirect taxes may increase. It has also stated that the personal income tax allowance will be increased from £10 800 in 2015/16 to £12 500 by 2020, and plans to cut the main rate of corporation tax from 20% to 17%.

Explain how changes in both government spending **and** taxation might affect the level of economic activity.

[15 marks]

24.

The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world.

[15 marks]

25.

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

[25 marks]

26.

Extract C (lines 2–3) states 'More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that greater use of market-based strategies is the best way to improve the economic development of India.

[25 marks]

27.

Globalisation can make some product markets more contestable.

Which one of the following characteristics of globalisation is the most likely explanation for such an increase in contestability?

A A reduction in protectionism

☐

B Greater synchronisation of economic cycles between countries

☐

C Higher levels of labour migration

☐

D The growth of employment in emerging market economies

☐

[1 mark]

28.

Extract B (lines 21) states 'Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit.'

Using the data in the extracts and your knowledge of economics, assess the impact of a persistent current account deficit on the macroeconomic performance of the UK economy.

[25 marks]

29.

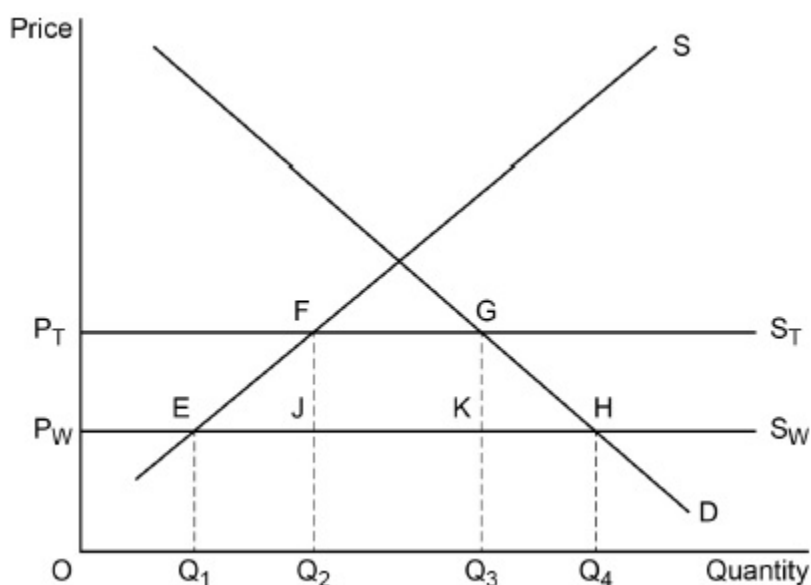
An African Development Bank report showed that Angola received more direct foreign investment than any other African country in 2015. Angola is a less economically developed country (LEDC) that has had fluctuating economic growth in the past. Despite having suffered from a long civil war which ended in 2002, many multinational corporations (MNCs) are now investing heavily in Angola's growing economy.

Evaluate the view that MNCs play a positive role in the development of LEDCs.

[25 marks]

30.

The diagram below shows the market demand curve (D), the market supply curve (S) for solar panels produced in a country, and the world market supply curve (S_W) for solar panels.



To protect domestic producers of solar panels the country introduces a tariff on imports. The imposition of the tariff increases the price of solar panels from the world market price (P_W) to the higher price (P_T).

Following the imposition of the tariff, the amount of tariff revenue collected by the government is shown by the area

A EFGH

☐

B JFGK

☐

C $P_W P_T GK$

☐

D $Q_2 FG Q_3$

☐

[1 mark]

Mark schemes

1.

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]

2.

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**.

