

AQA A-LEVEL ECONOMICS • 7136

ECONOMICS



EXAM QUESTION PACK

3.2.6.5 ECONOMIC GROWTH AND DEVELOPMENT

SCORE

/789

PERCENTAGE

%

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Extract B: Living standards

Economists can generally agree on the causes of economic growth such as investment, innovation and improvements in productivity. There is greater disagreement over the consequences. An important part of the debate is the impact of economic growth on living standards. The debate has become more complex as measurement of living standards has taken on greater sophistication. GDP per capita (income per head) remains one of the basic measures. 1 5

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

Opponents of unlimited economic growth point to the rapid depletion of exhaustible natural resources and environmental deterioration. The Copenhagen Summit of December 2009 brought the latter issue into sharp focus once again. 10

Various indices, such as the Human Development Index, incorporate a number of factors into their calculations in order to give as comprehensive a view of living standards as possible and to allow more accurate international comparisons. Factors include life expectancy, infant mortality and nutritional levels. 15

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

The 2009 index ranked 104 countries. The UK was placed 12th (its best position for three years). Low scores for key public services kept it out of the top ten. All African countries were in the bottom half of the index. 20

However, the continent of Africa is undergoing economic change. The World Bank points to a rapid transformation in some countries. Mozambique has seen annual average growth of 8% in the last decade, Kenya has emerged as a major global supplier of cut flowers and Rwanda is developing tourism very successfully. While Lesotho is developing its clothing industry, Ethiopia is starting to manufacture footwear. Can we look to Africa for the next wave of 'emerging economies', to follow India and China? In 2009, Africa as a whole had the world's third highest rate of growth behind India and China. Africa's role as a major supplier of raw materials to China also illustrates its increasing economic links with the rest of the world. 25 30

As a result of this economic change, living standards in Africa will no doubt improve. Additionally, the living standards of developed countries, including the UK, will be affected by economic growth in Africa. Export markets for both goods and services will strengthen, as will investment opportunities, and natural resources will become more accessible. 35

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

Source: various sources, 2010

2.

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

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

[25 marks]

3.

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

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

[25 marks]

4.

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

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

[25 marks]

5.

The European Union Context Extract D (lines 22–23) argues that government spending ‘can initiate a powerful stimulus to an economy through the multiplier process’.

Explain ‘the multiplier process’ **and** analyse its possible impact on an economy’s unemployment **and** economic growth.

[9 marks]

Extract D: Is EU unity threatened?

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

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

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

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

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

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

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

Source: various sources, 2010

7.

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

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

[25 marks]

8.

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

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

[25 marks]

THE GLOBAL CONTEXT

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

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

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

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

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

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

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

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

Source: various sources, 2009

10.

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

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

[25 marks]

11.

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

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

[25 marks]

12.

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

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

[25 marks]

13.

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

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

[25 marks]

THE EUROPEAN UNION CONTEXT

Extract D: Turkey – gateway to Asia

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

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

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

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

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

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

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

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

Source: news reports, 2010

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

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

[25 marks]

16.

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

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

[25 marks]

17.

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

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

[25 marks]

THE EUROPEAN UNION CONTEXT

Extract D: The fiscal remedy for recession

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

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

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

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

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

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

Source: various sources, 2010

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

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

[25 marks]

Extract B: A passage to India

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

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

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

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

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

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

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

Source: news reports, 2010

21.

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

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

[25 marks]

22.

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

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

[25 marks]

THE GLOBAL CONTEXT

Extract B: A decade of change, challenge and opportunity

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

Source: news reports, 2012

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

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

[25 marks]

25.

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

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

[25 marks]

26.

The Global Context Extract C (lines 9–11) states: ‘However, the tax summaries have been heavily criticised in that they may make individuals more inclined to support political parties which favour lower taxes, without considering the wider picture of what state spending provides.’

Using the data and your knowledge of economics, to what extent do you agree that cuts to direct taxation would benefit growth **and** living standards in the UK?
Justify your answer.

[25 marks]

27.

THE EUROPEAN UNION CONTEXT

Extract E: Would the UK be left out in the cold by saying goodbye to the EU?

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

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

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

Sources: various, 2012

28.

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

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

[25 marks]

THE EUROPEAN UNION CONTEXT

Extract F: Is deflation a bad thing?

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

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

Source: news reports, 2014

THE GLOBAL CONTEXT

Extract C: Where does tax go in the UK?

