EDEXCEL A-LEVEL ECONOMICS A

ECONOMICS



EXAM QUESTION PACK

UNIT 4 OLD SPECIFICATION PAPERS

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Write your name here

Surname	Other names

Pearson Edexcel GCE

Centre Number	Candidate Number

Economics

Advanced
Unit 4: The Global Economy

Thursday 23 June 2016 – Afternoon
Time: 2 hours

Paper Reference
6EC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

***1** UK productivity, as measured by output per worker, was 25 percentage points below the average for the rest of the major G7 economies in 2012, the widest gap since 1992.

(a) Assess the view that productivity is the most significant factor influencing the international competitiveness of an economy's goods and services.

(20)

(b) Evaluate the impact of a fall in productivity on an economy.

(30)

(Total for Question 1 = 50 marks)

***2** Between 1986 and 2010, income inequality, as measured by the Gini coefficient, increased from 0.21 to 0.26 in Sweden; from 0.25 to 0.3 in Germany; and from 0.37 to 0.41 in the USA.

(a) Assess possible causes of an increase in income inequality within a country.

(20)

(b) Evaluate ways by which income inequality **and** wealth inequality might be reduced in a developed country of your choice.

(30)

(Total for Question 2 = 50 marks)

***3** In Nigeria, a 70% tariff has been applied to imports of fully assembled motor vehicles. In addition, increased tariffs of between 20% and 100% have been applied on certain agricultural goods, such as wheat and rice.

(a) Assess the possible reasons why a country might impose tariffs on imports.

(20)

(b) Apart from increasing trade barriers, assess factors which might explain changes in a country's pattern of trade with other countries. Refer to the principle of comparative advantage in your answer.

(30)

(Total for Question 3 = 50 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 1** ☐ **Question 2** ☐ **Question 3** ☐

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TOTAL FOR SECTION A = 50 MARKS

SECTION B

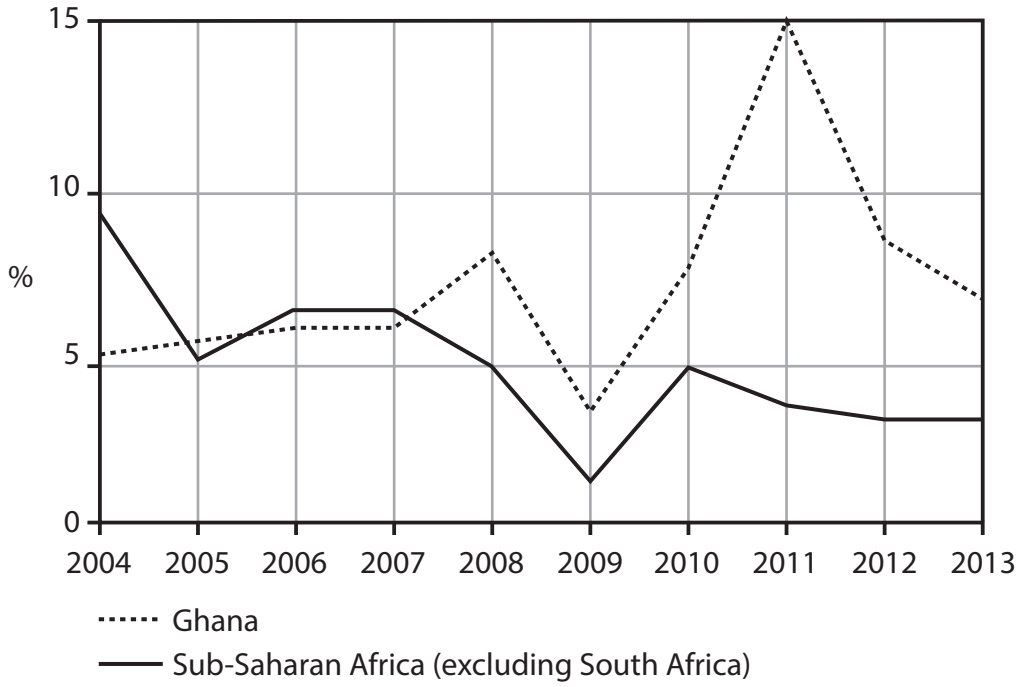
Answer ONE question from this section.

You should spend 60 minutes on this section.

If you answer Question 4 put a cross in the box ☒ .

4 Ghana's Economy

Figure 1 GDP growth rate 2004–2013 (annual % change in GDP)

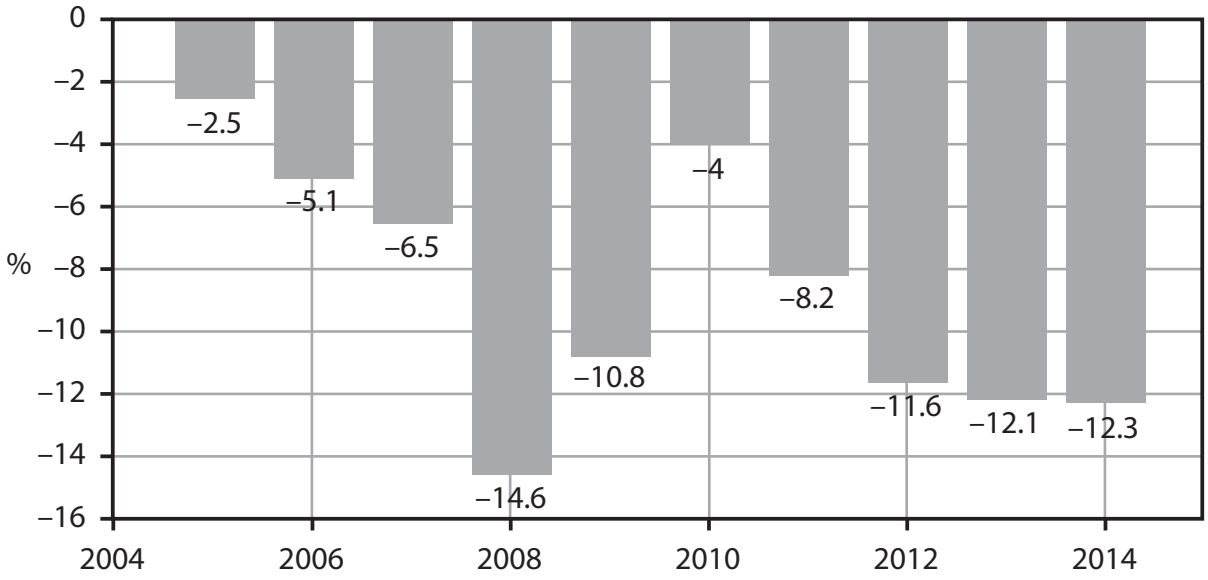


(Source: http://www.worldbank.org/en/country/ghana)

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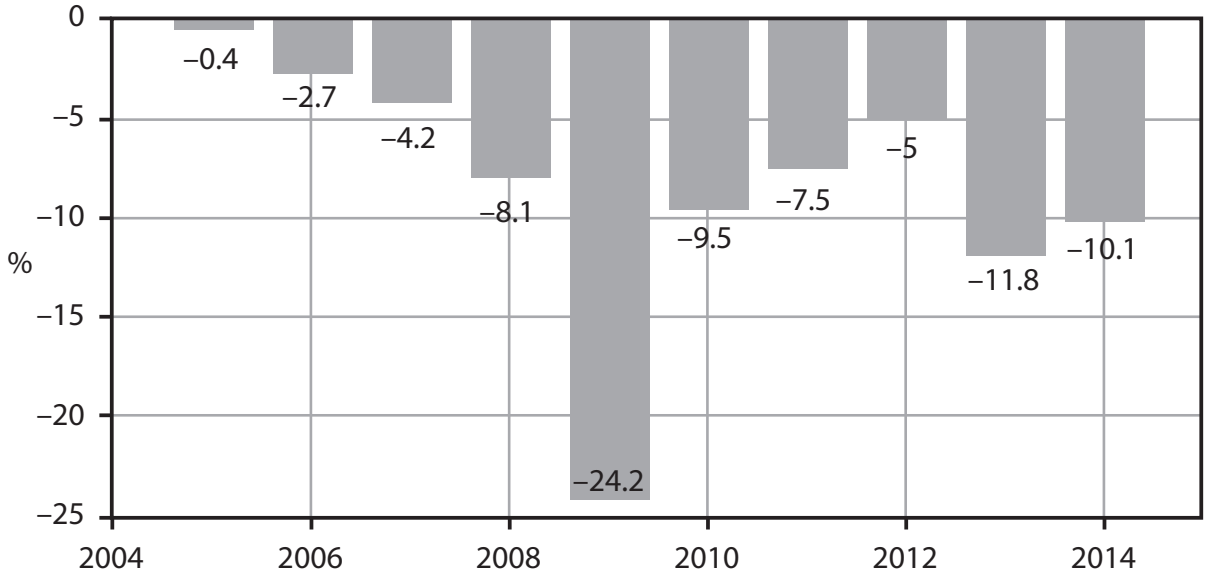
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Figure 2 Ghana's current account of the balance of payments as a proportion of GDP, 2005–2014



(Source: http://www.tradingeconomics.com/ghana/current-account-to-gdp)

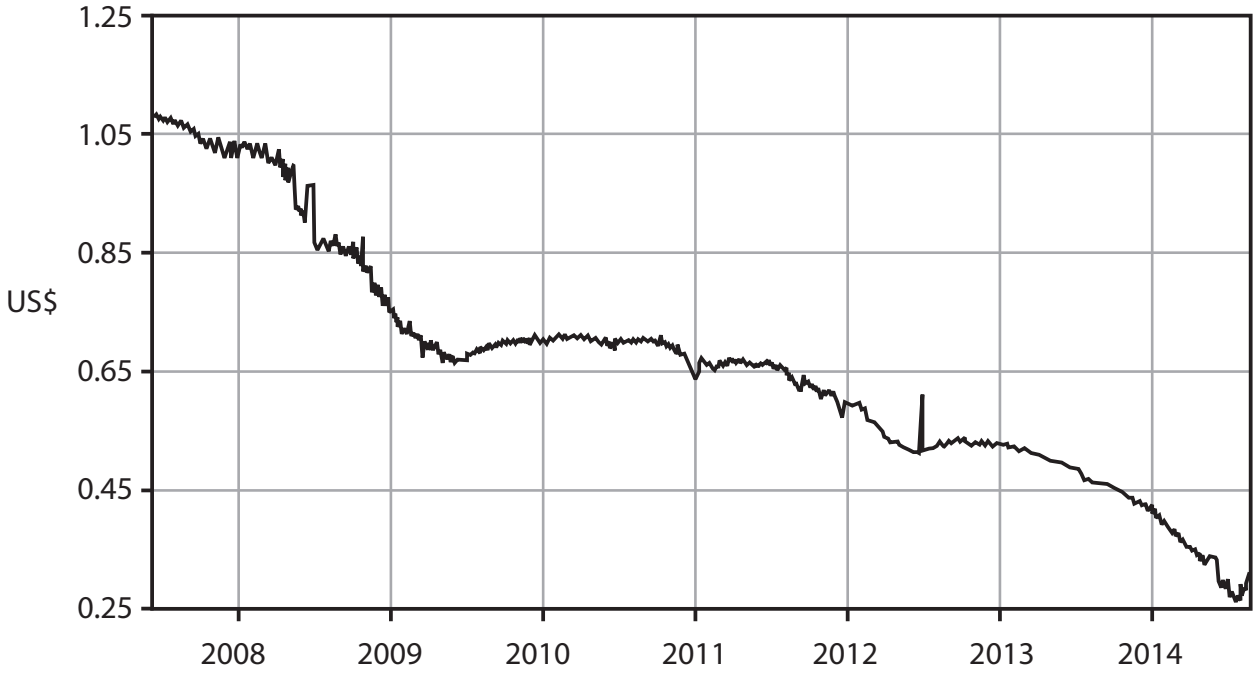
Figure 3 Ghana's government budget balance as a proportion of GDP 2005–2014



(Source: http://www.tradingeconomics.com/ghana/government-budget)

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Figure 4 Exchange rate: US dollars per 1 Ghana cedi, July 2007 to September 2014



(Source: http://www.xe.com/currencycharts/?from=GHS&to=USD&view=10Y)

Figure 5 Central Government expenditure, 2009-2014 (% of GDP)

	2009	2010	2011	2012	2013	2014
Total Government expenditure of which:	**24.8**	**25.7**	**25.1**	**33.1**	**31.8**	**31.1**
Wages and salaries	6.8	8.7	7.5	10.0	10.4	9.7
Interest payments	2.7	3.0	2.7	3.4	4.7	6.8
Transfers to other Government units	3.5	4.2	4.2	6.0	4.9	4.6
Capital expenditure	6.8	6.7	6.2	6.6	5.1	4.8
Other	5.0	3.1	4.5	7.1	6.7	5.2

(Source: http://ifsghana.org/images/pdfs/ghana_a_review_of_the_2015_national_budget_final.pdf)

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Extract 1 Ghana seeks International Monetary Fund (IMF) help after its currency depreciates by 40%

Ghana, the country that was the prime example of the 'Africa rising' story of strong economic growth and improved governance, is to seek help from the IMF. The reversal of fortunes underlines the challenges the continent still faces. The West African nation will turn to the IMF for financial assistance after its currency (the cedi) plunged by 40% in value against the US dollar, making the cedi the worst performing currency in the world in 2014. Ghana is the second sub-Saharan African country to turn to the IMF for help in 2014, after Zambia announced its intention to do so in June.

Ghana's request for a bailout is likely to shake some investors, as Ghana was seen as a model of economic and political development in the continent. In 2007 it became the first country in sub-Saharan Africa, apart from South Africa, to raise $750 million through the issue of 10-year government bonds.

Although the continent still has some of the world's fastest-growing economies, issues including conflict, strikes, overspending by the state and the slow pace of reforms have put a brake on expansion.

The opening of talks with the IMF about a financial rescue is a policy reversal for John Mahama, Ghana's president, who has long insisted that his country would resolve its economic problems using home-grown solutions. Critics said Mr Mahama's government has been slow to cut public spending to bring down the double-digit fiscal deficit, although some of its policies have also been praised. For example, the President said that the Government had introduced new taxes to increase revenues. Further, to reduce the current account deficit, Mr Mahama plans to provide "stimulus and incentives" such as investment grants and the removal of export taxes to encourage agricultural businesses to produce foodstuffs domestically – including rice, sugar and poultry – that currently cost the country $1 billion per year to import. He also said he wanted to create a system to incentivise cocoa traders through subsidies to process more beans within the country into raw materials for chocolate production such as cocoa powder, rather than simply exporting the commodity.

Seth Terkper, Ghana's finance minister, said the president had "directed [the government] to open discussion with the IMF" to support the country's growth programme, adding that the most immediate concern was "to stabilise the cedi and reduce the [fiscal] deficit".

Nearly three years after the start of oil production in Ghana, which was meant to strengthen the country's fiscal position, the country faces a double-digit fiscal deficit after a 75% increase in public sector salaries over two years. Inflation is rising rapidly as the cedi plunges.

Ghana ran a fiscal deficit equal to 11.8% of gross domestic product in 2013. The Government has promised to cut the deficit to 8.5% in 2014 but observers believe it would struggle to reduce it below 10%. The IMF warned, in its annual review of the Ghanaian economy in May 2014, that under current policies the fiscal deficit would stay at about 10.2% this year and 9.3% in 2015.

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Mr Terkper said: "We would like to have a complementary plan with the World Bank and the African Development Bank [in addition to the IMF programme] to achieve our objective to become an upper- middle-income economy."

(Source: adapted from www.ft.com/cms/s/0/195ce3ec-1a5f-11e4-8131-00144feabdc0.html#axzz3EgzRL7Xqid Last updated: August 3, 2014 3:16 pm By Javier Blas in London and from http://www.ft.com/cms/s/0/3c9d1018-97d1-11e3-8dc3-00144feab7de.html#axzz3H4SBcfSN 'Mahama vows to diversify economy as Ghana tackles fiscal turmoil' 17 February 2014)

(a) With reference to the information provided, outline **two** roles of the IMF.

(5)

(b) With reference to the fourth paragraph of Extract 1, explain **two** measures which the Government could take to reduce Ghana's deficit on the current account of the balance of payments.

(8)

(c) With reference to the information provided, examine **two** factors which might have caused the depreciation of Ghana's currency, the cedi.

(10)

*(d) Assess the likely effects of the fall in the external value of the cedi on Ghana's economy.

(12)

*(e) With reference to the information provided, evaluate measures by which Ghana's Government could reduce its fiscal deficit.