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

Introduction	• The EU • How benefits to individuals and firms can be measured • Consumer welfare
Developing the response to the question: (application and analysis)	Benefits of EU membership on individuals and firms: • Job creation in export industries • Increased supply of labour potentially reduces costs for firms • Lower cost labour reduces cost of living therefore improved consumer welfare • Firm's costs are reduced for raw materials from within EU • Economies of scale • Competition drives efficiency in firms • Other benefits e.g. maternity / paternity benefits (Individuals) • Microeconomic effects and effects on individual markets e.g. CAP • Potentially larger markets for firms • Employment opportunities accessible in other countries Costs of EU membership on individuals and firms: • Structural unemployment in certain regions due to free trade • Pressure on public services due to increased population as a result of immigration from other EU countries • Higher taxes on individuals to pay for public services • Increased supply of labour could lower wages for individuals • Higher taxes as a result of EU contributions • Microeconomic effects such as higher agricultural prices due to common external tariff and CAP • EU regulations increasing costs • Competition causing firms to go bust
Evaluation	• Benefits to some people such as lower cost for wages for firms may be a problem for others for example low-paid workers • Difficulty of estimating what would have happened had the UK not been in the EU • Different experiences in different regions of the UK, structural unemployment may be exacerbated in some areas • How do we measure benefits? The issues are somewhat subjective • What is the alternative? Potential of "Brexit" <i>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.</i>
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.

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

A standard tariff diagram is expected, illustrating the volume of imports with and without a tariff.

Relevant issues include:

- a tariff as a tax on imports
- removing the tariff makes imports more competitive
- the impact on the demand for imports and the supply of home produced goods
- the relevance of elasticities.

[9]

4.

The anticipated diagram would make appropriate use of diagrams, e.g. AD/AS, currency diagrams.

Relevant issues include:

- For a relevant explanation of a devaluation of the exchange rate: An exchange rate is the value of one currency in terms of another and a devaluation is when a currency is lowered in value against another. This usually occurs in a fixed exchange rate system unlike a depreciation which is in a floating exchange rate system.
- Numerical example of a devaluation.
- As China devalues its currency, the value of the yuan falls in relation to the pound, therefore one pound buys more yuan. This makes imports from China relatively cheaper and exports from the UK to China relatively more expensive, thus the value of imports rises and the value of exports fall which are both components of aggregate demand causing aggregate demand to fall therefore reducing real national output and creating negative short-run economic growth.
- Effects on investment.
- Effects on business confidence.

[9]

5.

Response:	Max 4 marks
• includes evidence that shows that the UK is having more success in trading goods with the rest of the world than with Europe • clearly explains how this data is evidence of increased trade with the rest of the world	4 marks
• includes evidence that shows that the UK is having more success in trading goods with the rest of the world than with Europe • unclear explanation of how this data is evidence of increased trade with the rest of the world	3 marks
• includes evidence that shows that the UK is having more success in trading goods with the world than with Europe • limited explanation of how this data is evidence of increased trade with the rest of the world	2 marks
• includes evidence that does not clearly show that the UK is having more success in trading goods with the rest of the world than with Europe • no explanation of how this data is evidence of increased trade with the rest of the world	1 mark

Relevant issues include:

- Evidence of reducing deficit in trade in goods or increasing surplus in trade in goods with the rest of the world countries is an indication of more success
- the only country with which the UK has a trade surplus is outside Europe, ie USA
- between February-April 2012 and February-April 2013 the UK's trade balance deteriorated with the three countries in Europe but improved with the two countries in the rest of the world
- in February-April 2012 the UK's biggest deficit (£5.5 billion) was with China, the rest of the world, whereas in February-April 2013 the UK's biggest deficit (£5.9 billion) was with Germany, inside Europe

[4]

8.

Explanation**For defining / explaining**

- Customs union / free trade area
- Pattern of trade
- Volume of trade
- Trade or exports / imports

**Up to 2 marks per
definition or explanation to
a maximum of 4 marks**

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

Due to the membership of the EU, there are no internal tariffs **(1 mark)** between the UK and the other 27 member states **(1 mark)** so when trading with another country for example France **(1 mark for example)** the cost of doing so is lower **(1 mark)** and firms will experience lower prices if France has exploited its comparative advantage **(1 mark)** as France has a lower opportunity cost than the UK **(1 mark)** in for example the production of wine **(1 mark for example)** which leads to trade creation **(1 mark)** which increases the volume of imports **(1 mark)** from other members of the EU which affects the pattern of trade in terms of who trades what with who **(1 mark)**.

Other examples include: Potential for exporting products in which the UK holds a comparative advantage in, economies of scale, potential trade diversion due to common external tariff, retaliation, enforced embargoes.

Up to 15 marks

Use of diagrams to help support explanations, e.g. tariff diagram, quota diagram, AD/AS, Economies of scale

**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**

Award a **maximum of 10 marks** if both parts of the question are not attempted i.e. the pattern of trade **and** the volume of trade.