In the UK, from November 2014, HM Revenue & Customs will begin sending 24 million working people the first Annual Tax Summary, showing how their money is being spent by the state, in order to make taxation more transparent. For example, someone on a salary of £30 000 will see that £1663 of their money is spent on welfare, with £1280 going to health, £892 going to education, £822 going to the state pension and £475 going on national debt interest. Ministers believed that showing exactly where taxpayers' money goes could make voters more receptive to controversial Government changes to the benefits system.

However, the tax summaries have been heavily criticised in that they may make individuals more inclined to support political parties which favour lower taxes, without considering the wider picture of what state spending provides. The breakdown does not make clear that most of the welfare budget goes to pensioners, the sick and disabled people. The Treasury originally planned to show just 3% went towards unemployment benefits while much larger amounts went to children and families, elderly people and those unable to work, but this has been left off the tax summaries.

A Labour Party spokesperson said: 'This government's record on tax is giving millionaires a huge tax cut while everyone else pays more.' She added: 'Families and pensioners are paying more in higher VAT, but that tax isn't included in these tax summaries and independent figures from the Institute of Fiscal Studies show that, by next year, families will be £974 a year worse off because of tax and benefit changes since 2010.'

Source: news reports, 2014

2.

Issues and areas for discussion include

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

[25]

3.

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

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

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

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

[25]

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

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

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

[25]

5.

For candidates who:

Explain

- by first defining the multiplier, eg the amount by which an increase in injections into the circular flow of money will increase total income in the economy
- by referring to the various injections into the circular flow and perhaps providing the contrast with leakages or withdrawals
- by providing a formula or formulae
- the process by relating the multiplier to aggregate demand, GDP etc.

Analyse the impact on unemployment, eg:

- the multiplier may be initiated by an increase in government capital expenditure, eg on road building. This not only creates jobs in the road-building sector but, as these workers begin to spend their income, jobs are also created in other sectors and so unemployment in the economy can be reduced
- exports and job creation
- private sector investment and job creation
- income changes across the economy.

Analyse the impact on economic growth, eg:

- if the multiplier serves its purpose and stimulates AD, by increasing incomes and household consumption, this will stimulate domestic production to some extent and this will cause a rise in actual growth as measured by GDP
- the impact of an investment-induced multiplier on AD and on productive capacity, and hence potential growth
- the impact of an export-led multiplier on AD with the potential for supply-side benefits also
- to the extent that the multiplier process may help sustain AD, it will make it less likely that capacity will be 'destroyed', eg plant being scrapped, and this may have beneficial consequences for future economic growth.

Reward references to the UK / other economies

[9]

7.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

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

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

[25]

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

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

10.

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

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

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

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

[25]

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

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

Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.

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

[25]

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

public spending cuts or a combination of both

- whether it will be short-term 'pain' for long-term benefit
- the differing impact on particular sections of the UK population
- whether additional private sector activity will compensate
- whether monetary policy has the same constraints imposed
- the problems which 'one-size-fits-all' policy tends to generate for individual nations
- a final judgement on the overall impact on the UK economy.

Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.

[25]

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

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

Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.

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

[25]

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

	can't always expect to have a significant role to play • the short term impact of an "event" in contrast to long term sustaining of, and benefits from, trade and investment links • possible contrasting abilities to respond to positive events as opposed to negative ones or vice versa • a final judgement on the overall significance. <i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

16. Issues and areas for discussion include

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

Evaluation	• 'concern' needs to be measured against opportunities in the MENA economies • continuing political instability in the MENA region may dilute any threats to the UK and any opportunities for the UK in the MENA economies • the inflexibility of the UK economy may mean lost opportunities • if and when importance strengthens, the MENA economies' more powerful negotiating position regarding prices of resources needed by developed countries • MENA economies in relation to other opportunities elsewhere in the global economy • opportunities/threats in the UK domestic economy compared to those presented by the MENA economies • how the UK might compare to other economies with similar aims of gaining a foothold in the MENA economies, eg, the emerging markets • the significance of relative inflation rates between MENA economies and the UK, and between the UK compared to other economies showing interest in the MENA economies • the possible greater impact on the UK and a cause for concern if the UK's major markets, the EU and US, continue to have problems • the threat the MENA economies pose to the UK in established UK markets especially in the long term • a final judgement on the economic consequences. <i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill..</i>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

Issues and areas for discussion include:

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

Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.

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

[25]

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

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

Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.