(15)

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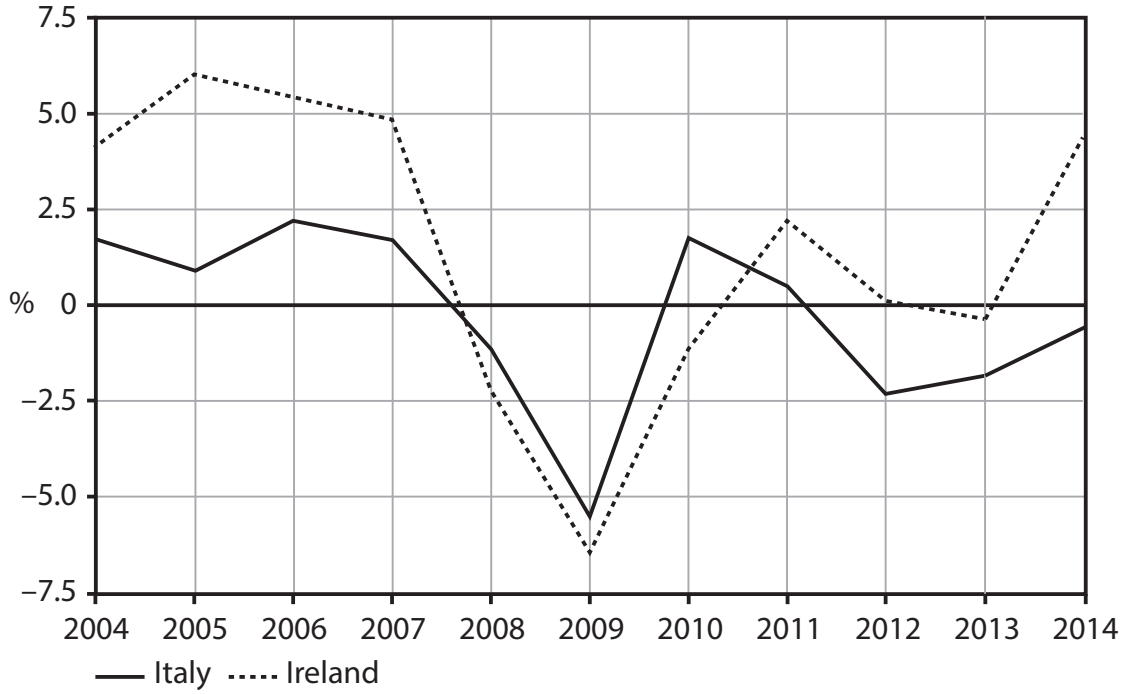
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(Total for Question 4 = 50 marks)

If you answer Question 5 put a cross in this box ☒ .

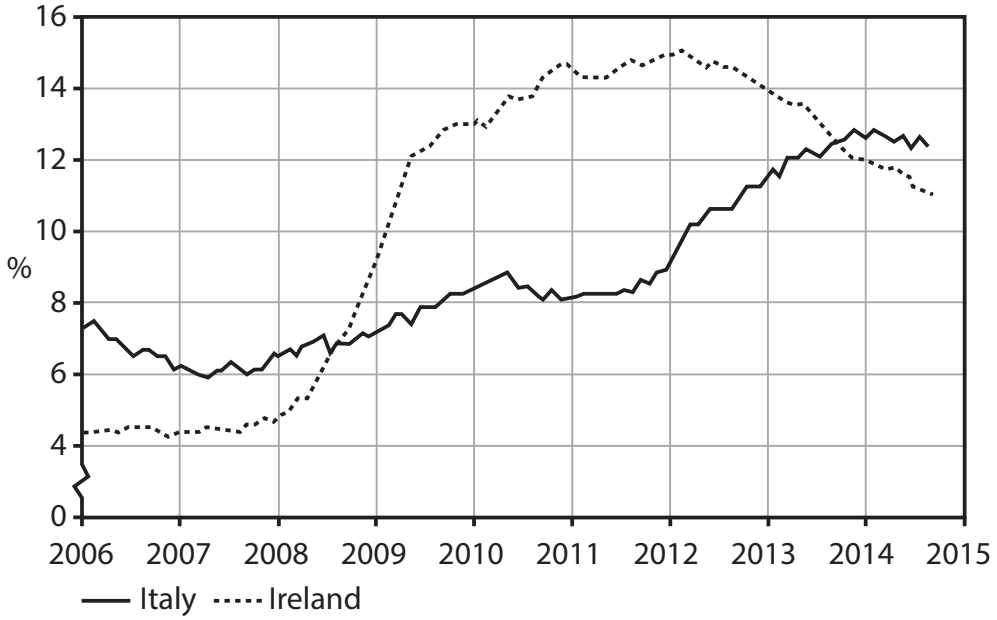
5 Eurozone: Italy and Ireland

Figure 1 GDP growth rate in Italy and Ireland (annual % change in GDP)



(Sources: http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/IT?display=graph and http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/IE?display=graph)

Figure 2 Italy and Ireland: ILO unemployment rates (%)



(Sources: http://www.tradingeconomics.com/italy/unemployment-rate and http://www.tradingeconomics.com/ireland/unemployment-rate)

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Extract 1 Italy's debt burden

The biggest question facing the economic stability of Europe is what happens if Italy continues to stagnate as it has done for the past 15 years. Unless there is a significant increase in economic growth, Italy's economic position is unsustainable and will result in eventual debt default. At that point, Italy's future in the eurozone would also be in doubt – and the future of the euro itself.

The fall in the general price level in Italy is raising the real value of debt. Between 2007 and 2013, the ratio of public sector debt to gross domestic product (GDP) rose from 103.3% to 132.6%. If Italy's economy continues to stagnate in 2015 and 2016, the debt-to-GDP ratio will be heading towards 150% of GDP. The problem is not the number but the trend which could ultimately result in Italy becoming insolvent. However, Japan is still solvent at a debt-to-GDP ratio more than 200%. But Japan, unlike Italy, has its own central bank. If investors believe that the country's debt can be stabilised at any given level, they will continue to refinance its debt.

The main reason for the explosion in the debt ratio has been the fall in nominal GDP. The only way out of this trap is for nominal GDP to rise faster than debt. But Italy, as a member of the eurozone, lacks the policy instruments.

Economic reforms may help to generate some growth but only in the long run. For example, measures to enable companies to make workers redundant more easily are unlikely to have an immediate impact. Italy needs to bring its taxes down to the eurozone average, and to improve the quality and efficiency of the public sector. Other possible remedies include a programme of European Central Bank (ECB) asset purchases (quantitative easing) and higher growth in the other eurozone economies.

(Source: adapted from http://www.ft.com/cms/s/0/02cb9932-3ff0-11e4-936b-00144feabdc0.html#axzz3E2evoa3V September 21, 2014 'Italy debt burden is a problem for us all' by Wolfgang Münchau)

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Extract 2 Ireland leaves eurozone behind as exports boom

Ireland's economy is growing at an explosive pace creating great demand for property. In its capital Dublin, house prices have risen 24% in the year to August 2014, though they are still far below their peak and 135 000 households are still in arrears from the last crisis. GDP surged 7.7% in the year to June 2014 as rising exports to the US, Britain and China transform the former crisis-state into the eurozone's star economy. Meanwhile, the rest of the eurozone remains in a slump. The turnaround comes less than a year after Ireland regained economic sovereignty as it is no longer subject to the ECB-IMF bail-out conditions. The collapse of the banking system in 2008 and the country's €67 billion rescue already seems like a long time ago.

Ireland has been held up as an excellent example of what can be achieved if a country adopts austerity measures and regains competitiveness through an "internal devaluation". For example, the Government cut public sector wages by 20%.

The Irish economy is unique, with an export industry of pharmaceuticals and computer software, led by US transnational companies exploiting Ireland's 12.5% corporation tax. The country has an export to GDP ratio of 108%, compared with 30% for Italy. Irish exports rose 12% between 2013 and 2014 at a time when world trade was stable. Ireland's biggest export earners are Google (€17 billion), Microsoft (€15 billion), Johnson and Johnson (€10.5 billion) and Pfizer (€5 billion).

However, unemployment is still 11.2% despite large scale emigration. Investment has stopped falling but only after reaching the lowest level in Irish history in 2013 as a share of GDP. Credit is contracting. Ireland's public sector debt has risen sharply to 124% of GDP in 2014 from 25% in 2007. The IMF expects the debt ratio to drop to 111% by 2018.

(Source: adapted from *The Daily Telegraph* 18 Sept 2014 By Ambrose Evans-Pritchard http://www.telegraph.co.uk/finance/economics/11107507/Ireland-leaves-eurozone-behind-as-exports-boom.html)

(a) With reference to Figure 1, contrast the rates of economic growth of Italy and Ireland since 2008.

(5)

(b) Analyse **two** possible reasons why Italy is experiencing a high rate of unemployment during a period when the general price level is falling.

(8)

(c) Examine **two** measures which might help to improve Italy's economic performance assuming it remains a member of the eurozone.

(10)

*(d) Evaluate the factors which might explain why the Irish economy is growing at 'an explosive pace' (Extract 2, line 1).

(12)

*(e) To what extent might a high public sector debt to GDP ratio be a cause for concern? Refer to the information provided in your answer.

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(a) With reference to Figure 1, contrast the rates of economic growth of Italy and Ireland since 2008.

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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Mark Scheme (Results)

Summer 2016

Pearson Edexcel GCE in Economics (6EC04) Paper 01 The Global Economy

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

QUALITY OF WRITTEN COMMUNICATION:
Quality of written communication (QWC) is assessed in **both parts of the essays and in parts (d) & (e) of the data response questions** and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question Number	Answer	Mark
1 (a)	KAA 14; *EV 6*. Issues include: • Significance of productivity for international competitiveness: affects unit labour costs; average costs of production; and so affects price at which goods are sold in the domestic and export markets. *But much depends on the sectoral composition of output and exports e.g. high productivity in services which are not traded would be relatively insignificant for international competitiveness* Other factors influencing international competitiveness: • Wage costs including the national minimum wage and the level of unionisation *But some argue that higher wages result in higher productivity* • Non-wage costs e.g. health and safety regulations; environmental regulations; employer taxes (National Insurance contributions); parental leave rights *But: these vary between countries and they maybe insignificant relative to wage costs* • External value of the country's currency *But: firms might adjust profit margins to offset changes in the exchange rate of a country's currency. Also: real exchange rate is more significant than nominal exchange rate.* • Size of the public sector relative to the size of the private sector: argument that the private sector is more productive than the public sector *But public sector might be crucial in increasing productivity e.g. education* • Relative inflation rates *But non price factors may be more important* • Non-price factors e.g. quality, reliability, availability *But: much will depend on price elasticity of demand* ***Candidates may take the view that productivity is/is not the most significant factor affecting international competitiveness with the reverse view used for evaluation.*** NB: Answers should demonstrate an understanding of productivity (either implicitly or explicitly) e.g. output per worker per hour worked and of competitiveness	

	(either implicitly or explicitly) e.g. a measure of a country's advantage or disadvantage in selling its products in international markets (price and non-price competitiveness). If no reference to productivity in answer then maximum 14/20 (Level 3) At least one other factor, apart from productivity, should be considered otherwise maximum 14/20 (Level 3) If no application e.g. example(s) of a country then maximum 16/20	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
1 (b)	KAA: 21; *Ev: 9* Effects include impact on: • The trade in goods and services balance: A fall in productivity might result in a loss in competitiveness of the country's goods and services leading to a deterioration in the trade balance *But: this may be offset by improvement in trade in other components of the balance of payments* • The rate of economic growth: If net exports decrease, aggregate demand may fall leading to a fall in real output *But: this may be offset by increases in other components of aggregate demand* • Unemployment may increase (as a result of the fall in real output) *But: much will depend on changes in productivity in other countries* • Rate of inflation: A fall in productivity could cause a leftward shift in the aggregate supply curve resulting in a rise in the price level *But: the fall in AD could offset upward inflationary pressures* • Real wages: A fall in productivity may result in falling profits for businesses and falling real wages for workers. In turn, it could lead to an increase in business insolvencies. *But:* depends on the magnitude of the fall in productivity • The exchange rate of a country's currency: Likely to fall *but will depend on the underlying cause of the fall in productivity* • FDI: May deter inward foreign direct investment which, in turn, would have adverse effects on growth and employment *But impact may vary because of differences in the fall in productivity in different sectors* • Income distribution:	

	Could cause income distribution to become more uneven especially if workers' wages are related to productivity while those of managers are not *But this could be offset by other factors e.g. increases in means-tested benefits* • Lower tax revenues if incomes are falling *Further evaluative points:* • *Impact depends on degree by which productivity has fallen* • *Fall in productivity may be a short run phenomenon only* • *Is the fall in absolute or in relative productivity?* NB: Answers which confuse productivity and production are unlikely to score more than a Level 2 mark. Maximum 24/30 if no reference to an example(s)	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
2 (a)	KAA: 14; *Ev: 6* Possible causes include: • Changes in wages of different groups including e.g. training and skills: wage differential between unskilled and skilled workers has been increasing; minimum wage increasing slower than average earnings • Education: earnings of those with certain qualifications have increased more than others • Pensions: ending of final salaries pension schemes • Disproportionate increase in earnings of top 1% as a result of e.g. incomes of the asset-rich have increased relative to the asset-poor; exploitation of tax loopholes • Macroeconomic policies e.g. privatisation contributing to a concentration of ownership of assets • Power of trade unions – decline in union density • Globalisation: demand for, and wages of, unskilled workers have decreased relative to those of highly skilled workers in developed economies • Immigration e.g. of unskilled workers putting downward pressure on wages for those on low incomes • Monopoly power of firms (especially TNCs) • Monopsony power of firms e.g. supermarkets over suppliers • Technological change • Increasing levels of discrimination • Tax rates e.g. increase in expenditure taxes such as VAT and/or decrease in taxes on incomes and wealth • Reduction in out-of-work benefits • Reduction of in-work benefits NB Candidates could consider this question in a developing country context and may, therefore, consider other factors such as: • Corruption • Industrialisation • Level of GDP per capita *Evaluative points:* • *Consideration of what is actually being measured e.g. gross incomes or personal disposable income* • *Data might be inaccurate* • *This takes no account of changes in distribution of wealth* • *Unemployment rate may be more significant than*	

	level of skills and education or than state benefits • *Globalisation has helped to reduce inequality through greater economic integration across national borders* • *Prioritisation of the most significant factor(s) (with justification)* • *The significance of a cause will be different in different countries e.g. depending on policies to redistribute income* Reference should be made to at least one country; otherwise 16/20 maximum	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
2 (b)	KAA: 21; *Ev: 9* Policies/ways to reduce **income inequality** might include: • Increase in progressiveness of tax system e.g. by introducing more tax bands; increasing tax free allowance *But: Progressive tax increases may cause increase in number of tax exiles; increase in tax evasion and avoidance; fall in tax revenues (Laffer curve analysis); This does not address the underlying cause of income inequality* • Reduction in taxes on expenditure or other regressive taxes • Increase in taxes on unearned incomes e.g. rental and dividend income • Increasing means-tested benefits (not universal benefits) *But: Administrative costs associated with means-testing may be very high. Also inflation might mean that benefits might not increase in real terms* • Increasing the National Minimum Wage/ introduction of a Living Wage *But: Increase in NMW/introduction of a living wage might result in higher unemployment and a rise in inequality.* *Also, wages and unearned incomes of those in highest income brackets might increase at a faster rate* • Restrictions on immigration • Improvements in education and training for those without qualifications *But: much depends on quality and relevance of these improvements* • Measures to reduce unemployment e.g. reflationary fiscal policy *But: wages may still be below benefits* • Reduction in incentives to have large families e.g. reduction in child benefits *But could result in fall in working population in the long run* Other policies/factors include:	

