AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.2.6.3 THE BALANCE OF PAYMENTS

SCORE	PERCENTAGE
/1486	%

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1.

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]

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2. **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 *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*

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

[25]

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3. **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)	*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.* • 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.

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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. *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.*

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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]

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

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

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	• an overall judgement on the issues raised

[25]

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

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

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

[25]

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6. **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 *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.*
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

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7.

Explanation

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

Trade:

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

Investment:

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

Reward references to the UK/other economies

[9]

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8.

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]

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9.

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]

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10.

It is hoped that candidates will briefly explain the macroeconomic criteria by which consequences can be measured, before providing some discussion of the potential impact of appreciation and arriving at a final judgement.

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	• appreciation versus depreciation of currency • criteria for measuring macroeconomic consequences • exchange rate systems.
Developing the response to the question:	• the potential impact on economic growth as exports perhaps become more difficult to sell overseas • the possible stimulus to growth as imports of raw materials and energy become cheaper • the possible benefits to inflation as lower demand for exports reduces pressure on domestic production and resources and imports of goods and services are cheaper • the impact on employment as cheap imports threaten domestic production and hence jobs and as the overseas demand for exports falls away • the impact on a significant tourist industry in the economy concerned and hence on growth and jobs in an expanding sector of an increasingly service economy • the impact on the balance of payments on current account given relative changes in exports and imports of goods and services • the strong currency making inward investment less attractive, perhaps affecting growth and jobs.
Evaluation	• the extent of the rise in the exchange rate • the external value of the currency from which the rise begins to take place • the significance of the exchange rate factor compared to other influences on the macro-economy • whether or not exports have been an important, or sole, cause of growth for an economy • elasticity conditions for exports and imports • the period of time in which the appreciation lasts • the role of speculators in terminating the rise • the effectiveness / speed of a corrective market mechanism or a decision to ‘dirty float’

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	• the state of the world economy as the appreciation takes place, eg might a prosperous world merely absorb higher prices arising from a country's exchange rate appreciation? *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 appreciation, but with minimal reference to the macro-economy. However, this must be considered as low-level evaluation and awarded accordingly.*
Also give credit for:	• reference to the UK / other economies • diagrams • an overall judgement on the issues raised

[25]

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11.

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

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	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. *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.*
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

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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

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	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. *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.*
Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

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14. 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]

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16. **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]

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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]

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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]

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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. *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.*

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

[25]

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1.

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. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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

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2.

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

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	• 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.

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5.

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.

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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.

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6.

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

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	• 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. *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.

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7.

Introduction	• high unemployment • types of unemployment • exchange rate • depreciation/appreciation.
Developing the response to the question: **Analysis and Application**	• the impact of changes in the exchange rate • the possible benefits of exchange rate depreciation to employment – cheaper exports, more expensive imports • the export-led multiplier • why exchange rate depreciation may not work • solution to the problem versus temporary relief • world trading conditions • the ability to meet higher demand for exports arising from exchange rate depreciation (elasticity of supply) • the importance of supply-side reforms • the impact of protectionism and the wisdom of it to help protect jobs • the types of unemployment which may be helped by exchange rate depreciation • reference to the UK and/or other economies • use of diagrams.
Evaluation	• by how much the exchange rate falls may be significant • the duration of the weakened exchange rate • whether exchange rate changes can ever provide a solution • the cause(s) of the depreciation may be significant, e.g. lower interest rates which may be the more important impact on unemployment than the change in the exchange rate itself • how bad the unemployment is and its causes in order to assess the relevance of a lower exchange rate • the state of overseas markets • the extent to which exporters pass on the benefits of the lower exchange rate in overseas prices • the importance of elasticity of demand for exports and imports • the importance of a sound supply-side underpinning any advantage given by the exchange rate • whether the impact of higher import prices, for example, on inflation, negates any benefit to employment through the exchange rate depreciation • a final judgement on to what extent exchange rate depreciation is really of any significance.

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	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.

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8.

For • defining unemployment • making reference to official measures of unemployment • explaining types of unemployment

The impact on AD as average incomes fall reducing household spending power and a consequent fall in confidence discouraging business investment. In contrast, AD will be influenced if businesses may make greater efforts to secure export markets, while government spending may increase to help the unemployed.
Changes in government spending and taxation and the economic impact of these.
Impact on government finances as spending increases but tax revenues fall.
Overall impact on economic growth.
The problem of rising inequality.
The waste of resources so that the economy operates at less than full capacity.
Any other valid point.

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The effect on living standards generally as consumption of goods and services, such as food and alcohol, is curtailed. The quality of life is affected as spending limits are placed on, for example, heating and holidays. The type of housing may need to be reconsidered as a mortgage or existing rent become unaffordable.
The level of income in particular and the impact on living standards.
The reluctance to claim, but the necessity of claiming, welfare benefits − perhaps further demoralising the individual.
Lower morale, perhaps resulting from unsuccessful job search impacting on worker performance.
Lower morale, perhaps resulting from unsuccessful job search impacting on worker performance.
The dangers of long-term unemployment.
The need for geographical and/or occupational mobility (with implications for re-training).
Long-term financial implications in terms of savings and pensions.
Any other valid point.

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

Reward references to the UK economy.

Where more than two problems are considered for either the individual or the economy, reward the best two problems.

Award a maximum of 10 marks if only the individual or the economy is considered.

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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

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	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.*

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10.