[25]

Issues and areas for discussion include

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

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

[25]

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

Also give credit for:

- Reference to the UK/other economies
- Diagrams
- An overall judgement on the issues raised.

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

[25]

24.

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

Evaluation	• The extent of world economic growth • World economic growth from what starting point, eg years of stagnation? • The importance of considering where in the world growth is taking place and the bearing this may have on the UK economy • The UK's capability to participate in the growth process and in its rewards • The possibility of the UK economy importing the downside of world growth, eg inflation and a deteriorating environment, without enjoying the benefits, eg more jobs and more spending power • It is easier to measure the economic impact on the individual, ie income per head, than it is to measure changes to the quality of life • What of the individual who has the wrong skills or qualifications to allow occupational mobility or cannot become geographically mobile? • Short term v long term impact for both the individual and the economy • Does the UK economy enjoy higher demand without giving due attention to its supply-side? • Is sufficient attention given to the environment both from the individual's point of view and that of the UK economy? • Whether growth elsewhere is likely to cause net economic benefit or net economic damage to the UK. <i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i>
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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

[25]

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

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

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

[25]

Introduction	• 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	Drawing on the information in the extracts: • Electoral success (Extract B) • Lower taxes creating growth Extract B • Balancing budget helped by growth (Extract B) • Reduced size of the state (Extract B) • What goods and services the state provides (Extract C) • Health, education and welfare in terms of living standards (Extract C) • Benefiting certain income groups (Extract C) • The effect of shifting from direct to indirect taxation (Extract C)
Developing the response to the question: Analysis	Arguments why direct tax cuts may be beneficial for growth and living standards: • Increased consumption possibilities • Increased AD as a result of increased consumption and short-run economic growth • Possible increase in firms profits and its role in stimulating investment • Individuals are able to spend more on what they wish, improving welfare • Reduced tax rates leading to more tax revenue (Laffer curve arguments) • Links between economic growth and living standards • Reducing crowding out • Possible multiplier effects. Arguments why direct tax cuts may be damaging for growth and living standards: • Possibly leading to reduced state intervention • Reduction in provision of both public and merit goods • Possible increased inequality • Rich having a larger marginal propensity to save, therefore not spending as much, reducing the circular flow • Possible negative multiplier effects • Lack of crowding in • Costs of economic growth in terms of living standards (eg pollution).

Evaluation	• Short-run vs long run considerations • Are growth and living standards always necessarily directly linked? • How can living standards be judged and what factors need to be considered in their measurement? (This could include HDI or other suitable measurements). • The role of the state and the effects of merit and public goods on living standards • Differences between New Zealand's and UK's experiences, eg New Zealand linked to fast growing Asia-Pacific region. • The idea that living standards and growth encompass a wide range of factors beyond that which domestic governments have control. <i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i>
Also give credit for	• Reference to the UK/other economies • Relevant diagrams • An overall judgement on the issues raised.

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

[25]

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

	• The cause of deflation being vital to understanding the effects • Benign vs malign arguments • The UK's ability to avoid deflation in comparison to other economies • The relative difficulty of combatting inflation when the causes are external in a globalised economy. <i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i>
Also give credit for	• Reference to the UK/other economies • Relevant diagrams • An overall judgement on the issues raised.

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

[25]

1.

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

[15 marks]

2.

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

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

[25 marks]

3.**THE EUROPEAN UNION CONTEXT****Extract F: Ireland emerges from bailout**

Whilst many of the Eurozone members still face instability in their own economies, Ireland became the first economy to emerge from its bailout since the Eurozone crisis began. In its final report on Ireland's progress under the rescue scheme, the European Commission said: 'With public sector debt at 122% of GDP in 2013, Ireland needs to continue with its fiscal reduction programmes, reduce private-sector debt and improve bank profitability to revive lending.' 1

Of the UK's top ten European trading partners, Ireland is the only one with which the UK has a current account surplus. The importance of trade with Ireland is therefore of great significance. The Irish and UK economies are highly integrated and it is not yet clear how further cuts in Ireland might impact on the UK's macroeconomic performance. 5

Public sector debt across many European nations is still at very dangerous levels and Ireland's debt to GDP ratio is the second highest in the EU. Higher national debts may lead to problems such as crowding out, where private sector investment is reduced due to increased public sector borrowing. The EU introduced the Stability and Growth Pact (limiting total debt as a percentage of GDP to 60% and annual deficits to 3% of GDP) in order to prevent individual economies from creating instability across the EU. However, EU member countries have struggled to keep to the pact, with only four member countries not breaking the rules. Both Ireland and the UK have breached the pact since 2008. No doubt more problems lie ahead for the Eurozone. 10

Source: News reports, 2013

4.