	• Measures which increase the power of trade unions • Improvements in health care Policies/ways to reduce **wealth inequality** might include: • increase in inheritance tax *But: Wealth inequality may not fall if asset prices are increasing rapidly* • A new mansion or wealth tax • Increase in stamp duty on house or share prices – which will reduce demand for these assets and so reduce their prices Must refer to a specific country, otherwise maximum of 24/30 Also, if only either wealth distribution or income distribution is consider then maximum of 21/30	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
3 (a)	KAA: 14; *Ev: 6* Reasons could include: • To protect employment e.g. in sunset industries *But: distortion of comparative advantage might result in lower output and lower exports* • To correct a balance of payments deficit on current account *But: retaliation might result in unemployment in other industries* • To raise tax revenue to help to reduce a budget deficit *But: a fall in economic activity could reduce tax revenues overall* • A part of inward-looking growth and development strategy of import substitution so that domestic industries may be developed/to protect infant industries e.g. Nigerian car industry *But: danger that domestic industries will become dependent on protection* • To prevent dumping which may be regarded as the only justifiable reason for protectionism *But: could result in retaliation and WTO might impose sanctions* • Environmental protection: to reduce pollution from cars - link to external costs; use of tax revenue from tariff to fund clean up • To protect strategically important industries e.g. defence/agriculture • In retaliation to protectionist measures imposed by other countries N.B. Candidates might use a tariff diagram as part of their analysis to illustrate one or more of the points above and may refer to increase in prices, fall in consumer surplus and welfare loss Reference should be made to at least one country; otherwise 16/20 maximum	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited irrelevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
3 (b)	KAA: 21; *Ev:9* Factors include: • Changes in comparative advantage: A detailed analysis of the significance of this theory could count as two points e.g. if numerical example or a diagram is included *But law of comparative advantage is based on unrealistic assumptions e.g. constant costs of production; perfect mobility of resources* • Opening up of Eastern Europe, China *But increased transport costs and higher wages might slow this process* • Changes in competitiveness e.g. rise in emerging economies associated with low labour costs; less regulation *But: re-shoring recently* • Growth of trading blocs *But depends on goods in which the trading bloc specialises i.e. countries might still need to import commodities from outside the bloc* • Abundance of factors of production in different countries • Changes in pattern of foreign direct investment which increased manufacturing in developing economies *But: as wages rise e.g. in China there may be some repatriation of manufacturing to developed countries* • Changes in the exchange rate/'currency wars' of recent years *But: these changes may be short term only* • Changes in relative inflation rates linking to changes in relative real exchange rates • Changing tastes: products may not be available domestically • Changes in in real GDP (link to income elasticity of demand) • Changes in infrastructure e.g. improved transport links – may alter relative costs If no reference to **changes** in trade patterns then maximum of 21/30	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
4 (a)	Answers might include (2 + 1 or 1 + 2): • Surveillance and data collection i.e. the monitoring of economic and financial developments, and the provision of policy advice, aimed especially at crisis-prevention e.g. to reduce the fiscal deficit • Stabilisation e.g. to stabilise the exchange rate • Financial assistance e.g. lending to countries with balance of payments difficulties, to provide temporary financing and to support policies aimed at correcting the underlying problems • To support economic growth • Loans to low-income countries aimed especially at poverty reduction. • Technical assistance and training in its areas of expertise • The development of standards and codes of good practice in its areas of responsibility, and to the strengthening of financial sectors. • Economic forecasting **Application (2 marks)** : Specific reference to data e.g. • Financial assistance because of its persistent current account deficit e.g. 12.3% of GDP in 2014 (1) • Financial assistance to defend its exchange rate (reference to Figure 4 or to Extract 1 e.g. 40% fall in 2014) (1) • Help to reduce its fiscal deficit e.g. 11.8% in 2013; 10.1% in 2014 (2) 3 marks for knowledge 2 for application/i.e. 2 data references	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for data references

Question Number	Answer	Mark
4 (b)	**Knowledge and analysis: (6 marks)** Possible measures include: (For each point: 1 for identification, 1 for data reference and up to 2 for explanation) • Subsidies to domestic farmers to increase production of locally grown foodstuffs. This would reduce demand for imports and so lead to an improvement in the current account • Incentives e.g. tax breaks to process cocoa beans into raw materials for cocoa production. This would increase the value of Ghana's exports and so reduce the current account deficit • Measures to reduce inflationary pressures e.g. by reducing the fiscal deficit which would also release resources for the private sector so helping to increase exports. • Allow tariffs extract refers to 'new taxes to increase revenue' • Removal of taxes on exports **Measures must be related to the impact on the current account (explicitly or implicitly) for second analysis mark.** **Application 2 marks:** Specific data references include: Current account deficit in 2014: 12.3% (1) 'investment grants' (1); 'the removal of export taxes' (1) 'subsidies to process more beans within the country'(1)	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two points
Level 2	3-4	2 marks for identification; 2 for application
Level 3	5-8	2 marks for identification; 2 for application, and 4 for analysis of the 2 points identified.

Question Number	Answer	Mark
4 (c)	**Knowledge and analysis (4 marks)**: Factors include (2 + 2 or 1 + 3 marks) of which 1 mark for identification of 1 factor: Possible causes include: • Large current account deficit – link to fall in price of cocoa • Loss of confidence associated with high budget deficit; slow pace of economic reform • High rate of inflation • Ghana's economy growing at a much faster rate than other SSA economies • Lower rate of economic growth compared with end of 2011 • USA economy performing better than Ghana's • Change in relative interest rates e.g. in USA increasing relative to Ghana's • Problems in financing the financial account **Application: (2 marks)** Two specific data references from the information provided e.g. • Fall in rate of economic growth from 15% in 2011 to 7.5% in 2013 (Figure 1) (1 + 1) • Increasing current account deficit: 12.3% in 2013 (Figure 2) (1) • 40% fall in the value of the cedi (Extract 1 or similar from Figure 4) (1) *Evaluation (up to 4 marks: 2 + 2; 3 +1):* • *Current account deficit might be insignificant if it was financed easily by inflows into the capital and financial account* • *Growth rate still higher than average for SSA* • *Other factors might have been more significant e.g. lower commodity prices; fall in FDI* • *Prioritisation of factors identified with justification*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of one factor; 2 for application
Level 2	4-6	1 mark for identification of one factor; 2 for application 3 for analysis.
Level 3	7-10	1 mark for identification of one factor; 2 for application; 3 for analysis; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
4 (d)	**Knowledge and analysis (5 marks)**: Possible effects include: (up to 5 marks; maximum 2 for identification only) and *5 marks for evaluation*: • Improvement in the current account of the balance of payments *But: will only be true if the Marshall-Lerner condition is met.* *Also reference to the J curve effect* • Reduction in unemployment, associated with an increase in competitiveness of its goods and services *But: inflationary pressures may limit the increase in competitiveness (or may be only a short term benefit)* • Increase in the rate of economic growth (export-led) *But: other factors might reduce aggregate demand e.g. decreased public expenditure and higher taxes to reduce the fiscal deficit* • Loss of confidence in the economy resulting in a fall in foreign direct investment and domestic investment • *But: increased competitiveness might stimulate investment. Also FDI may increase because less $ needed to buy the same amount of cedi* • Impact on Ghana's rate of inflation – may be imported inflation *but falling oil, gas prices might offset this* • Fall in Ghana's terms of trade **Application (2 marks):** answer must be in the context of Ghana; generic answers should be awarded a maximum of 5/7 for KAA *Evaluation (5 Marks) - points in italics above: 2 + 3; or 2 + 2 + 1.*	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 issues;
Level 2	3-7	2 marks for identification of 2 issues; 2 for application as indicated above; 3 for analysis of at least 2 issues
Level 3	8-12	2 marks for identification of 2 issues; 2 for application as indicated above; 3 for analysis of at least 2 issues; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question Number	Answer	Mark
4 (e)	**For knowledge, application and analysis**: **9 marks** for up to 3 points (up to 5 marks for any one point) ***Evaluation: 6 marks:*** *(3 + 3; 4 + 2; or 2 + 2 + 2 marks)* Measures include: • Increase in taxes – direct and/or indirect (could count as 2 points for 2 different taxes) *But: these measures could reduce AD and cause a slower rate of economic growth and lower tax revenues; Laffer curve analysis* • Cuts in public expenditure on capital projects *But: if capital expenditure is cut, then this could reduce future growth and tax revenues. Also would cause a fall in AD and a reduction in GDP via the multiplier effect* • Cuts in public sector wages ('a 75% increase in public sector salaries over two years') *But: could cause industrial unrest* • Measures to raise revenues and improve the supply-side of the economy e.g. privatisation *But: such measures have a one-off effect only* • Measures to increase economic growth e.g. by promoting foreign direct investment; other supply side policies such as improvements in education *But: might increase public expenditure and worse the fiscal deficit at least in the short run* **Measures must be related to the impact on the fiscal deficit (explicitly or implicitly) for more than 2 KAA marks per point.** *N.B. Specific data references relating to Ghana must be included. Otherwise, maximum 7/9 marks.*	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 benefits; 2 for application
Level 2	5-9	2 marks for identification of 2 benefits; 2 for application; 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 benefits; 2 for application; 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question Number	Answer	Mark
5 (a)	Answers might include: (2 + 1 or 1 + 2) • Ireland's recession deeper than Italy's 2008-10 • But Ireland's performance since 2010 more impressive with strong growth in 2014 • Whereas Italy's growth has been largely negative since end of 2011 • Took Ireland longer to recover from recession NB If there is no comparison then 1/3 for K **Application**: **2 marks:** 2 data references mentioning both countries e.g. • 2009: Italy's GDP -5.3% approx whereas Ireland's was -6.3% (1 +1) • Italy in recession in 2014 with a growth rate of -0.4% whereas Ireland's was about 4% (1 + 1) 3 marks for knowledge 2 for application/i.e. 2 data references	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for 2 data references

Question Number	Answer	Mark
5 (b)	**Knowledge and analysis: (6 marks)** Possible reasons include: (For each point: 1 for identification, 1 for data reference and up to 2 for explanation) • Very low aggregate demand e.g. because whole of eurozone experiencing sluggish growth after the financial crisis so fall in exports • Fall in consumption because of uncertainty/low confidence; high debts; credit crunch; • Fall in investment because of uncertainty/low confidence; credit crunch; fall in consumption • Fall in government expenditure because of austerity measures • Italy tied to the euro so cannot engineer a fall in the value of the currency • Falling price level may induce consumers and firms to postpone consumption and investment • High tax rates **Application: 2 marks** Specific data references include: Unemployment about 12.5% in mid-2014 (1); Growth rate -0.4% (1);	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two points
Level 2	3-4	2 marks for identification; 2 for application
Level 3	5-8	2 marks for identification; 2 for application, and 4 for analysis of the 2 points identified.

Question Number	Answer	Mark
5 (c)	**Knowledge and analysis (4 marks)**: Factors include (2 + 2 or 1 + 3 marks) of which 1 mark for identification of 1 factor: • Measures to improve labour market flexibility e.g. removal of some employment protection legislation *But danger of exploitation of workers; increased inequality* • New education and training schemes *But: need to be relevant to needs of employers; costs would further increase budget deficit* • Increases in retirement age *But: may have adverse effect on younger workers who would remain unemployed* • Measures to increase contestability in product markets *But: might result in government failure* • Cut in interest rates by the ECB • Quantitative easing by the ECB *But: could be ineffective if banks are risk averse or if companies and individuals are unwilling to borrow* • Tax cuts *But unrealistic if Italy is to meet its fiscal rules set by eurozone* • Improvements in quality and efficiency of the public sector • Privatisation • Deregulation NB maximum 3/4 for knowledge and analysis if no link to a macroeconomic variable **Application (2 marks):** Answer must be in the context Italy; generic answers should be awarded a maximum of 4/6 for KAA *Evaluative comments (up to 4 marks: 2 + 2; 3 +1) as indicated in italics above*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 factor; 2 for application
Level 2	4-6	1 mark for identification of 1 factor; 2 for application; 3 for analysis of 2 factors.
Level 3	7-10	1 mark for identification of 1 factor; 2 for application; 3 for analysis of 2 factors; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
5 (d)	**Knowledge and analysis (5 marks)**: Possible factors include: (up to 5 marks; maximum 2 for identification only) and *5 marks for evaluation*: • Previous FDI – many TNCs based in Ireland to take advantage of low corporation tax *But: some benefits of this do not flow to the Irish economy e.g. interest, profits and dividends repatriated* • Economy heavily dependent on booming exports to USA and UK whose economies are growing strongly *But: this may be short term only – no guarantee that these economies will continue to grow at the current rate* • 'Internal devaluation': measures taken by the Irish government to increase competitiveness e.g. reduction in public sector wages *But: this has an adverse impact on aggregate demand* • Booming housing market, especially in Dublin, leading to increased consumer spending associated with the wealth effect *But: housing boom may be short term only; housing boom has been uneven – not all parts of Ireland have benefited. Also, unemployment still relatively high so benefits of economic growth are unevenly spread* • Increased willingness of banks to lend to businesses and to consumers • Low Eurozone interest rates and QE • Fall in value of the euro **Application: 2 marks.** Examples include: 'GDP surged 7.7% in the year to June 2014' (1) 'Ireland's 12.5% corporation tax' (1) 'Irish exports rose 12% between 2013 and 2014' (1) 'export to GDP ratio of 108%' (1) *Evaluation (5 Marks) - points in italics above: 2 + 3; or 2 + 2 + 1.*	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 reasons
Level 2	3-7	2 marks for identification of 2 reasons; 2 for application; 3 for analysis of 2 reasons
Level 3	8-12	2 marks for identification of 2 reasons; 2 for application; 3 for analysis of 2 reasons; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2+ 2 + 1)

Question Number	Answer	Mark
5 (e)	**For knowledge, application and analysis**: **9 marks** for up to 3 points (up to 5 marks for any one point) ***Evaluation: 6 marks:*** *(3 + 3; 4 + 2; or 2 + 2 + 2 marks)* Case for it being a cause for concern: • In Italy, debt to GDP ratio may become 'unsustainable' i.e. it may become increasingly difficult for Italy to borrow money *But: possibility that, as a member of the eurozone, Italy would be bailed out by other members e.g. Germany* • Further downgrading of Italy's credit rating: the cost of borrowing might increase • Crowding out – higher interest rates may crowd out private sector investment • In Italy, it is partly the result of a fall in nominal GDP reflecting lower living standards and rising poverty • Fall in investment if e.g. the high public sector debt leads to a downgrading of the country's credit rating and loss of confidence • In Italy, debt ratio is increasing and deflation would result in increase in real burden of debt *But: ECB taking measures to increase the money supply (a form of quantitative easing)which might cause the rate of inflation to increase* • No mechanisms by which Italy can manage its debt burden e.g. no central bank *But: Italy could undertake significant structural reforms which would help to increase its competitiveness; ECB may take action to increase rate of inflation to reduce the real debt burden* • May be in breach of EU fiscal rules Reasons why a high debt to GDP ratio may not be a cause for concern: • In Japan, debt to GDP ratio is not a problem because much of it is financed internally and it is not	

	increasing as rapidly as in Italy. Also, the Government has adopted QE to increase AD and the rate of inflation *But in the longer term, it may become more of an issue as the debt burden increases* • Countries have had higher debt to GDP ratios in the past without experiencing serious problems *But the interest burden reduces revenue available for expenditure on other goods and services provided by the state* • If the higher debt is being used to finance public sector investment in the supply-side of the economy, then future economic growth would reduce the debt burden *But higher public sector employment and wages may increase the debt to GDP ratio to increase in the short run* • If GDP is rising at a faster rate than public sector debt then the ratio of debt to GDP will fall *N.B. Specific data references relating to the context must be included e.g. to Italy, Japan and Ireland. Otherwise, maximum 7/9 marks.* ***Candidates may take the view that it is/is not a cause for concern with the reverse view used for evaluation**.*	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 points; 2 for application
Level 2	5-9	2 marks for identification of 2 points; 2 for application, 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 points; 2 for application 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (a) Questions: Performance Criteria for Mark base 20	
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which have limited relevance*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis*
Level 3	11-14 11-12 13-14	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation* Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are ***not*** well developed/reasoned Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to

		conclusions which are presented in a relevant and coherent way *Typically, answers will consider 3 factors with 1 evaluative point*
Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 3 factors with 2 evaluative points*

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (b) Questions: Performance Criteria for Mark base 30	
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which have limited relevance*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis*
Level 3	16-21	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation*
	16-18	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are ***not*** well developed/reasoned
	19-21	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are well developed and reasoned
Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to

		relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 4 factors with 2 evaluative points*
Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 4 factors with 3 evaluative points*

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Centre Number	Candidate Number

Economics

Advanced
Unit 4: The Global Economy

Friday 19 June 2015 – Morning
Time: 2 hours

Paper Reference
6EC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

***1** Some developing economies such as Uganda, Nigeria and Indonesia are experiencing rapid increases in their populations whereas Germany, Italy and Japan are experiencing falling populations.

(a) Assess the economic impact of rapid population increases on developing economies.

(20)

(b) Evaluate policies which a government in a developed economy might pursue to increase the size and productivity of its working population.

(30)

(Total for Question 1 = 50 marks)

***2** (a) The national debt of countries in the European Union (EU) increased on average from 62.2% to 85.2% of GDP between 2008 and 2012.

To what extent might the rise in the national debt of an EU country be a cause for concern?

(20)

(b) Between 2008 and 2013, the average VAT (sales tax) rate in the European Union increased by 2 percentage points. Many EU countries also made significant cuts in welfare payments.

Evaluate the economic impact of increases in indirect taxes and cuts in welfare payments as measures to improve public finances.

(30)

(Total for Question 2 = 50 marks)

***3** The Trans-Pacific Partnership (TPP), a giant new trading bloc of 12 countries, including the USA, Canada, Australia, Japan, Peru, Malaysia and Vietnam is likely to be established in 2015.

(a) Examine the potential benefits of membership of such a trading bloc.

(20)

(b) In the light of your answer to part (a), evaluate the economic effects of a decision by the UK government to exit the European Union.

(30)

(Total for Question 3 = 50 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 1** ☐ **Question 2** ☐ **Question 3** ☐


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P 4 4 8 9 5 R A 0 8 4 8


P 4 4 8 9 5 R A 0 1 4 4 8

TOTAL FOR SECTION A = 50 MARKS

SECTION B

Answer ONE question from this section.

You should spend 60 minutes on this section.

If you answer Question 4 put a cross in the box ☒ .