[15]

9.

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**.

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

Introduction	• Budget deficit • Trade deficit • The Balance of Payments
Developing the response to the question: (application and analysis)	Arguments why a trade deficit is more damaging than a budget deficit: • Could indicate lack of productivity • Could cause depreciation of currency • Could cause problems for a country's reserves • A surplus on the financing section of the balance of payments increasing international indebtedness • Deflationary pressure • Could indicate structural weaknesses • Effects on jobs such as structural unemployment Arguments why a budget deficit is more damaging than a trade deficit: • Crowding out • Loss of credit status leading to increased costs of government borrowing • Future generations footing the bill (vertically inequitable) • Possibility of tax rises / cuts in spending • Adds to national debt • Could be inflationary
Evaluation	• Both issues are not mutually exclusive, an improved supply-side performance could help both. • The UK's ability to attract FDI will help finance the capital account and may off-set any problems on the trade deficit, however this may also benefit the UK's budget deficit in terms of job creation and generating tax revenue. • Deficits on both may be necessary and advantageous, they may both benefit living standards in terms of more goods being consumed or boosting AD. • Consideration that trade-offs may take place with the other macroeconomic goals, for example reducing the budget deficit may reduce the trade deficit but at the same time harm unemployment or create deflation. <i>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.</i>
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]

10.

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**.

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

Introduction	• Monetary policy • Exchange rates • Macroeconomic performance
Developing the response to the question: (Application)	Drawing on the information in the extracts: • Currency wars and potential retaliation (Extract B) • Investor confidence (Extract B) • Threats to economic growth in the UK and USA (Extract B) • Effects of interest rates on exchange rates (Extract B) • Methods of reducing trade deficits (Extract C) • Effects on other Monetary Policy instruments and targets (Extract C) • Problems that Switzerland faced in a fixed system (Extract C) • Effects on trade and stability due to stable exchange rates (Extract C)
(Analysis)	Arguments why managing the exchange rate may be beneficial: • Stability leading to investment • More certainty regarding export revenue for firms • More certainty regarding import prices for firms • Consumers benefitting from stable prices • Possible avoidance of deflationary pressure if revalued • Improving competitiveness of firms if devalued • Increased trade flows with the EU due to increased transparency in prices if fixed to Euro. Arguments why managing the exchange rate may not be beneficial: • Loss of ability to use interest rates effectively • May be expensive for government • Loss of BoE's independence and use of policy instruments • Conflicts and trade-offs with other macroeconomic objectives • Potential of choosing "the wrong rate" to fix at • The UK's historical experience with the ERM • Loss of automatic adjustment or stabilisation
Evaluation	• The relative success or lack of success in the use of interest rates in the past • The possible success or lack of success in the use of quantitative easing in the past • The relative importance of the trade deficit in terms of other macroeconomic goals, is it more important to focus on domestic consumption? • Can the government afford to prop up the currency if needed or does this contradict aims to reduce the budget deficit? • Is the currency the major problem with the UK's export competitiveness or is it due to structural problems and a lack of productivity? • Would fixing the exchange rate low lead to a "race to the bottom" with other currencies? <i>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.</i>

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 mentioned above.

[25]

11.

For defining / explaining

- Recession
- Economic growth
- The trade cycle.

Up to 2 marks per definition or explanation to a maximum of 4 marks

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

For example

Higher unemployment **(1 mark)** much of which will be cyclical unemployment **(1 mark)** due to a lack of AD which causes disposable incomes to fall **(1 mark)** which leads to further negative multiplier effects **(1 mark)** which may mean even less revenue and profits for firms **(1 mark)**. Firms are also likely to be reluctant to hire new staff due to existing spare capacity **(1 mark)** and may just run down existing stocks **(1 mark)** rather than increase output **(1 mark)** which may exacerbate the unemployment problem and lead to both hysteresis **(1 mark)** and further problems of demotivated “long-term” unemployment **(1 mark)**.

Other issues include: Effects on inflation, balance of payments on current account, poverty, and investment.

Up to 15 marks

Use of diagrams to help support explanations, e.g. trade cycle, AD/AS

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]

12.

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**.