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

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

[9 marks]**5.**

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

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

[25 marks]

6.**THE EUROPEAN UNION CONTEXT****Extract E: The French economy faces problems**

The International Monetary Fund (IMF) has warned the French government that, unless it makes major economic reforms to lower its labour costs and avoid tax rises, the economy is likely to experience reduced growth. This view was echoed in a recent survey of bankers, in which France was identified as the most serious threat to Europe's recovery from the debt crisis which has crippled growth and driven unemployment to record highs. The outlook for France, the Eurozone's second largest economy, is more worrying than that for Italy, Spain or Germany.	1
	5
The Chief Executive officer of the Institute of International Finance said: 'There's a lack of concern about international competitiveness in France.' French President, François Hollande, is failing to revive business investment in the face of one of the world's highest tax burdens. Such investment could generate greater efficiency and higher productivity, especially important if the euro's exchange rate does not always work in France's favour.	10
An IMF spokesperson, Edward Gardner, also said that French unemployment, which currently stands at 11%, would continue to rise, despite President Hollande's vow to reduce it by the end of the year. 'It reflects in large part a general phenomenon in Europe that the recovery is slower in coming than we had expected.' The euro area's recovery almost came to a halt as the French economy unexpectedly shrank and German growth slowed.	15
The failure of the French economy to improve is in contrast to the overall success of the German economy and the stronger signs of recovery in the UK. President Hollande now faces difficult choices in reducing government spending to reach European budget deficit commitments. Furthermore, a recent announcement that VAT will rise, despite previous claims that there would be no significant tax rises, may cause further problems for the economy.	20
	25

Source: News reports, 2013

7.

Economic Growth and Development in Africa Extract C (lines 6–8) argues that: 'Africa's recent growth has been driven by the increasing production and export of commodities but it remains far below the continent's potential for growth. Meaningful job creation is weak and is not tackling the high rates of poverty in many countries'.

Using the data in the extracts and your knowledge of economics, assess the view that sustained economic growth is likely to improve living standards in African countries.

[25 marks]**8.**

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

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

[25 marks]

THE GLOBAL CONTEXT

Extract C: Incentives and economic performance

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

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

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

Source: News reports, 2013

10.

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

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

[25 marks]

11. Economic growth and development in Africa

Extract C: Problems in Africa

Many African countries should continue to enjoy strong economic growth and attract investment, especially in oil, natural gas and minerals. In some areas this has been accompanied by a decline in labour unrest. As a result of this economic change, living standards in Africa should improve. However, some parts, noticeably north and central Africa, continue to suffer from political instability and civil war. 1
5

Africa's recent growth has been driven by the increasing production and export of commodities but it remains far below the continent's potential for growth. Meaningful job creation is weak and is not tackling the high rates of poverty in many countries. The informal sector is still large and opportunities remain limited for many seeking to enter the labour market. Continual pressure on labour markets from a steady stream of new entrants due to population growth has also meant that economic growth rates have not impacted strongly on poverty and inequality. 10

When governments squander valuable natural resources, geographic advantages do not always result in sound development, while land-locked African countries often struggle to trade with global economies. 15

Heavy dependence on minerals and agriculture has led to weak job creation in areas such as construction, transport and telecommunications. Political unrest continues to pose a significant threat to economic activity and a reliance on agriculture leaves many countries prone to weather-related shocks.

Source: news reports 2014

12. Brazil: The Hot 'BRIC'

Extract D: News report – Is Brazil in trouble?

In June 2013, more than a million citizens across Brazil took to the streets to protest against political corruption, poor healthcare, inadequate schools, substandard public transport and crumbling infrastructure. This is in a country which is reported to be spending \$13.3 billion to host the 2014 World Cup and \$18 billion to host the 2016 Olympic Games. 1
5

In February 2014, the Brazilian currency, the real, is also making the headlines. In recent months it has collapsed against the pound. A year ago, visitors to Brazil would have got 2.70 real for £1 but now the rate stands at 3.61 to the pound. The fall in the value of the real is in response to a widening budget deficit and fears that the government's credit rating will be reduced. In response, the central bank has raised its base interest rate to 10.75%. 10

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

Using examples to illustrate your answer, explain the difference between economic growth and economic development.