4 India's Economy

Figure 1 GDP growth 2003–2012

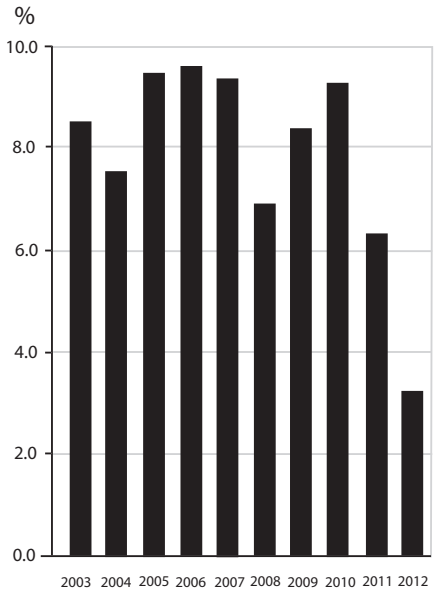
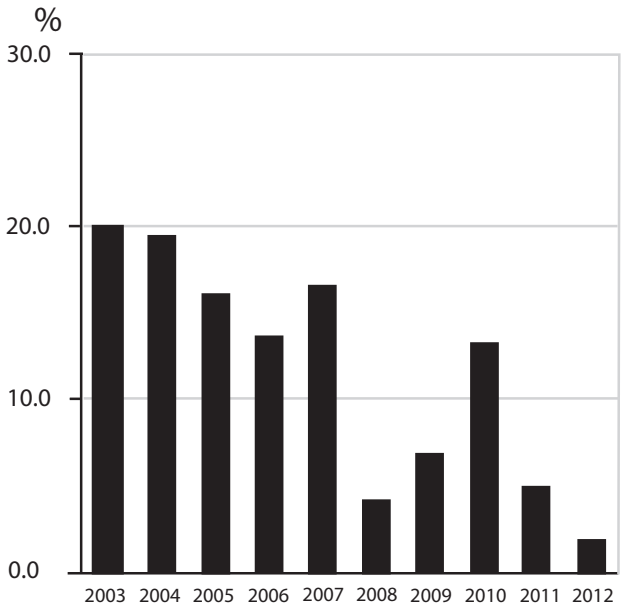
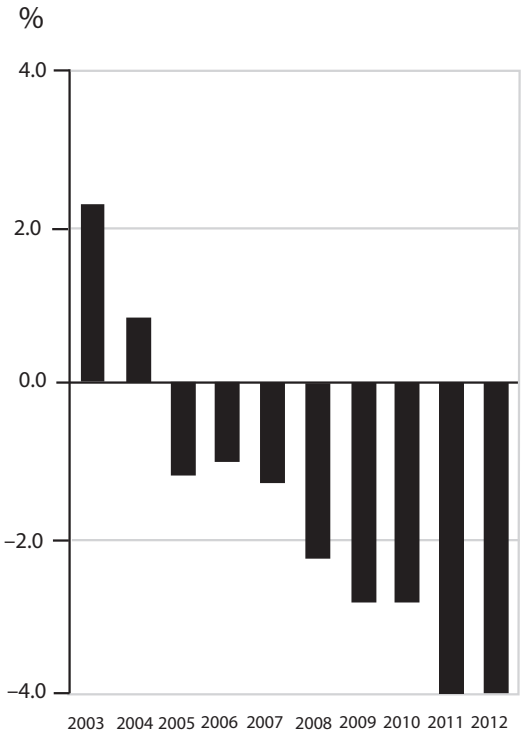


Figure 2 Net investment as a proportion of GDP, 2003–2012



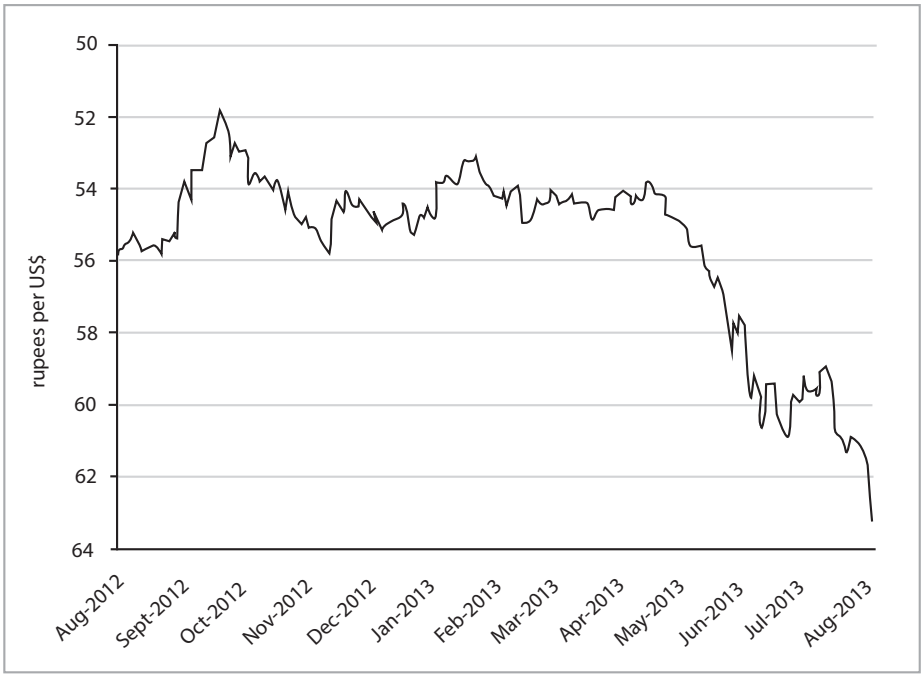
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Figure 3 Current account of the balance of payments (% of GDP) 2003–2012



Source: (Figures 1–3 www.focus-economics.com/en/economy/reports/economic.../India)

Figure 4 Indian rupee against the US dollar, August 2012 to August 2013



Extract 1 Why India's economy is still in trouble

The currencies of several developing economies fell rapidly between May and August 2013 following the announcement that the USA's Federal Reserve Bank is to run down its programme of quantitative easing. Among them was India's rupee, which fell more than 20% to a record low, causing observers to declare a crisis. Although the rupee regained a little value after August 2013, this did nothing to fix the underlying problems plaguing India's economy.

India's rapid growth since the early 1990s has obscured the fact that India has very low literacy rates and poor nutritional standards. While the rupee's rapid depreciation is perhaps the most visible sign of the country's problems, there are other alarming indicators: India's GDP only grew 3.2% in 2012 compared with 7.8% in China. Some scholars, such as the Harvard economist Amartya Sen, have urged India's government to invest more in programmes to improve health care and alleviate poverty. Equally important is the need for the country to provide work for the hundreds of millions of poor, unskilled people who were left behind during the growth surge of 1990–2009. The most promising way to accomplish that is to re-engineer the 1991 economic development programme to emphasise more sustainable growth.

However, the government's reforms of the early 1990s did not go nearly far enough. First of all, its economy is still suffering from restrictive regulations. For example, labour laws make layoffs difficult, discouraging many foreign manufacturers from opening factories. The government has also failed to complete reforms allowing foreign investors to take profits out of the country. Further, crucial measures such as competitive tendering have not been implemented.

The country has also neglected to use policies to stimulate domestic manufacturing, instead focusing on the service sector. The service economy grew by almost 10% in the 1990s, but India's already undersized manufacturing sector grew by only 5.7%. A country like India, with a huge and unskilled population, needs a manufacturing base to employ its people and pay for its imports. But India manufactures too little and imports too much. The contribution of India's manufacturing to GDP is only around 15% whereas manufacturing contributes about 40% to GDP in China.

India also failed to deal with problems such as corruption and a poor energy grid. Frequently, scarce electricity is diverted to the offices and workshops of bribe-payers or the politically connected. Misplaced government intervention has, for instance, provided subsidies to fertiliser producers instead of improving farmers' ability to buy the fertiliser.

(Source: http://www.newyorker.com/online/blogs/currency/2013/09/why-indias-economy-is-still-in-trouble.html)

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Extract 2 India's economic slowdown forces middle classes to put dreams on hold

A decade of rapid growth propelled tens of millions of Indians from poverty into a middle class that now numbers over 200 million, an extraordinary social transformation in a nation of 1.2 billion. Economic reforms and a boom in India's IT and business-services industries fuelled expansive growth of the economy – 8% on average per year from 2003 to 2012.

But these days, the optimism that once inspired slogans such as "India Rising" is fading. The economy is expected to grow by only 4%–5% in 2013, not enough to create the salaried jobs needed for the country's growing workforce nor to enable millions of people to escape poverty in the next few years.

Following the fall in the value of the rupee, prices for staple products such as fuel and onions have increased rapidly. Further, a sharp increase in inflation, high interest rates and infrastructure problems have caused the economy to slow down. Many of the country's new consumers say that the rising costs of fuel and food, combined with the weak rupee, have forced them to put off major purchases such as homes and cars and to cancel holidays.

(Source: Annie Gowen in Ghaziabad for the Washington Post Guardian Weekly, Tuesday 12 November 2013 http://www.theguardian.com/world/2013/nov/12/india-delhi-economic-slowdown-middle-class)

(a) With reference to the information provided, outline **two** reasons which might explain the change in net investment as a proportion of India's GDP between 2010 and 2012.

(5)

(b) With reference to Extract 1, analyse **two** reasons why India's economy is 'still in trouble'.

(8)

(c) Examine the case for the Indian government using policies to 'stimulate domestic manufacturing' (Extract 1, line 23) as a means of promoting economic development.

(10)

*(d) Assess the possible effects of the fall in the external value of the rupee on the Indian economy.

(12)

*(e) With reference to the information provided, evaluate supply-side policies that the Indian government should pursue to improve the performance of its economy.

(15)

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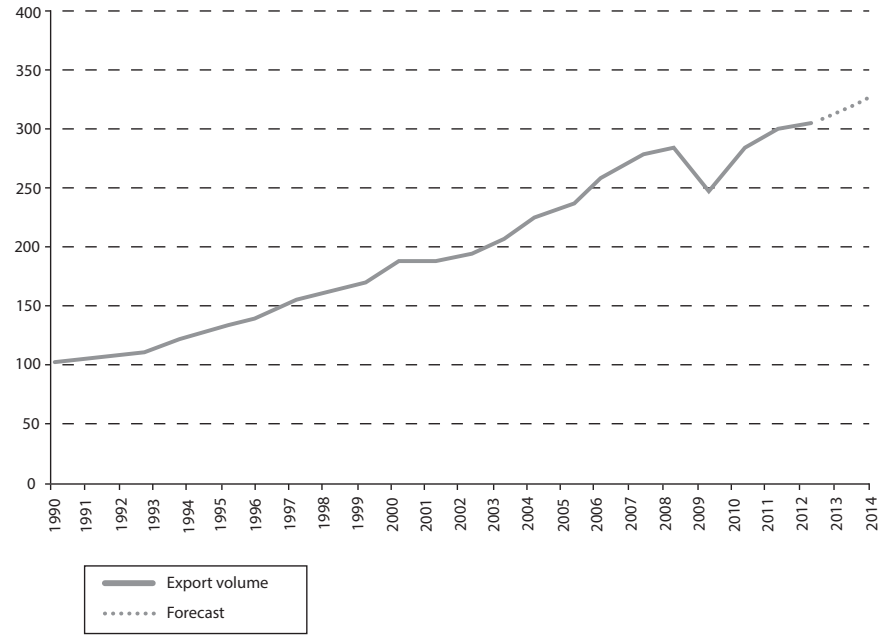
(Total for Question 4 = 50 marks)

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If you answer Question 5 put a cross in the box ☒ .

5 Globalisation

Figure 1 Volume of world exports of goods, 1990-2014. (Indices, 1990 =100)



(Source: WTO: 2013 PRESS RELEASES; PRESS/688; 10 April 2013 'Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle' http://www.wto.org/english/news_e/pres13_e/pr688_e.htm)

Extract 1 Poverty decreases sharply in developing world

The United Nations Development Report published in 2013 says higher economic growth in at least 40 developing countries has helped lift hundreds of millions of people from absolute poverty, and pushed billions more into a new global middle class.

Helen Clark, a UN administrator, called such progress an "incredible success of emerging markets", praising governments for accompanying faster rates of economic growth with practical policies to help the poor. "These countries opened up to foreign direct investment and prioritised infrastructure but also invested in their people," she said. They targeted education and health, and put welfare programmes in place.

Underpinning the improvements in the Human Development Index (HDI) was rapid growth in countries such as China, India and Brazil, with China and India having doubled economic output per head in less than 20 years. But the report stressed that growth and improvements in HDI spread far beyond the four BRIC countries of Brazil, Russia, India and China, and included at least 40 countries that had accompanied greater economic dynamism with effective poverty-reduction policies.

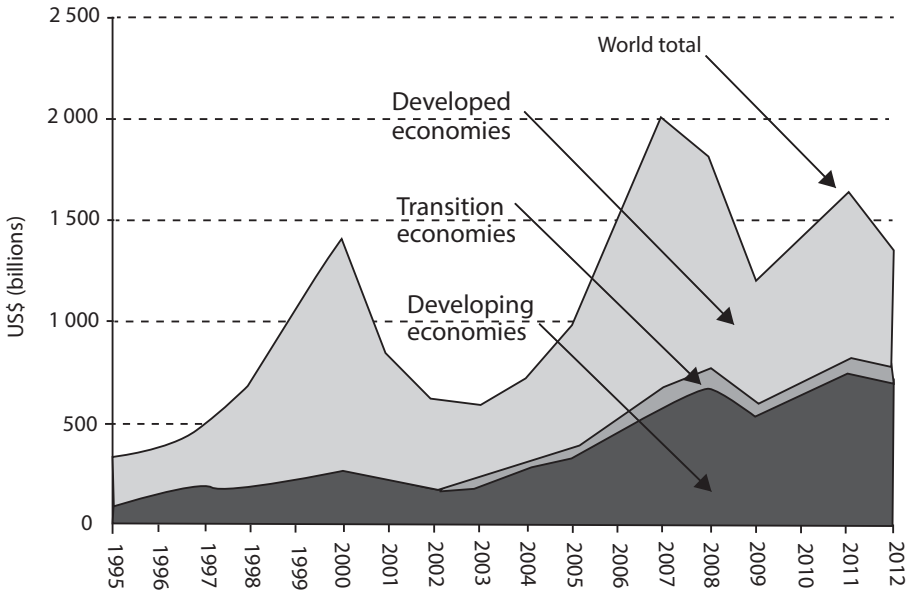
Partly as a result, the report found that worldwide absolute poverty has plunged from 43% in 1990 to just 22% in 2008, including more than 500 million people being lifted out of poverty in China alone.

Underpinning this poverty reduction was developing countries' increasing share of global trade, which grew from 25% to 47% between 1980 and 2010. The report found that trade between developing countries was the biggest factor in that expansion, increasing from less than 10% of total global trade to more than 30%. 20

By Adam Thomson in Mexico City, March 14, 2013

(Source: http://www.ft.com/cms/s/0/6d7a1c52-8cc5-11e2-8ee0-00144feabdc0.html#axzz2l0iwqz1p)

Figure 2 Foreign direct investment (FDI) inflows, global and by group of economies, 1995–2012 (billions of US dollars)



(Source: UNCTAD Global Investment Report 2013 http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 3 Percentage share in world FDI flows 2010–2012

'Transition economies' refers to former centrally planned economies

	FDI inflows %				FDI outflows %		
	2010	2011	2012		2010	2011	2012
Developed economies	49.4	49.7	41.5		68.4	70.5	65.4
Developing economies	45.2	44.5	52.0		27.5	25.2	30.6
Transition economies	5.3	5.8	6.5		4.1	4.3	4.0

(Source: UNCTAD Global Investment Report 2013 http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

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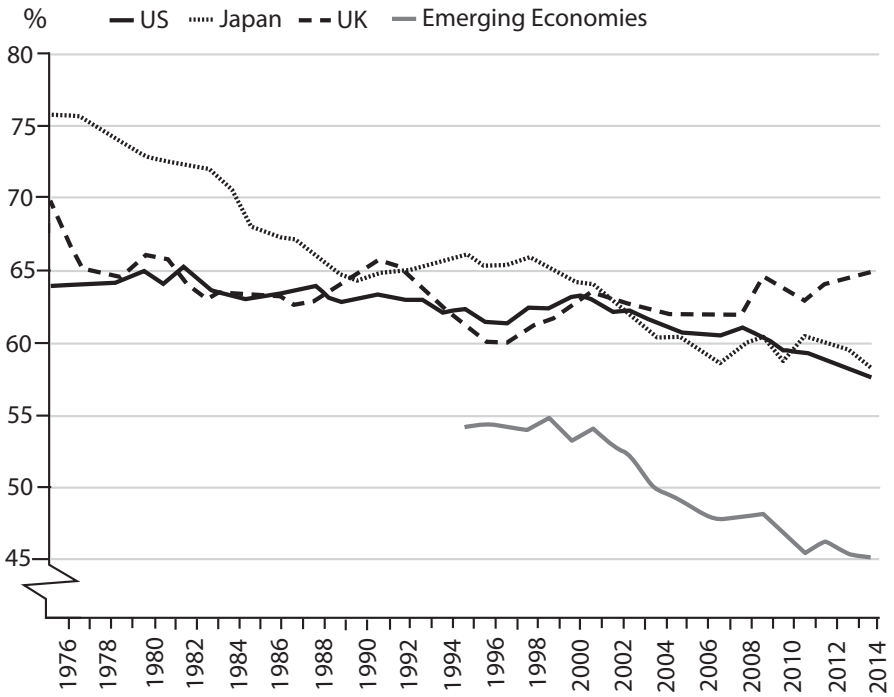
Extract 2 Trends in FDI flows

FDI flows to developing economies recorded their second highest level in 2012. They accounted for a record 52% of global FDI inflows, exceeding flows to developed economies for the first time ever. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows: nine of the twenty largest recipients were developing countries.