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.

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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.

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11. **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)	*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.* • 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.

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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. *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.*

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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.

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13.

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

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	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. *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.*

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14.

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

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	• 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.*

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15.

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

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

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

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

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18. **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.

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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. *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.

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19.

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.*

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20. **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.

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	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.

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22. **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 othe 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. *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*

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	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]

23.

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]

25.

The calculation: **Value: In 1999, a euro was worth $1.20, causing the American price of the good exported from the Eurozone and priced at €20 to be (20 × $1.20) $24.00.**

For the correct answer (working need not be shown) with $ sign shown, ie $24	**2 marks**
For the correct answer without the $ sign shown, ie 24.	**1 mark**

[2]

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26.

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]

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28.

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. *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.*

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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]

30.

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]

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3.

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. *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.*

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Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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

[25]

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5.

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

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	• Comparative advantage is dynamic – eg although the UK may benefit in terms of specialising in financial services now, this may not be forever. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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

[25]

6.

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]

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7.

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 FDIMicroeconomic 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

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	• 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. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • 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]

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8.

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. *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.*

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Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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

[25]

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10.

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. *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.*

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Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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

[25]

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11.

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

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

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

[25]

13.

Explanation:

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

Analysis:

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

[9]

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14.

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

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

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

[25]

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17.

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**

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Relevant issues include:

- likely to increase the pay of the lowest paid employees
- the effect on the distribution of income
- the effect on employment and unemployment
- the effects on different types of workers
- the effects in a competitive labour market
- the effects in a non-competitive labour market
- the effect on firms' costs, profits and competitiveness
- the effect on productivity
- the effect on growth
- the effect on motivation, absenteeism and labour turnover
- the effect on inflation
- the effect on competitiveness and the balance of payments
- diagrammatic representation of the likely effects

[15]

21.

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]

23.

B

[1]

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24.

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]

25.

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.

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26.

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]

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27.

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]

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28. **Calculation:**

Balance on current account = –33,381m – 2154m – 23,055m = £58,590m deficit

Response	Marks
For a correct answer: £58,590 million deficit (accept negative number in place of deficit – or both)	**2 marks**
For the correct value but the no mention of deficit (e.g. £58,590 million) or wrong units (e.g. £58,590 deficit)	**1 mark**

[2]

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1.

Areas for discussion include:

- definitions/explanations: interest rates, monetary policy, economic stability, cyclical instability, credit creation
- explaining the possible effects of low interest rates on:
  - saving and borrowing, including loans and mortgages
  - consumption
  - investment
  - the exchange rate
  - confidence
- explaining the benefits of low interest rates for:
  - growth (long-run and short-run)
  - unemployment
  - inflation or avoidance of deflation
  - the current account of the balance of payments
- explaining the drawbacks of persistently low interest rates such as:
  - inflationary pressure and overheating the economy
  - asset-price and speculative bubbles
  - over-complacency in firms and the build-up of private-sector debt
  - effects on financial institutions and the real economy if people/firms default on their debt repayments
  - effects on the housing market if interest rates need to rise
  - effects on people relying on savings such as pensioners
  - possibly leading to malinvestment and sustaining zombie businesses
- considering why interest rates were low in the first place
- explaining the role of the MPC in setting Bank Rate and the factors taken into consideration when setting the rate
- explaining the monetary policy transmission mechanism
- explanation of alternative schools of thought regarding monetary policy
- the role of other aspects of monetary policy (eg forward-guidance or Q.E.) alongside conventional interest rate policy
- the potential short-term benefits of lower interest rates such as household consumption rising compared to long-term financial burden
- the role of the financial authorities in reducing the possibility of households taking on too much debt.

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.

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

[25]

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2.

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]

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3.

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]

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6.

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]

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8.

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]

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9.

Calculation:

The net trade balance in goods for February-April 2012 is –£9.2bn and for February-April 2013 is –£10.5bn therefore the percentage change is 14.1%.

Response	Marks
For the correct answer with the % sign and to 1 decimal place	**2 marks**
For a correct answer but without the % sign **and/or** not to one decimal place	**1 mark**

[2]

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

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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" *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised.

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

[25]

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14. **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]

15. 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**.

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

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. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised.

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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]

16. **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]

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

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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? *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.*

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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 not mentioned above.

[25]

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

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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. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK / other economies • Diagrams • An overall judgement on the issues raised

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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]

19.

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.

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

[25]

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

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Issues and areas for discussion include

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

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

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

[25]

21.

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.

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

[25]

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22.

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]

23. C

[1]

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24. **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]

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25.

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]

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26.

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 demand and supply diagram is expected showing a rise in demand and/or a fall in supply of the currency. Axes vary on the Y axes of this diagram. Accept anything suitable that indicates the exchange rate but not “price” on its own.

Relevant issues include

- definitions/explanations: exchange rate, floating exchange rate, correcting a trade surplus
- explaining how a trade surplus puts upward pressure on the exchange rate
- describing effects on the supply and demand for the currency
- describing an appreciation of the currency leading to a rise in export prices and a fall in the price of imports and explaining the subsequent impact on the volume and/or value of exports and imports
- considering the elasticity of demand for imports and exports and the (inverse) J curve effect
- linking the falling value of exports and/or rising value of imports to a reduction in the trade surplus.

[9]

27. D

[1]

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28. A

[1]

29. B

[1]

30.

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.

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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]

31. **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.

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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]

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