[15 marks]

Brazil: The Hot 'BRIC'

Extract C: How does Brazil compare with the UK?

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

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

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

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

Note: PPP = purchasing power parity

15.

Brazil: The Hot 'BRIC'

Extract B: Brazilian economy

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

Source: News reports, October 2013

16.

Brazil: The Hot 'BRIC'

Extract A: Who are the BRICs?

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

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

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

Source: News reports, October 2013

17.

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

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

[15 marks]

18.

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

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

[25 marks]

19.

Extract B (lines 17–19) states 'India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth.'

With the help of a diagram, explain how export subsidies may help promote economic growth in India.

[9 marks]

20.

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

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

[25 marks]

21.

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

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

[25 marks]

22.

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

Explain the main barriers that LEDCs face when attempting to achieve stable, long-term economic growth.

[15 marks]

23.

The table below contains data for GDP per capita and the Human Development Index (HDI) for four countries in a given year.

	GDP per capita (\$)	HDI
Country 1	32 860	0.45
Country 2	29 440	0.77
Country 3	23 230	0.51
Country 4	22 650	0.92

Which one of the following statements is most consistent with the data?

A Country 1 has the highest living standards of the four countries

☐

B Country 2 has a higher rate of growth than countries 3 and 4

☐

C Country 3 is the least developed of the four countries

☐

D Country 4 has the highest life expectancy and literacy rates

☐

[1 mark]

24.

Essay 3

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

Evaluate the view that international trade always benefits nations.

[25 marks]

25.

The table below shows the value of the UK's Human Development Index (HDI) over the period 2015 to 2019.

Year	2015	2016	2017	2018	2019
UK HDI Value	0.916	0.918	0.919	0.920	0.932

All other things being equal, which one of the following is most likely to explain the trend shown in the table above?

- A A fall in the sterling exchange rate
- B Falling emissions of greenhouse gases
- C Increasing life expectancy at birth
- D Reductions in income inequality

☐☐☐☐

[1 mark]

Mark schemes

1.

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]

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

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

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

[25]

4.

Explanation:

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

Analysis:

For Example: A fall in corporation tax may reduce a firms costs therefore the firms expected profits may rise and improve confidence which may be a catalyst for investment which may increase spending on both human capital and physical capital which may lead to productivity advancements allowing firms to sell goods for cheaper on international markets.

Use of appropriate diagrams, eg AD/AS

Reference to the UK or other economies.

[9]

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

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

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

[25]

7.

Areas for discussion include:

- concept of sustained economic growth
- differences between economic growth and economic development
- meaning of 'to improve living standards'
- difficulties in measuring living standards
- whether it is meaningful to discuss African countries in general
- analysis of the impact of growth on employment and income
- impact of growth on government finances and possible effects on living standards
- whether growth is likely to be sustainable
- costs of economic growth and their impact on living standards
- impact of policies that might stimulate growth
- different sources of economic growth
- the nature of the growth that is experienced and the type of output produced
- impact of population change
- whether growth results in a reduction or increase in inequality within and between countries

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]

Areas for discussion include:

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

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

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

[25]

10.

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]

13.**Relevant issues include:**

- definitions of economic growth and economic development
- measures of economic growth
- measures of economic development
- concept of human development
- factors influencing economic growth
- factors influencing economic development
- limitations of GDP as an indicator of welfare
- difficulties of measuring development
- how growth can take place without development.

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

The use of examples of other economies to illustrate these differences should be taken into account when assessing the quality of response.

[15]**17.****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]

18.

Areas for discussion include:

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

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

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

[25]

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

A micro diagram showing a rightward shift in supply is expected. The candidate could demonstrate the effects of increased exports, due to the subsidy, using an AD/AS diagram. Provided there is valid explanation, accept either a rightward shift in the SRAS or a rightward shift in AD.

Relevant issues include

- definitions/explanations: export subsidy, exports, trade, economic growth
- impact of an export subsidy on price, quantity, the volume and value of trade
- impact of an export subsidy on employment in particular industries
- linking trade to aggregate demand
- impact of export subsidies on investment
- linking export subsidies to both short-run and long-run economic growth

20.

Areas for discussion include:

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

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

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

[25]

21.

Areas for discussion include:

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

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

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

[25]

22.

Relevant issues include:

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

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

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

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

[15]

23.

D

[1]

Areas for discussion include:

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

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

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

[25]

25.

C

[1]