FDI inflows to developed economies declined by 32% to $561 billion – a level last seen in 2004. The European Union alone accounted for almost two thirds of the global FDI decline.

(Source: UNCTAD Global Investment Report 2013
http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

Figure 4 Share of wages as a proportion of GDP 1976–2013



(Source: http://blogs.r.ftdata.co.uk/gavyndavies/files/2013/06/ftblog478.png)

Extract 3 Changes in the distribution of national income

Between 1999 and 2011 average labour productivity in developed economies increased more than twice as much as average wages. For example, in the USA, real hourly labour productivity in the non-farm business sector has increased by about 85% since 1980, while real hourly earnings increased by only around 35%.

The global trend has resulted in a change in the distribution of national income. In many countries, the share of wages as a proportion of GDP is falling and the share of profits is rising. Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill causing the labour share to decrease.

The drop in the labour share is due to technological progress, trade globalisation, entry of labour-abundant economies into the global economy, decreasing trade union density (the proportion of paid workers who are trade union members) and an increased pressure on firms to increase profits enhanced by the rise of private equity funds, hedge funds and institutional investors.

(Source: Global wage report 2012–13 www.ilo.org/wage12http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_194843.pdf)

(a) With reference to Figure 1, outline **two** reasons for the trend in world exports over the period shown.

(5)

(b) With reference to Figure 3, analyse **two** possible reasons why, in 2012, FDI flows to developing countries were 'exceeding flows to developed economies for the first time ever'. (Extract 2, lines 2–3)

(8)

(c) With reference to the data and your own knowledge, examine ways by which a country might try to attract investment from a transnational company (TNC).

(10)

*(d) Assess the factors, apart from FDI, which have contributed to a reduction in absolute poverty in developing countries. Refer to Extract 1 in your answer.

(12)

*(e) 'Globalisation is solely responsible for the trend in the share of wages as a proportion of GDP.'

To what extent do you agree with this statement? Use the information provided and your own knowledge in your answer.

(15)

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(a) With reference to Figure 1, outline **two** reasons for the trend in world exports over the period shown.

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(12)

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To what extent do you agree with this statement? Use the information provided and your own knowledge in your answer.

(15)

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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Mark Scheme (Results)

Summer 2015

GCE Economics (6EC04/01)

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Summer 2015
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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

QUALITY OF WRITTEN COMMUNICATION:
Quality of written communication (QWC) is assessed in **both parts of the essays and in parts (d) & (e) of the data response questions** and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question Number	Answer	Mark
1a	Candidates may view the increase in population as positive or negative Possible effects of population growth: • More people are available to produce goods and services, so output may rise faster than population, so increasing per capita incomes • A larger working population willing to work for low wages may attract FDI • Population growth may spur technical progress • Increasing AS; rightward shift in PPF • Young entrepreneurial workforce • Increasing population increases AD • Increase in tax revenues for the government • Population growth at a higher rate than GDP will cause • per capita incomes fall • A higher dependency ratio will limit the ability of households to save, worsening the problem of a savings gap • High population growth puts a large strain on education healthcare and infrastructure • More parents staying at home to raise children reduces the size of the labour force available to work • Increase in levels of government spending (via publically funded health/education, for example) • Adverse effects on the environment: pollution/congestion • Increased pressure on e.g. public transport/housing stock • Increase supply of labour leading to fall in wages/real incomes Evaluative points may include: • Difference between short run and long run impact of higher population • Improvements in technology may be more than sufficient to ensure higher living standards Much depends on cause of increase in population e.g. due to rising birth rate or falling death rate or migration due to war in neighbouring countries • Reference to 'demographic dividend' – working population rising relative to dependents • Reference to population density being more important than population size Application: Examples of developing countries to illustrate specific points should be provided. (Maximum14/20 without examples)	**(20)**

Question Number	Answer	Mark
1b	Policies to increase the quantity of population include: • Relaxation of rules relating to immigration *But: might encourage immigration of dependents rather than those of working age* • Incentives to foreigners to emigrate to the country *But: might result in unskilled migrants* • Increase age at which retirement benefits become payable or reduce retirement benefits • Reduce marginal tax rates • Tax and benefit incentives to have more children e.g. increase in child benefit for each successive child *But: this would involve a cost to the taxpayer. Also the money may not be well-spent if these benefits are not means-tested* • Reductions in unemployment benefits Policies to increase productivity include: • Increased expenditure on education *But: depends on the quality of the education provided* • Improvements in training e.g. apprenticeships *But: apprenticeships need to be in areas where there is a need for workers* • Incentives to encourage people to continue with education beyond school leaving age *But: these may incur a cost to the government with implications for taxes* • Tax breaks/subsidies to firms who provide on-the-job training • Tax breaks/subsidies to increase investment • Cuts in marginal income tax rates • Increase in National Minimum Wage • Reduction in trade union power • Increase in firms' ability to hire and fire workers Application: Examples of developed countries to illustrate specific points should be provided. (Maximum 24/30 without examples) **NB Answers must include at least one point relating to quantity and one to productivity, otherwise max 21/30**	**(30)**

Question Number	Answer	Mark
2a	Factors include: • Rising national debts imply a fiscal deficit – caused by recessions in many countries *But: less of a concern if the fiscal deficits are cyclical rather than structural* • Higher national debt potentially could be inflationary if due to discretionary fiscal policy *But: unlikely in this time frame because they were primarily caused by recession following the financial crisis* • A higher national debt implies increased interest payments – danger of financial crowding out *But: interest rates are currently very low so this may not be a serious issue* • Higher interest payments represent a cost to future generations: less money available for spending on social services *But: inflation might erode the real value of the debt.* • Rising national debts might cause a loss of confidence in the currency (euro, in the case of eurozone countries) causing a depreciation in its value • Possibility of the need to seek assistance from the IMF or the troika (EC, ECB & IMF) in the case of eurozone countries with associated conditions • Limits the scope for further fiscal loosening in the future if there was another recession/banking crisis *But: can other policy could take up the slack; it can in the UK (or can it with monetary policy?), but not in a euro economy.* • Reduction in credit rating, leading to a loss of confidence in the markets. • Has the debt been used to fund investment in infrastructure/health/education, so that benefits of these may be long term? • If growth in the medium term exceeds the amount of borrowing increase each year, then the level of debt as a % of GDP will fall. Application to context: e.g. to an EU country. (Maximum14/20 without contextual reference) **NB Candidates may take the view that it is/is not a cause for concern with the reverse view used for evaluation.**	**(20)**

Question Number	Answer:	Mark
2b	Impact of increases in indirect taxes: KAA: 21; *EV: 9* Effects include impact on: • The circular flow of income: taxes are a leakage *But: may be offset by an increase in an injection* • Income distribution: may be argued that VAT is regressive, especially in relation to energy, food *But: the overall effect of VAT in the may be progressive if focused on very expensive goods* • Impact on price level *Short run and long run impact on inflation* • Living standards: fall in real incomes *But: other things may not be equal e.g. wages may be rising faster than prices* • Incentives to work: e.g. a higher VAT rate would cause a fall in real incomes. This could increase incentives to work if people wish to maintain their standard of living. Allow analysis relating to a decrease in incentives to work *But: changes impact might be very limited* • Tax revenues: these would increase if demand for the goods and services affected are price inelastic *But: if the tax rise causes a recession, overall tax revenues will fall.* • Rise in indirect taxes will lead to a fall in C, which would reduce growth and tax revenues • Fall in the level of externalities/consumption of demerit goods which would improve health and the environment, so government would need to spend less money on them, improving public finances • Increase in smuggling/black market activity/tax avoidance reducing tax revenue and worsening finances Impact of cuts in welfare benefits: • Income distribution: if welfare benefits disproportionately benefit the poor, then cuts in these payments will make income distribution less even *But: depends on the size of the cuts and who they affect.* • Incentives to work: may increase e.g. because cuts in benefits would act as an incentive for the unemployed to seek work *But: depends on wages relative to benefits* • Impact on real output and price level: people on low incomes are likely to have a high MPC. Therefore, there will be a significant multiplier effect. *But: depends on the size of the cuts and on the size of the multiplier*	**(30)**

	• Might discourage immigration **NB Answers must include at least one point relating to VAT and one to welfare payments, otherwise max 21/30**	

Question Number	Answer:
3a	Reasons include: • Trade creation *But: imports may increase more than exports causing a deterioration in the current account of the balance of payments; trade diversion* • Analysis based on law of comparative advantage. Increase in allocative efficiency • Benefits to domestic firms: increased production so that they can benefit from economies of scale. Economy would benefit from increased employment. *But: domestic firms may be unable to compete with goods from member countries and go out of business causing a rise in unemployment.* • Benefits to consumers: lower prices; increased consumers' surplus; more choice *But: in the case of a customs union, there would be trade diversion from low cost producers outside the bloc to high cost producers inside the bloc* • Greater weight in trade negotiations *But: USA is strongest participant in TPP and may be able to dictate terms to suit themselves* • Access to huge and lucrative US market *But: domestic firms will face massive unfettered competition from the world's most powerful corporations* • Increase in competition, leading to a reduction in X-inefficiency • Increase in innovation, leading to rise in dynamic efficiency • Transfer of ideas • Increase in world GDP/rising incomes/falling unemployment Application to context: This is a very large trading bloc linking countries in North America to those in Asia so potential benefits may be very large. Or reference to examples of other trading blocs. (Maximum 14/20 without contextual reference)

Question Number	Answer:
3b	Effects could be on the UK and/or on the EU • Economic growth: If trade barriers are raised against UK goods then less specialisation and trade could a fall in the UK's growth rate. *But: UK would have incentive to diversify exports away from EU countries to growing economies in Asia, S America and Africa* • Foreign direct investment into UK may fall but rise in remaining EU countries *But impact on UK may small if there are other benefits of operating in the UK e.g. relatively low corporation tax rates* • Current account of UK's balance of payments: improvement for UK likely since it has a trade deficit with EU countries. Corresponding deterioration in trade balance of many EU countries *But: deterioration in the trade in goods balance if demand for UK imports is inelastic while demand for UK exports is elastic.* • Change in pattern of UK trade – away from EU towards emerging economies • Employment: May decline and unemployment may increase in UK especially if there is a fall in FDI into the UK and/or firms based in the UK decide to divert investment abroad *But: impact might be small especially if there is less direct competition from producers in the EU* • Public finances: UK's public finances may improve because the UK is a net contributor to the EU budget *But this may be offset by the impact on growth and employment* • Impact on specific sectors e.g. finance in which the UK has a comparative advantage; agriculture, fishing • Changes to patterns of migration • UK financial services comparative advantage • Less regulation outside the EU • Increases in labour market flexibility as do not have to conform to Social Charter and EU rules and regulations, improving competitiveness • No longer need to be part of EU Competition Policy with associated costs/benefits ***NB if there is no UK/EU context then award a maximum of 24/30***

Question Number	Answer:
4a	Reasons could include: • Weak prospects for economic growth and/or past decline in economic growth • An increase in interest rates • Fall in company profits • Electricity supply issues • A reduction in confidence • Rising inflation • Fall in FDI due to restrictions on capital flows • Corruption/poor governance • Only allow depreciation of the rupee if linked to reduction of confidence of investors or other relevant justification (2) Examples of application (max 2 marks): Reference to Figure 2: Fall in investment as a % of GDP from 12% (allow 12-14%) in 2010 to 2% (allow 2-3%) in 2012 (1+1) Reference to Figure 1: Fall in rate of economic growth from (9-9.5%) to (3–3.5%) (1+1)

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge
Level 2	4-5	Up to 3 marks for knowledge; 2 marks for data references

Question Number	Answer:
4b	• Poor health care and poverty • Unemployment high • Depreciating value of the rupee (linked to negative effects only) • Low literacy rates/low level of skills • Low investment • Corruption/poor governance • Electricity supply issues • Poor labour laws • Poor nutrition • Low levels of FDI • High capital controls For each reason: 1 mark for identification and up to 2 for analysis. Analysis marks by linking the *cause* to a *macroeconomic variable or development indicator*. Application: 2 marks for 2 references (1+1) from Extract 1, for example: • Fall in the value of the rupee (by 20% between May and August 2013) (1+1) • India's rate of economic growth (3.2%) slower than that of China (7.8%) (1+1)

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two points
Level 2	3-4	2 marks for identification; 2 for application (2 references to the data)
Level 3	5-8	2 marks for identification; 2 for application (2 references to the data); 4 for analysis of the 2 points identified.

Question Number	Answer:	Mark
4(c)	1 mark for identification of one reason; up to 3 for analysis Arguments include: • To provide employment for the population • To reduce dependence on imports/to reduce the trade in goods (or current account) deficit • Theoretical basis: Lewis model: workers transfer from low productivity agricultural sector to more productive industrial sector so leading to a higher rate of economic growth and development • Large, relatively low-skilled population • Increasing levels of competition, which would drive down prices/improves quality of goods domestically Analysis **must** link to development; otherwise no more than 1 analysis mark per point. Application 2 data references (1+1) e.g.: • Current account deficit was 4% of GDP in 2011 and 2012 (1) • Manufacturing grew by 5.7% (1) in the 1990s whereas services grew by 10% (1) • the contribution of India's manufacturing to the GDP is only 15% (1) but 40% in China (1) *Evaluation (up to 4 marks: 2 + 2; 3 +1)* • *Some economies have developed successfully on the basis on strong service sectors* • *A trade in services surplus might be sufficient to offset a trade in goods deficit and/or there might be a surplus on the financial account* • *Stimulating domestic manufacturing might increase growth but might not necessarily result in increased development* • *Manufacturing tends to be fairly mobile/footloose, simply seeks out lowest wage* • *Competition from other countries may put a cap on wages and therefore development*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of one argument; 2 for application
Level 2	4-6	1 mark for identification of one argument; 2 for application; 3 for analysis.
Level 3	7-10	1 mark for identification of one argument; 2 for application); 3 for analysis; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer:	Mark
4(d)	Effects include (up to 5 marks; maximum 2 for identification only) and *5 marks for evaluation*: • Improvement in the current account of the balance of payments because exports would become more competitive and imports less competitive *But: J curve effect; Marshall-Lerner condition must hold (2 evaluative points)* • Increase in net exports would cause an increase in economic growth and employment *But: depends on the value of the multiplier; danger of imported inflation so quickly eliminating the competitive advantage* • Imported inflation: higher cost of imported raw materials and finished goods *But: magnitude depends on the extent to which these higher costs are passed on to consumers* • Increase in debt burden for government and for banks with external debts *But: inflation would erode the real value of the debt* • Policy Implication: Increase in interest rates to reverse the depreciation/prevent further fall in the rupee *But: this would hinder economic growth* Application (1+1 marks): 2 references from information provided or from own knowledge e.g. actual fall in the value of the rupee from 52 (1) to 63 (1) to $1 or 20% (1); specific references from the information (1+1)	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 implications;
Level 2	3-7	2 marks for identification of 2 implications; 2 for application as indicated above; 3 for analysis of 2 or more implications
Level 3	8-12	2 marks for identification of 2 implications; 2 for application as indicated above; 3 for analysis of 2 or more implications; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question Number	Answer:	Mark
4 (e)	KAA: 9; *Ev: 6* Policies include: • Measures to liberalise labour markets making it easier to hire and fire workers *But: increased job insecurity might reduce productivity* • Measures to enable TNCs to take profits out of the country so encouraging FDI *But: this represents a leakage from the circular flow* • Measures to allow competitive tendering – to promote competition and cost reduction *But: no guarantee that competitive tendering will result in increased efficiency* • Infrastructure expenditure e.g. to ensure the stability of electricity supplies *But: this has implications for public finances* • Stronger legal measures to reduce/eliminate corruption *But: very difficult to achieve this without cultural changes* • Subsidies to farmers instead of to fertiliser producers *But: this might encourage inefficiency* • Measures to reduce corruption *But: may be difficult to achieve without a culture change which might take a considerable time* • Investment grants/tax breaks to encourage investment • Measures to improve healthcare • Measures to improve education and training *But: last 3 measures involve significant costs for the Government with implications for the budget* • Privatisation • Deregulation **NB Policies must be related to improving the performance of the economy e.g. economic growth; fall in the rate of inflation; improvements in the current account; falling unemployment** Application: 2 relevant data references either from data provided or from own knowledge. (Maximum 7/9 marks for KAA without Indian context)	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 policies; 2 for application (2 data references or relevant examples)
Level 2	5-9	2 marks for identification of 2 policies; 2 for application (2 data references or relevant examples); 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 policies; 2 for application (2 data references or relevant examples); 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question Number	Answer:
5a	Reasons for overall upward trend include: • Reduction in trade barriers – role of WTO • Decrease in transport and communication costs • Growth in TNCs • Opening up of China and E Europe • Increase in number and size of trading blocs • Increasing incomes/emerging consuming classes • Increase in trade **between** developing countries Application (2 marks): Reference to Figure 1: Increase in volume of exports from an ***index*** of 100 to 300' or 'a threefold rise' or '200%' (2) World exports rise/increase (1)

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for data references

Question Number	Answer:
5b	Reasons include: • To exploit raw materials in developing countries • TNC investment in developing countries to take advantage of low wages, few environmental regulations • Developing economies less affected by the financial crisis than developed economies - increasing incomes/emerging consuming classes in developing countries • Developed economies suffering from aftermath of financial crisis with low growth and weak confidence • More trade agreements between developing world (eg Asean) • Rising populations • Improvements in infrastructure enabling re-export of finished goods • Improvements in education and skills of the workforce Also credit reasons why FDI flows are falling to developed economies. For example: • Slow growth/falling real incomes • Rising unemployment For each reason: 1 mark for identification and up to 2 for analysis Application: 2 marks for 2 references (1+1): e.g. • FDI inflows to developing countries were 52% (1) of the total in 2012 • Whereas FDI inflows to developed economies were just 41.5% (1) in 2012

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two points
Level 2	3-4	2 marks for identification; 2 for application: 2 data references
Level 3	5-8	2 marks for identification; 2 for application: 2 data references; 4 for analysis of the 2 points identified.