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

Issues and areas for discussion include

Introduction	- Public sector - The UK economy - Macroeconomic performance / living standards
Developing the response to the question: (application and analysis)	Arguments why a smaller public sector may benefit the UK economy: - Crowding-out arguments (both physical and financial) - The role of potentially lower taxes in affecting growth - The role of potentially lower taxes in supply-side policy - The role of potentially lower taxes on private sector employment and the willingness to work - The role of potentially lower taxes on FDI - Deficit reduction and debt repayment - Potential boosts to the private sector of reduced red-tape and effects on recruitment. Arguments why a smaller public sector may be damaging to the UK economy: - An absence of the “crowding in” effect - A lack of public sector employment and negative multiplier effects - Regional effects especially in places reliant upon high levels of public expenditure - The possibility that some unemployment could be structural in nature due to the nature of some public sector jobs - A lack of provision of public services - A lack of correction of market failures - Possible rising inequality.
Evaluation	- Effects may differ depending on income group and stakeholder group depending upon the focus of government policy - The global economy may have a much larger effect for example FDI may not be forthcoming due to global uncertainty - Effects may differ depending on the employment sector (some government spending may be “ring-fenced”) - Other factors which may be more important than the size of the public sector - The degree of requirement for the size of the government may vary with the trade cycle (alternatively it could be argued that this should be irrelevant to the trade cycle). <i>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.</i>
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]

13.

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**.

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

Issues and areas for discussion include

Introduction	• Balance of payments • Current account and capital account • Exchange rates • Macroeconomic performance indicators
Developing the response to the question: (application and analysis)	Arguments why an appreciation of the pound against the Euro may be beneficial to the UK's macroeconomic performance • The effects of cheaper raw materials from Europe on inflation • The effects on competitiveness with the rest of the world if costs are lower • Impacts on UK manufacturing employment of cheaper European raw materials • Potential improvements to productivity in response to more expensive exports • Impacts of non-price competitiveness in response to more expensive exports • Could reduce inflationary pressure if the economy is in a boom • May act as a stabiliser to UK growth Arguments why an appreciation of the pound against the Euro may be detrimental to the UK's macroeconomic performance • The effects of cheaper raw materials from Europe on unemployment • Outsourcing to Europe affecting employment and growth • The loss of export competitiveness against Europe • Potential falls in FDI from Europe due to increased costs and its effects on growth
Evaluation	• Depends upon the duration of the change, self-correction may occur • Other issues other than exchange rate may have greater potential impacts on the economy such as domestic fiscal and monetary policy • The Marshall-Lerner condition (not in specification) and the effects of changing exchange rates upon the current account of the balance of payments • Changes to the patterns of trade and the importance of the exchange rate multilaterally rather than bilaterally. <i>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.</i>
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]

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**.

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

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

	- 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 <i>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.</i>
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.

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]

16.

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**.

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

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 <i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is</i>

	<i>important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i>
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]

17.

Level of response	Response	Max 10 marks
3	A good response that: • is well organised and includes at least three relevant, well-developed issues • makes effective use of the numerical/statistical data in Extract B • shows some appreciation of the limitations of the data • includes a supported final judgement concerning the extent to which UK manufacturing industry has been in decline since 2003.	8 – 10 marks
2	A reasonable response that: • is fairly well organised and includes at least two relevant and fairly well-developed issues • includes some satisfactory use of the numerical/statistical data in Extract B • may show some appreciation of the limitations of the data • at the top of the level, is likely to include a final judgement regarding the extent to which UK manufacturing industry has been in decline since 2003.	4 – 7 marks
1	A weak response that: • is very brief and/or lacks coherence • may include one or more superficial points regarding the extent to which UK manufacturing industry has declined since 2003 • doesn't show any appreciation of the limitations of the data • contains very limited or poor use of the data in Extract B • may include an unsupported judgement concerning the decline in UK manufacturing since 2003.	1 – 3 marks

When assessing the extent to which manufacturing industry has been in decline since 2003, most candidates are likely to base their assessment on the data in Extract B. However, they can also be rewarded for making relevant use of the other extracts and their own knowledge.

Allow candidates a small margin of error, particularly when quoting from Figures 1 and 2.