Question Number	Answer:	Mark
5(c)	1 mark for identification of one reason; up to 3 for analysis Factors include: • Tax incentives e.g. lower rate of corporation tax • Investment allowances and tax credits • Trade liberalisation • Limited administrative and legal obstacles • Export processing zones • Government subsidies e.g. rent/capital • Property rights clearly defined • Rule of law • Improvements in education to improve human capital • Improvements in healthcare • Improvements in infrastructure especially transport • Reductions in capital controls • General policies which improve macroeconomic growth Application: reference to data or to specific examples from own knowledge (1+1) e.g. 'prioritised infrastructure'; 'targeted education'; named countries related to an identification point. *Evaluation (up to 4 marks: 2 + 2; 3 +1):* • *Political links may be more important than fiscal measures* • *TNCs may not be attracted by above factors if there is poor infrastructure and/or poorly educated workforce and/or civil war or internal unrest* • *Cost implications of some measures may make them unrealistic* • *Prioritisation of factors; consideration of relative effectiveness*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of one method; 2 for application
Level 2	4-6	1 mark for identification of one method; 2 for application 3 for analysis.
Level 3	7-10	1 mark for identification of one method; 2 for application); 3 for analysis; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer:	Mark
5(d)	Factors include (up to 5 marks; maximum 2 for identification only) and *5 marks for evaluation*: • Increased trade, especially between developing countries themselves resulting in export-led growth *But: developing countries may be exploited by monopsony power of TNCs in developed economies* • Investment in infrastructure *But: might have adverse consequences for public finances* • Investment in health *But: problem of insufficient numbers of trained doctors, nurses* • Investment in education *But: problem if households have to pay for schooling* • Improvements in financial infrastructure facilitating enterprise *But: people might lack assets as a form of collateral* • Welfare programmes *But: opportunity cost* Analysis **must** link to absolute poverty; otherwise no more than 1 analysis mark per point. *Other evaluative comments:* • *Although poverty has decreased, inequality has increased in many countries* • *Prioritisation of factors identified above with justification* Application (1+1 marks): 2 relevant references from extract 1 e.g. 'targeted education'/'investing in people'/'investing in infrastructure'/'investing in healthcare' (1); China reducing poverty by 500m people (1); or examples from own knowledge. Could include specific reference to the fall in poverty from extract 1.	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 factors;
Level 2	3-7	2 marks for identification of 2 factors; 2 for application as indicated above; 3 for analysis of 2 or more factors;
Level 3	8-12	2 marks for identification of 2 factors; 2 for application as indicated above; 3 for analysis of 2 or more factors; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question Number	Answer:	Mark
5 (e)	KAA: 9; *Ev: 6* Factors in support of the statement include: • Greater economic integration e.g. more migration increasing the supply of labour *But: with higher population and rising real incomes the demand for goods and services would be increasing so increasing the demand for labour* • Entry of labour-abundant economies into the global economy e.g. China • Growth in significance of TNCs who outsource production to lowest cost countries • Growth of hedge funds, private equity firms who placed renewed emphasis on profit maximisation *But: wages are not the only source of an individual's income - governments might increase taxes on company profits and use revenues for redistribution* • Reduced trade barriers so easier to base manufacturing in low-wage countries Factors other than globalisation: • Technological progress: manufacturing has become more capital intensive *But: this could result in higher productivity and a significant rise in real wages* • The increasing significance of supply-side policies, especially in the labour market e.g. rise of part-time work, zero-hour contracts • Decreasing in trade union density – resulting in a weakening of trade union influence on wages *But: the link between union density and real wages may be weak; other factors might be more significant* **Candidates may agree or disagree with the statement and the use reverse arguments for evaluation** Application: 2 relevant references either from data provided or examples from own knowledge. (Maximum 7/9 marks for KAA without data references)	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 factors; 2 for application (2 data references or relevant examples)
Level 2	5-9	2 marks for identification of 2 factors; 2 for application (2 data references or relevant examples); 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 factors; 2 for application (2 data references or relevant examples); 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (a) Questions: Performance Criteria for Mark base 20	
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which have limited relevance*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis*
Level 3	11-14	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation*
	11-12	Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are ***not*** well developed/reasoned
	13-14	Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 3 factors with 1 evaluative point*
Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 3 factors with 2 evaluative points*

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (b) Questions: Performance Criteria for Mark base 30	
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which have limited relevance*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis*
Level 3	16-21 16-18 19-21	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation* Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are ***not*** well developed/reasoned Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are well developed and reasoned
Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 4 factors with 2 evaluative points*
Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 4 factors with 3 evaluative points*

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Write your name here

Surname	Other names

Pearson Edexcel GCE

Centre Number	Candidate Number

Economics

Advanced
Unit 4: The Global Economy

Tuesday 10 June 2014 – Afternoon
Time: 2 hours

Paper Reference
6EC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

***1** (a) The budget deficits of many countries including France, Greece, Ireland and the UK fell between 2009 and 2013.

Assess the likely causes of such a decrease in the budget deficit of a country of your choice.

(20)

(b) In 2012, France announced its intention to increase its top rate of income tax from 46.7% to 75%.

Evaluate the likely economic effects of such an increase in the marginal rate of income tax.

(30)

(Total for Question 1 = 50 marks)

***2** (a) In the early 1970s, the USA, Germany and Japan accounted for over one-third of world trade but, by the 1990s, global trade had become more diversified. By 2012, China was the world's second largest trading country after the USA.

Assess the factors that may cause changes in a country's pattern of trade with other countries.

(20)

(b) In 2012, EU agricultural subsidies amounted to €76 billion ($94 billion) and US agricultural subsidies were €138 billion ($172 billion).

Evaluate the economic effects of such agricultural subsidies on the global economy.

(30)

(Total for Question 2 = 50 marks)

***3** (a) Assess the view that economic development is dependent on economic growth. Refer to examples of developing countries in your answer.

(20)

(b) Discuss the view that savings gaps in developing countries are the most significant constraint on economic growth.

(30)

(Total for Question 3 = 50 marks)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 1** ☒ **Question 2** ☒ **Question 3** ☒

TOTAL FOR SECTION A = 50 MARKS

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SECTION B

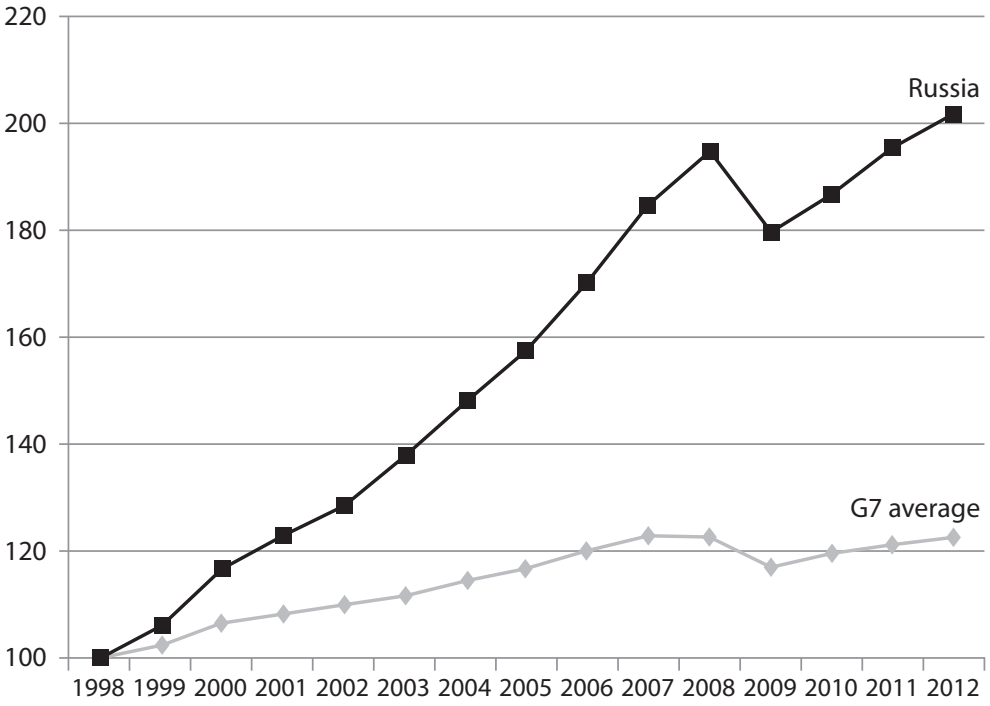
Answer ONE question from this section.

You should spend 60 minutes on this section.

If you answer Question 4 put a cross in the box ☒ .

4 The Russian economy and membership of the World Trade Organisation (WTO)

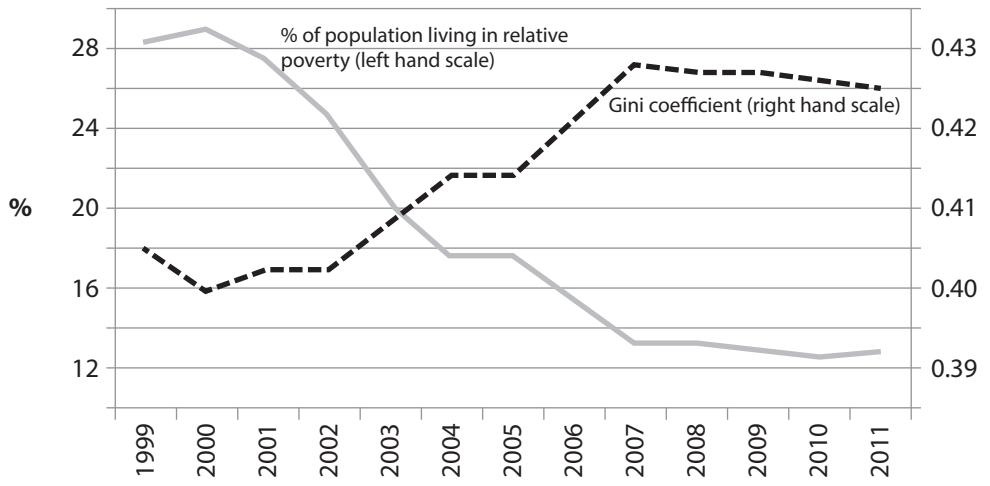
Figure 1 Index of real GDP in the G7* and Russia 1998-2012 (1998 = 100)



* the USA, UK, France, Germany, Italy, Canada, and Japan

(Source: © Forbes.com LLC)

Figure 2 Relative poverty* and inequality in Russia

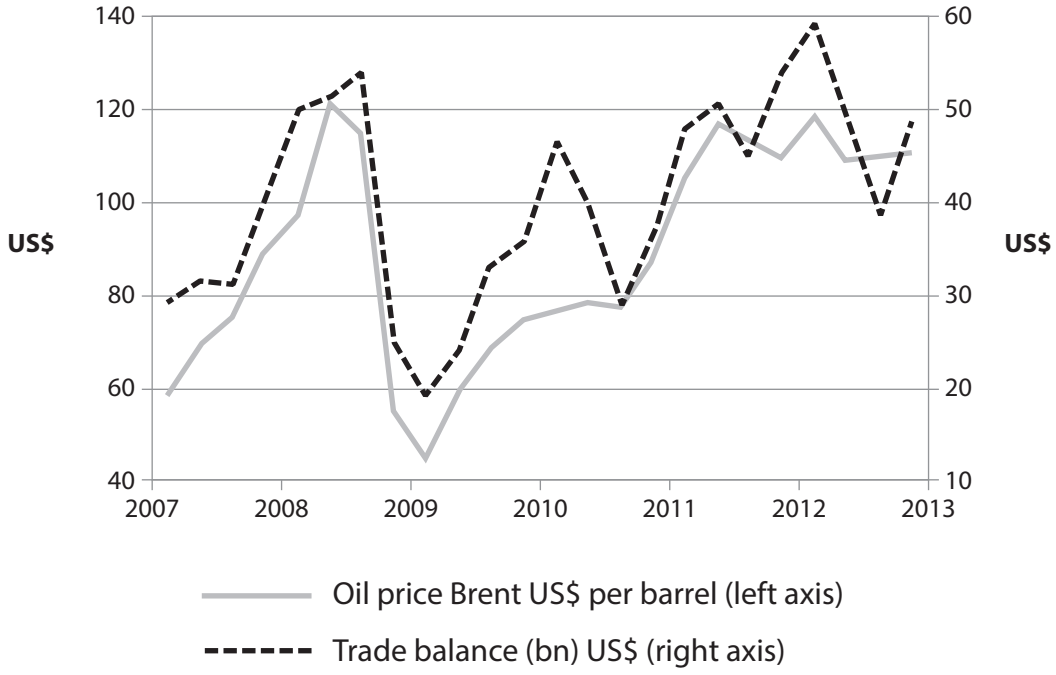


*a level of income set at 60% or less of median household income

(Source: © The World Bank Group, 2012)

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Figure 3 Oil price and Russia's trade balance



(Source: © The World Bank Group, 2013)

Extract 1 Russia needs a plan for modernising its economy

Between 2000 and 2008 personal incomes in Russia doubled. The unemployment rate fell from around 12% to 7% in the same period. Russia acquired $500 billion of foreign currency reserves and the decline in population was halted.

Russia's economy is still not performing badly. Thanks to the high oil price, economic growth is likely to stay at 4% or a little less for the next few years – respectable by West European standards. The problem is that Russia's rulers do not appear to have a plan for modernising the economy, which is alarmingly unbalanced. Oil and gas provide half the government's revenue and almost 70% of export earnings. Output of oil and gas is static and few new fields are coming on stream. Even if the oil price stays high, Russia is heading for current account and budget deficits in the years ahead.

(Source: © Centre for European Reform)

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Extract 2 Russia's entry to World Trade Organisation (WTO) ends 19 years of negotiations

Russia's entry into the WTO in August 2012 had been a long time in coming. Negotiations began soon after the breakup of the Soviet Union and the collapse of communism and have been rumbling on for the past 19 years.

Russia's membership of the WTO means that the last major economic power has joined the global trading system. The WTO will force Russia to lower its average tariffs from 9.5% to 6% by 2015. WTO membership will also make the government curb subsidies to some industries, including farming. Russia is hoping entry will provide the sort of boost enjoyed by China after it was admitted to the WTO in 2001. However, that looks unlikely for three reasons. The economic climate is much less favourable than it was in 2001, when the global economy was about to embark on its strongest period of growth since the late 1960s and early 1970s. China's economy was much better equipped to reap the benefits of WTO membership, with a strong manufacturing base contrasting with Russia's over-reliance on oil and gas. Finally, China gained from being the first former communist giant to join the WTO.

There are still, of course, potential benefits to Russia from WTO membership. The government is hoping for a surge in foreign direct investment that will help make Russian industry more efficient. Russia's exporters will gain approximately $1.5 billion to $2 billion (£950 million to £1.3 billion) a year from the dismantling of foreign trade barriers. Lower tariffs on imported goods should lead to cheaper goods in the shops, boosting the spending power of consumers.

But WTO membership comes at a price. Dismantling protective barriers means that large sections of Russian industry may struggle to compete. Already, there are doubts about the ability of the automobile sector to survive in a more open trading system.

(Source: © Guardian News and Media Ltd, 2012)

(a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown.

(5)

(b) With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram.

(8)

(c) With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period.

(10)

*(d) Assess the implications for the Russian economy of its dependence on oil and gas.

(12)

*(e) Evaluate the likely benefits for Russia of its decision to join the WTO.

(15)

(a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown.

(5)

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(10)

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(12)

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*(e) Evaluate the likely benefits for Russia of its decision to join the WTO.

(15)

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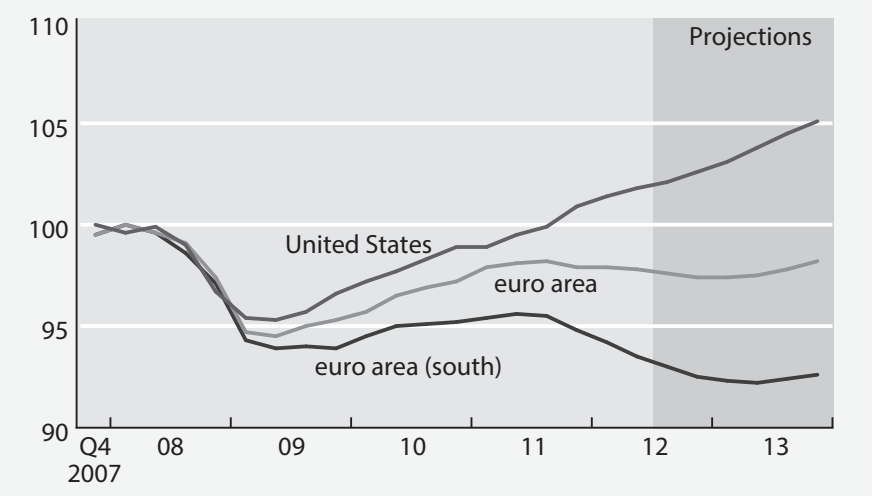
(Total for Question 4 = 50 marks)

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If you answer Question 5 put a cross in the box ☒ .

5 Competitiveness

Figure 1 Changes in Real GDP in the United States, the euro area and in the euro area (south)* (2007 = 100)



*euro area (south) comprises Greece, Italy, Portugal and Spain

(Source: © IMF, 2012)

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Figure 2 International competitiveness based on the Global Competitiveness Index 2012–2013

Rankings of selected countries

Country	Ranking (out of 144)
Singapore	2
United States	7
Hong Kong SAR	9
Taiwan	13
South Korea	19
Malaysia	25
Ireland	27
China	29
Spain	36
Italy	42
Portugal	49
Greece	96

(Source: World Economic Forum, 2013)

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Figure 3 Unit labour costs in selected euro area countries (2000 = 100)

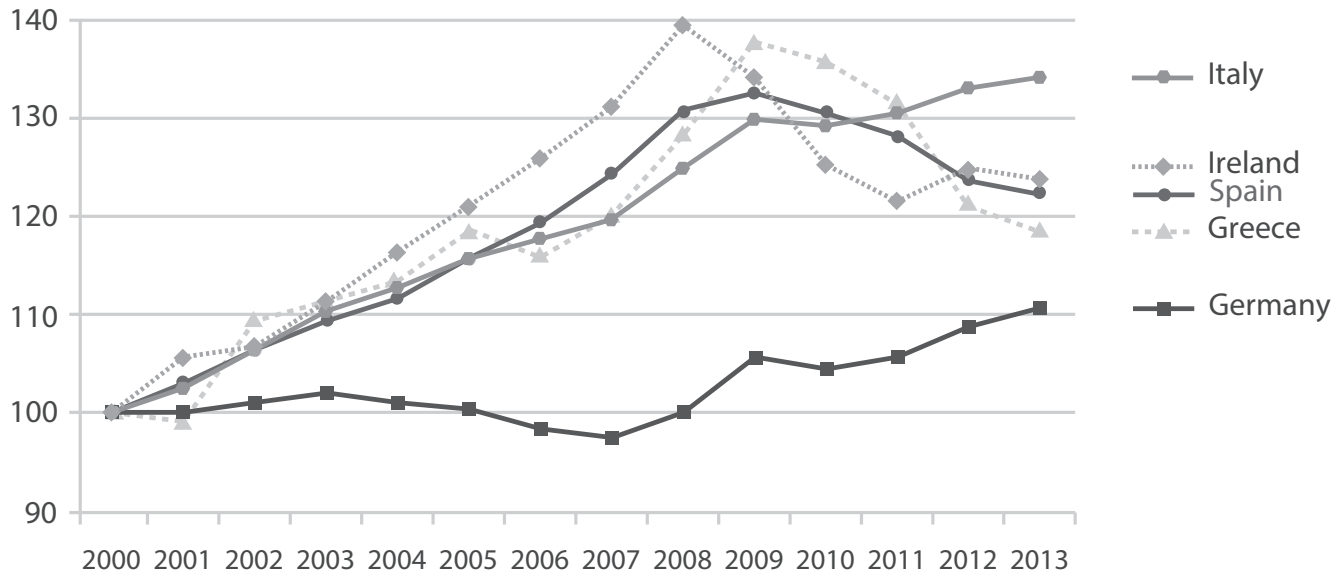
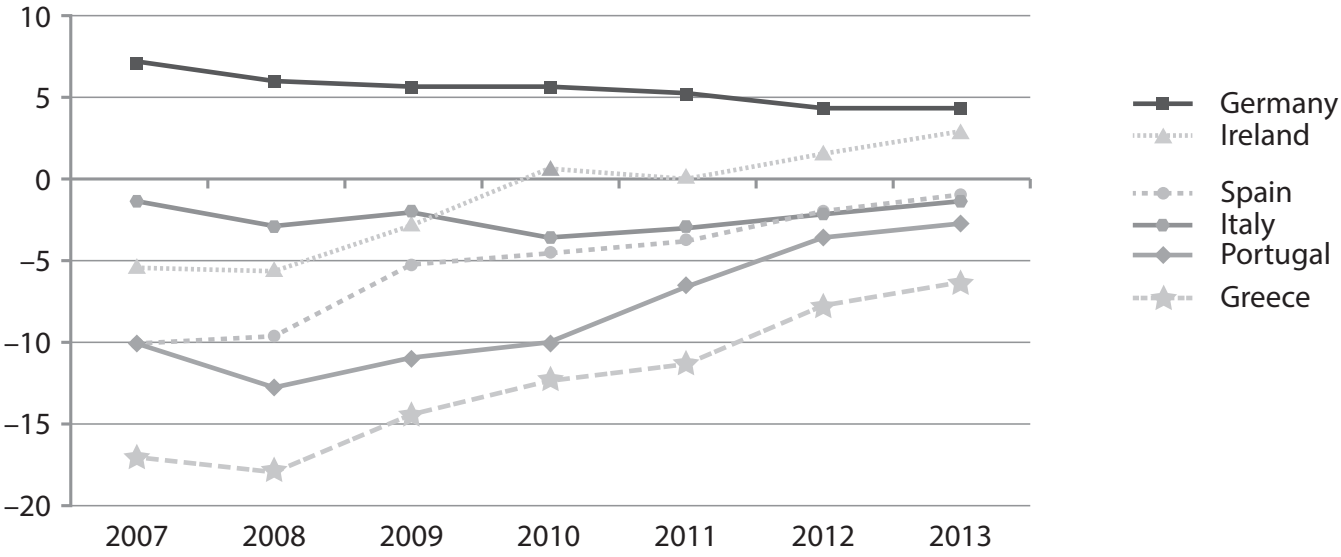


Figure 4 Current account balances in selected euro area countries (percentage of GDP)



(Source: © Bruegel 2013)

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Extract 1 Stimulating growth in the euro area

The ongoing euro area crisis underlines the importance of reforms but also the increasing complexity of achieving them. Without an independent exchange rate, structural reforms must take the lead when it comes to increasing competitiveness.

Lack of growth in some parts of the euro area arose from both imbalances in trade and capital flows that built up after the adoption of the common currency. Further, this lack of growth resulted from weaknesses caused by poor competitiveness, particularly in the labour market, reinforced by higher price increases and higher labour costs in euro area (south) countries since the beginning of the monetary union. Problems in the labour market were caused by restrictions in hiring and firing workers, high minimum wages and centralised wage bargaining. Meanwhile, product markets were hampered by a lack of contestability.

Research shows that product market reforms, such as reducing barriers to competition and improving the business environment, can lift growth substantially. Labour market reforms, in addition to raising growth and employment in the long term, can restore countries' lost competitiveness by giving employers more flexibility in hiring and firing workers and keeping wage growth under control. However, such reforms are unlikely to deliver a sufficient boost to short-run activity during the current economic slump when aggregate demand is weak.

(Source: Adapted from IMF Finance and Development, December 2012)

(a) With reference to Figure 2 and your own knowledge, explain what is meant by *international competitiveness*.

(5)

(b) With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012–13 compared with 2007. Illustrate your answer with an appropriate diagram.

(8)

(c) With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs.

(10)

*(d) Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4.

(12)

*(e) To what extent might labour market reforms be successful in stimulating economic growth and reducing unemployment in euro area (south) economies?

(15)

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(a) With reference to Figure 2 and your own knowledge, explain what is meant by *international competitiveness*.

(5)

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(10)

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*(d) Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4.

(12)

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*(e) To what extent might labour market reforms be successful in stimulating economic growth and reducing unemployment in euro area (south) economies?

(15)

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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Mark Scheme (Results)

Summer 2014

Pearson Edexcel GCE
in Economics (6EC04) Paper 01

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Mark scheme: 6EC04 JUNE 2014

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

QUALITY OF WRITTEN COMMUNICATION:
Quality of written communication (QWC) is assessed in **both parts of the essays and in parts (d) & (e) of the data response questions** and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question No.	Answer	Mark
1 (a)	KAA 14; *EV 6*. Causes include: • Cuts in public expenditure: in capital expenditure; in current expenditure and in welfare benefits (could count as up to 2 points) • Tax increases: in direct taxes such as income tax and national insurance contributions; and in indirect taxes such as VAT; also, corporation tax increases possible e.g. Greek corporation tax was increased from 20 to 26%; French corporate tax surcharge for large companies (could count as up to 2 points) • Some countries experiencing economic growth so causing a rise in tax revenues and fall in government expenditure e.g. on unemployment benefits Evaluation could include: • Most countries have put the emphasis on public expenditure cuts • Consideration of multiplier effects of cuts in public expenditure compared with tax increases • Implications of increases in indirect taxes for real incomes and inflation • Some austerity measures might only have a short run effect on the budget deficit • Important to consider budget deficit as a proportion of GDP rather than its absolute size. N.B. If there is confusion between concepts of national debt and budget deficit, then the answer can achieve no more than 7 marks (top level 1) *If there is no example of a specific country, award a maximum of 14/20*	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Answer	Mark
1 (b)	KAA: 21; *Ev: 9* Effects include: • Impact on incentives to work: could act as disincentive to take higher paid jobs *But: workers might work harder to maintain standard of living* • Tax revenues/public finances: these might be expected to increase: reference to Laffer curve analysis *But: depends at what rate of tax that tax revenues are maximised; reference to Laffer curve analysis; also depends on overall impact on AD & economic growth* • Could cause an increase in tax evasion (illegal) and tax avoidance (legal) *But: depends on powers of tax authorities to collect taxes* • Might cause an increase in number of tax exiles *But income tax is not the only factor which influences a person's decision on where to live* • Increased income equality: the tax system is more progressive so if the taxes collected are used to redistribute incomes to the poor then inequality will be reduced *But: depends on how tax revenues are used and whether other fiscal changes offset the impact of the higher marginal tax rate.* • Impact on AD and growth, unemployment and inflation *But: if savings are reduced to pay for the higher rate of tax, then the effects will be minimal* • Impact on FDI flows *Further evaluative points:* • *Impact depends on where the higher rate threshold is set.* • *Number of higher rate tax payers* • *MPC of higher rate tax payers*	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Answer	Mark
2 (a)	KAA: 14; *Ev: 6* Factors include: • Reduction in tariffs and other protectionist measures; role of WTO in this process *But: evidence of some increase in protectionism (including competitive depreciations) after the financial crisis* • Opening up of Eastern Europe, China *But increased transport costs and higher wages might slow this process* • Changes in competitiveness e.g. US & UK loss in low cost manufacturing contrasted with rise in emerging economies Could count as two points *But: re-shoring recently* • Growth of trading blocs • Abundance of factors of production in different countries • Increase in foreign direct investment which increased manufacturing in developing economies • Changes in comparative advantage: A detailed analysis of the significance of this theory could count as two points e.g. if numerical example or a diagram is included *But law of comparative advantage is based on unrealistic assumptions e.g. constant costs of production; perfect mobility of resources* • Changes in the exchange rate/'currency wars' of recent years; China: currency controls to prevent appreciation of their currency • Relative inflation differentials linking to real exchange rates *If no examples of countries, award a maximum of 14/20*	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Answer	Mark
2(b)	KAA: 21; *Ev: 9* Analysis might include: • Impact on domestic prices and/or domestic production and imports (could count as two points). Concepts might include consumers' and producers' surpluses. N.B. This analysis should be related to the impact on the global economy • Impact on trade patterns: trade diversion away from low cost producers to high cost producers • Impact of resource allocation in global economy/ • Impact of dumping of surpluses • Impact on economies of developed and developing countries e.g. on ~ balance of payments; ~economic growth; ~employment; ~inflation; ~equality and ~the environment (Each of the above may be analysed as a separate issue) • Allow analysis/evaluation based on subsidies as a form of protectionism *Evaluation could include:* • *Impact on EU and US economies depends on PED and PES* • *Also impact on these economies and on global economy depends and on the amount of subsidy given* • *Such subsidies might encourage developing countries to diversify into secondary and tertiary industries* • *Disadvantages associated with subsidies might be offset by benefits e.g. reduced dependence on imports; increased food security; less subject to food price fluctuations* *Must refer to global economy/more than one country, otherwise maximum of 24/30*	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Assess the view that economic development is dependent on economic growth. Refer to examples of developing countries in your answer.	Mark
3(a)	KAA: 14; *Ev: 6* Analysis should include: • Meaning of economic growth contrasted with economic development e.g. growth relates to changes in real GDP (positive economic concept) whereas development relates to improvements in economic welfare (a normative concept) which may be measured by HDI • Growth important to improve development because more tax revenue available for: ~health so helping to increase life expectancy ~education so helping to increase school enrolment rates and literacy rates ~improvements to infrastructure so helping to improve access to clean water, electricity ~ improvements to housing • Growth associated with increased employment leading to rising incomes which may be spent on education, health and housing • Use of any appropriate model of development e.g. Lewis model On the other hand: Economic growth might not lead to development if: • Increased inequality results • There is no reduction in absolute poverty • There is no improvement in civil liberties, human rights and democracy • The extra income is spent on defence • There is no improvement in female empowerment • Growth is unsustainable causing development gains to be reversed if the resource(s) are exhausted • Growth is unbalanced leading to a dual economy with development for some but not for most Candidates might take either approach with the counter arguments being used as evaluation. *If no examples of developing countries, award a maximum of 14/20*	**(20)**

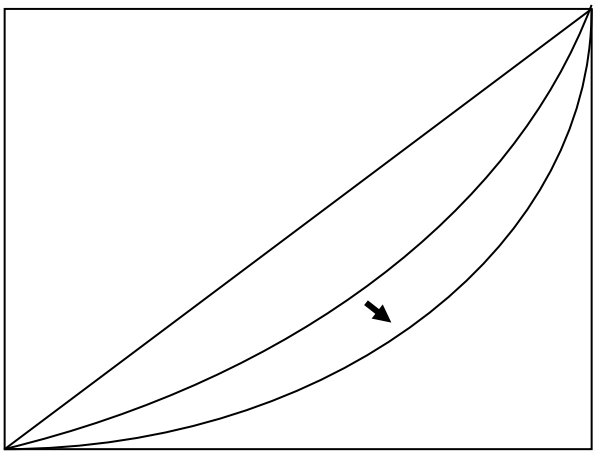
Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited irrelevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Discuss the view that savings gaps in developing countries are the most significant constraint on economic growth.	Mark
3(b)	KAA: 21; *Ev: 9* • Analysis of savings gaps and significance e.g. low savings; low investment; limited capital accumulation; low growth. • Savings gaps caused by factors such as low incomes; debt repayments; capital flight; absence of FDI Other constraints include: • Foreign exchange gaps • Primary product dependency • Rapid population growth • Poor infrastructure • Weak human capital • Poor governance; civil wars; corruption *Evaluation might include:* • *Savings gaps may be filled by:* *~ aid* *~ FDI* *~ Debt cancellation* *~ Microfinance* *~ Borrowing from the IMF/World Bank* • *Primary product dependency may not be a constraint on development in light of rises in commodity prices since 2000* • *Rapid population growth could contribute to economic growth in the long run by increasing aggregate supply* • *Poor infrastructure is less of a constraint for resource-rich African LDCs who are benefiting from Chinese investment in return for commodities* • *Economic growth usually constrained by a combination of factors; difficult to conclude that one is more important than another* *Discussion of significance of other constraints identified above* Candidates might agree or disagree with the view that savings gaps are the most significant constraint on development but should use the counter points as evaluation. *If no reference to examples of specific developing countries, the maximum of 24/30*	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	With reference to Figure 1, comment on the performance of the Russian economy in the period shown.	Mark
4(a)	Answers might include (1 + 1 + 1): • Rapid economic growth • Performance relative to G7 • Implies that living standards have increased • Possible explanations for the rise in real GDP • Recognition of fall in real GDP in 2008-09 • Lower unemployment • Accurate definition of real GDP Application (2 marks) : Specific reference to data in Figure 1 e.g. GDP has doubled in Russia between 1998 and 2012 (1) Quantitative reference to recession in Russia in 2008-09 (1) GDP of G7 countries increased by just over 20%(1) 3 marks for knowledge 2 for application/i.e. 2 data references	(5)