Relevant issues include:

- the changes in the index of output of manufacturing, e.g. the fluctuations and comparing the start and end values (97.8 to 96.6)
- the decline in employment between 2003 Q1 and 2009 Q1 (3.65m to 2.99m)
- the modest recovery in employment between 2009 Q1 and 2015 Q3
- discussion of output and employment as indicators of the possible decline in manufacturing
- changes in the exports of goods (increase of £97.1bn)
- changes in the imports of goods (increase of £171.2bn)
- changes in the balance of trade in goods (deteriorates by £74.1bn)
- not all goods are manufactures, e.g. basic commodities
- the trade figures do not take into account inflation
- the changing share of manufacturing but precise data for the period 2003 – 2015 has not been provided
- use of data concerning the rate of growth of manufacturing
- the growth of manufacturing compared to the rate of growth of real GDP
- some may use data in the extracts relating to car manufacturing and the steel industry.

As indicated in the table above, a good response will include a supported final judgement concerning the extent to which there has been a decline in manufacturing since 2003. It is likely that they will conclude that the evidence backs the view that manufacturing has declined over the period but should not be penalised for a different conclusion, provided it is well supported.

[10]

18.

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]

19.

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]

20.

Response	Max 2 marks
For the correct answer £2bn . The 'units', (£bn) must be shown.	2 marks
For the correct answer without a unit shown.	1 mark

[2]

21.

B

[1]

22.

D

[1]

23.**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]

24.**Relevant issues include:**

- definitions/explanations: trade, pattern of trade
- explaining the pattern in terms of the geographical distribution of UK exports and imports
- explaining the significance of trade to the UK economy
- explaining the pattern in terms of different goods and services traded
- using relevant examples to illustrate the changes in the pattern of trade
- explaining comparative advantage and how changes in comparative advantage might be significant
- giving a numerical example of comparative advantage
- explaining other possible reasons for changes in the pattern of trade, eg:
 - changes in absolute advantage
 - changes in protectionist/free trade policies in other countries
 - joining/changing membership of trading blocs
 - consideration of trade diversion/trade creation due to trading blocs
 - exchange rate changes
 - changing quality/reputation
 - government intervention distorting markets
 - de-industrialisation
 - causes and changes in globalisation
 - external shocks
 - economic development
 - factor endowment and exploitation of resources
 - innovation and invention (both product and process)
 - any other valid argument.

The use of relevant diagrams, such as a tariff diagram, 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 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]

25.

Areas for discussion include:

- definitions/explanations: unemployment, macroeconomic policy, macroeconomic goals, trade-offs
- explaining the various causes/types of unemployment
- distinguishing between involuntary and voluntary unemployment
- explaining the different policy responses depending upon the nature of the unemployment
- explaining the effects of falling unemployment on:
 - inflation
 - economic growth
 - trade
 - other goals such as the budget deficit
- highlighting the UK's experience in reducing unemployment whilst maintaining stable inflation and a satisfactory balance of payments position
- the role of supply-side policies and productivity improvements in avoiding conflicts
- the effects of economic shocks on the economy and the difficulty of insulating against these
- the short-run Phillips curve
- government policies to reduce unemployment
- considering the relative success of recent government policies in the UK or other economies
- considering the position of the economy in terms of the proximity to the productive potential
- considering the position of the UK in terms of the economic cycle

The use of relevant diagrams such as the short-run Phillips curve and AD/AS 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]

26.

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]

27.

A

[1]

28.

Areas for discussion include:

- definitions/explanations: trade or current account deficit, trade, balance of payments, macroeconomic performance
- explaining how a trade or current account deficit may impact upon:
 - economic growth
 - unemployment
 - inflation
 - other measures of performance
- considering the causes of the trade or current account deficit
- explaining the difference between trade in goods and services
- considering other parts of the current account of the balance of payments, ie primary and secondary income flows, and their significance
- the role of the capital and financial accounts
- the significance of having a floating exchange rate
- possible government responses to the deficit and their impact on macroeconomic performance
- the UK's past experiences with current account deficits
- the relative importance of the current account deficit in comparison to the other economic goals
- the "persistent" nature of the deficit
- the potential costs and benefits of surpluses on the financial account
- possible structural problems in the UK economy causing the imbalance.

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]

29.**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]

30.

B

[1]