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for data references

Question No.	With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate you answer with a Lorenz curve diagram.	Mark
4(b)	Lorenz curve diagram : 4 marks awarded as follows: Axis correctly labelled: 1 mark for income and population/households; 1 mark for cumulative %; Line of income equality (45º line): 1 mark Lorenz curve: 1 mark. Cumulative % of income  Cumulative % of Population 2 marks for any one of the following: • Measurement of Gini coefficient: Area A (between 45°line and Lorenz curve) ÷ Area A +B (whole area under 45°line) • Increase in inequality reflected in increase in Gini coefficient • Correctly indicating new Lorenz curve for 2011 further away from the original Lorenz curve Application (2 marks): Two specific data references from Figure 2: e.g. increase in Gini coefficient from 0.4 to 0.425 between 2000 and 2011	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for diagram axes and 45° line
Level 2	3-4	2 marks for diagram as indicated above; 2 for application – data reference from Figure 2
Level 3	5-8	4 marks for diagram; 2 for application – data reference from Figure 2, and 2 for explanation

Question No.	With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period.	Mark
4(c)	Reasons for lower relative poverty yet wider inequality include: (4 marks – 2 + 2 or 3 + 1) of which 1 mark for identification of 1 factor. • Increase in real GDP – higher tax revenues used to redistribute incomes • Increase in real incomes • Fall in unemployment • Increase in means-tested benefits • Increase in the proportion of income earned by the poorest citizens at the same time as a larger increase in the incomes of the highest earning groups of the population • Application: one reference to data on relative poverty from just over 28% to just over 12% or 'personal incomes doubled between 2000 and 2008'. (2 marks) *Evaluation (up to 4 marks: 2 + 2; 3 +1):* • *Rapid economic growth could cause relative poverty to increase if welfare payments are not increased* • *The decline in relative poverty is large in comparison with the increase in income inequality which is relatively small* • *Data might be inaccurate and based on unreliable information* • *Since 2007 inequality has started to decline*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of one factor; 2 for application
Level 2	4-6	1 mark for identification of one factor; 2 for application 3 for analysis of 2 issues.
Level 3	7-10	1 mark for identification of one factor; 2 for application); 3 for analysis of 2 issues; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question No.	Assess the implications for the Russian economy of its dependence on oil and gas.	Mark
4(d)	Issues include (up to 5 marks; maximum 2 for identification only) and *5 marks for evaluation*: • Tax revenues heavily dependent on oil *But: with rapid growth in GDP over recent years there is an opportunity to widen the tax base* • Export earnings heavily dependent on oil *But: Russia may gain revenues in the future from FDI* • Fluctuations in oil price has significant implications for economic growth *But: oil price might remain high because supplies are declining and demand continues to increase* • Oil reserves are being depleted *But: irrespective of oil price, the economy is unbalanced* • International agreements aimed at reducing carbon emissions *But difficult to agree and enforce* • Development of alternative sources of energy *But growing demand for energy might result in minimal impact on demand for oil and gas* • Appreciation of the country's exchange rate resulting in decline in the manufacturing sector (Dutch disease) *But other factors may have a more significant impact on the exchange rate* • Increased inequality *Credit responses which make reference to recent events (e.g. Russian annexation of Crimea) which, in the long run, might result in a reduction in demand for Russian oil and gas.* Application (2 marks): Oil and gas provide half the government's revenue and almost 70% of export earnings (1 + 1) or reference to Figure 3 showing correlation between oil price and current account balance (1 mark for general reference and 1 mark for specific data reference) *Evaluation marks (points in italics above): 2 + 3; or 2 + 2 + 1.*	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 issues;
Level 2	3-7	2 marks for identification of 2 issues; 2 for application as indicated above; 3 for analysis of 2 problems
Level 3	8-12	2 marks for identification of 2 issues; 2 for application as indicated above; 3 for analysis of 2 problems; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question No.	Evaluate the likely benefits for Russia of its decision to join the WTO.	Mark
4 (e)	**For knowledge, application and analysis**: **9 marks** for up to 3 points (up to 5 marks for any one point) ***Evaluation: 6 marks:*** *(3 + 3; 4 + 2; or 2 + 2 + 2 marks)* Benefits include: • Increased markets for exporters – leading to benefits of economies of scale; lower costs; higher profits • May relate to benefits from application of law of comparative advantage • Likelihood of increase in FDI and associated benefits e.g. ~ AD/AS analysis could be used to show increase in real output and employment ~ balance of payments ~ tax revenues • Lower prices and increased choice for consumers; increased consumer surplus. May be illustrated using a tariff diagram, showing reduction in tariffs and reduction in welfare losses. Maximum 7/9 if no data references or relevant examples *Evaluation might include:* • *Some domestic firms may be unable to compete and go out of business causing unemployment* • *Critique of assumptions behind law of comparative advantage* • *Disadvantages associated with FDI e.g. repatriation of profits to shareholders in country from which it originated* • *In the long run, consumer choice may decline and prices may increase if there is a dependence on overseas suppliers* • *Increased significance of regional trade agreements so membership of WTO less significant than in the past* • *Credit responses which make reference to recent events (e.g. Russian annexation of Crimea) which have resulted in sanctions so offsetting benefits of WTO membership*	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 benefits; 2 for application (2 data references/examples)
Level 2	5-9	2 marks for identification of 2 benefits; 2 for application (2 data references/examples); 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 benefits; 2 for application (2 data references/examples); 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question No.	With reference to Figure 2 and your own knowledge, explain what is meant by *international competitiveness*.	Mark
5(a)	Answers might include: (1 + 1 + 1) • Competitiveness is a measure of a country's advantage or disadvantage in selling its products in international markets. • Allow measures of competitiveness as an explanation of above definition e.g. relative unit labour costs; relative labour productivity • Price competitiveness • Non-price competitiveness. Application: specific reference to 2 countries from Figure 2. 3 marks for knowledge 2 for application/i.e. 2 data references (actual rankings not necessary)	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for 2 data references

Question no.	With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012-13 compared with 2007. Illustrate your answer with an appropriate diagram.	Mark
5(b)	AD/AS diagram/PPF diagram/trade cycle diagram : 4 marks awarded as follows: AD/AS Diagram: Axes correctly labelled: 1 mark; 1 mark for showing equilibrium output at below full employment level; 1 mark for showing full employment level of real income or shift in AD or AS; 1 mark for showing gap between equilibrium level of output and full employment level of output or new equilibrium output. PPF diagram: 4 marks: Axes correctly labelled:1 mark; 1 mark for showing output at below full employment level (inside PPF); 1 mark for showing full employment level of output (on PPF); 1 mark for showing gap between current level of output and full employment level of output. Explanation marks (2 marks): • Definition of recession/negative output gap • Possible causes of fall in AD or fall in AS Application: 2 marks for one specific data reference from Figure 1: e.g. approx. 7% fall in real GDP between 2007 and 2013.	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for diagram axes and equilibrium output
Level 2	3-4	2 marks for diagram as indicated above; 2 for application – data reference from Figure 2
Level 3	5-8	4 marks for diagram; 2 for application – data reference from Figure 2, and 2 for explanation

Question No.	With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs.	Marks
5(c)	Factors include (2 + 2 or 1 + 3 marks) of which 1 mark for identification of 1 factor : • Wage rates • Level of national minimum wage • Productivity – in turn, this is affected by a range of factors such as the quality of human capital; quantity and quality of capital; capital per worker (could count as up to 2 points) • Degree of unionisation • Non-wage costs e.g. pension or social security costs • Net migration • Labour market regulation Application (2 marks): 2 data references from Figure 3 or relevant examples. *Evaluative comments (up to 4 marks: 2 + 2; 3 +1) could include:* • *Prioritisation with reason* • *Short run/long run influences* • *Higher wages might act as an incentive for workers to increase their productivity* • *Similarly, the minimum wage might act as an incentive to firms to increase the training of workers so increasing their productivity* • *Magnitude of each factor*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 factor; 2 for application (reference to 2 relevant examples of countries)
Level 2	4-6	1 mark for identification of 1 factor; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 factors.
Level 3	7-10	1 mark for identification of 1 factor; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 factors; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question No.	Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4	Marks
5(d)	Reasons include (up to 5 marks; maximum 2 for identification only) and *5 marks for evaluation*: For deficit countries: • Recession or very low growth in most countries leading to a reduction in demand for imports • Improvements in competitiveness • Reduction in unit labour costs • Increase in productivity • Might also be the result of improvements in other elements of the current account e.g. current transfers and investment income • Austerity measures • Allow depreciation of the euro against other currencies For surplus country (Germany): • Fall in exports relative to imports because of weak demand in eurozone countries and in rest of EU • Germany had positive growth for much of the period so imports continued to increase • Might also be the result of a deterioration in other elements of the current account e.g. current transfers and investment income Application (2 marks): 2 data references/examples e.g. from Figures 3 or 4. *Evaluation could include:* • *Reductions in imbalances may be short-term only: when economic growth returns they could increase again* • *Without exchange rate flexibility, such imbalances are likely to recur* • *External imbalances with countries outside of Eurozone may be different* • *Reference to performance in different parts of the current account* • *In relation to depreciation of the euro: J curve and Marshall-Lerner condition* • *Significance of causes* *Evaluation marks (points in italics above): 2 + 3; or 2 + 2 + 1.*	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 reasons
Level 2	3-7	2 marks for identification of 2 reasons; 2 for application (e.g. (reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 reasons
Level 3	8-12	2 marks for identification of 2 reasons; 2 for application (e.g. (reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 reasons; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2+ 2 + 1)

Question No.	Answer	Mark
5(e)	**For knowledge, application and analysis**: **9 marks** for up to 3 points (up to 5 marks for any one point) ***Evaluation: 6 marks:*** *(3 + 3; 4 + 2; or 2 + 2 + 2 marks)* Labour market reforms might include: • Measures to make it easier to hire and fire workers *But danger of demotivation leading to lower productivity* • Reductions in the national minimum wage *But: could act as a disincentive to take jobs; workers may be better off on benefits; could increase inequality* • Local wage bargaining *But: could decrease geographical mobility of labour if it results in an increased regional house price differentiation* • Introduction/extension of flexi-contracts, enabling employers to change a worker's hours without renegotiating contracts Such reforms would help to reduce firms' costs. In turn this could: • Increase the competitiveness of the goods and services of these countries so leading to an increase in exports and a reduction in imports *But domestic consumption could fall if the reforms result in a fall in real personal disposable incomes* • Encourage an increase in FDI *But FDI depends on a variety of factors apart from labour costs* • Enable firms to make higher profits which could be used for research and development and the introduction of new products *But firms might use profits to increase dividends to shareholders* *Must link analysis to either lower unemployment and/or to higher growth. Otherwise, maximum 7/9 marks*	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 points; 2 for application (reference to particular countries or examples)
Level 2	5-9	2 marks for identification of 2 points; 2 for application (reference to particular countries or examples); 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 points; 2 for application (reference to particular countries or examples); 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (a) Questions: Performance Criteria for Mark base 20	
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which have limited relevance*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis*
Level 3	11-14 11-12 13-14	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation* Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are ***not*** well developed/reasoned Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 3 factors with 1 evaluative point*

Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 3 factors with 2 evaluative points*

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (b) Questions: Performance Criteria for Mark base 30	
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which have limited relevance*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis*
Level 3	16-21 16-18 19-21	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation* Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are ***not*** well developed/reasoned Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are well developed and reasoned
Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 4 factors with 2 evaluative points*
Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 4 factors with 3 evaluative points*

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Surname	Other names

Pearson Edexcel GCE

Centre Number | | | | | |

Candidate Number | | | | |

Economics

Advanced

Unit 4: The Global Economy

Tuesday 10 June 2014 – Afternoon
Time: 2 hours

Paper Reference
6EC04/01R

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

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P 4 3 5 4 0 A 0 1 4 4

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SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

***1** (a) Governments in several countries, including the UK, Spain, Ireland and Hungary, have increased their indirect tax rates in recent years.

Assess the likely economic effects of such tax increases in a country of your choice.

(20)

(b) Evaluate the view that governments should reduce budget deficits by cutting public expenditure.

(30)

(Total for Question 1 = 50 marks)

***2** (a) In the five years between 2007 and 2012 the real effective exchange rate of the Swiss franc increased by 19%, the Chinese yuan by 25% and the Japanese yen by 23%. However, the USA, UK and eurozone experienced a depreciation of their currencies.

Assess factors that influence the exchange rate of a currency.

(20)

(b) To what extent might a depreciation in the value of a country's currency improve its economic performance?

(30)

(Total for Question 2 = 50 marks)

***3** (a) The European Union (EU) is a customs union, comprising 28 member states, which imposes common external tariffs on goods imported into the EU.

Assess the economic impact of common external tariffs.

(20)

(b) Evaluate the economic effects of a decision by the UK to leave the European Union.

(30)

(Total for Question 3 = 50 marks)

Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen ☒.
If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen Question Number: **Question 1** ☒ **Question 2** ☒ **Question 3** ☒

TOTAL FOR SECTION A = 50 MARKS

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SECTION B

Answer ONE question from this section.

You should spend 60 minutes on this section.

Question 5 starts on page 28.

If you answer Question 4 put a cross in this box ☒ .

4 Japan's new Prime Minister brings rising hopes that economy can be revived

Figure 1 Japan's economic growth rate 1999–2012

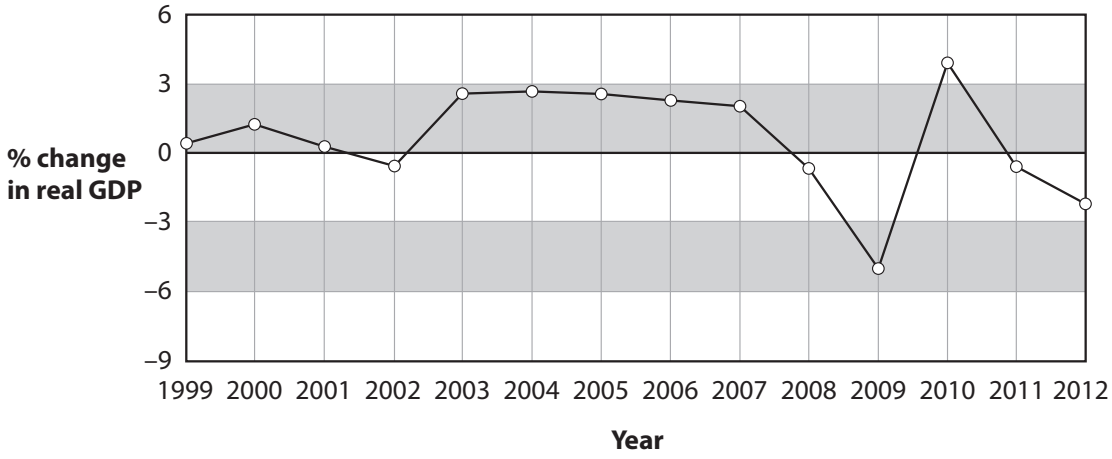
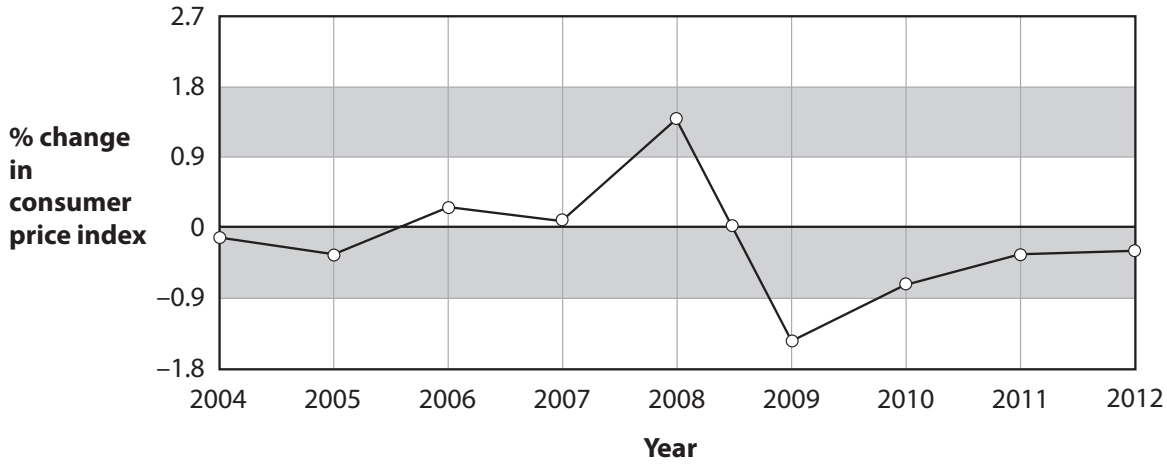


Figure 2 Japan's inflation rate 2004–2012



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Figure 3 Japan's current account balance 2004–2012 (US dollars)

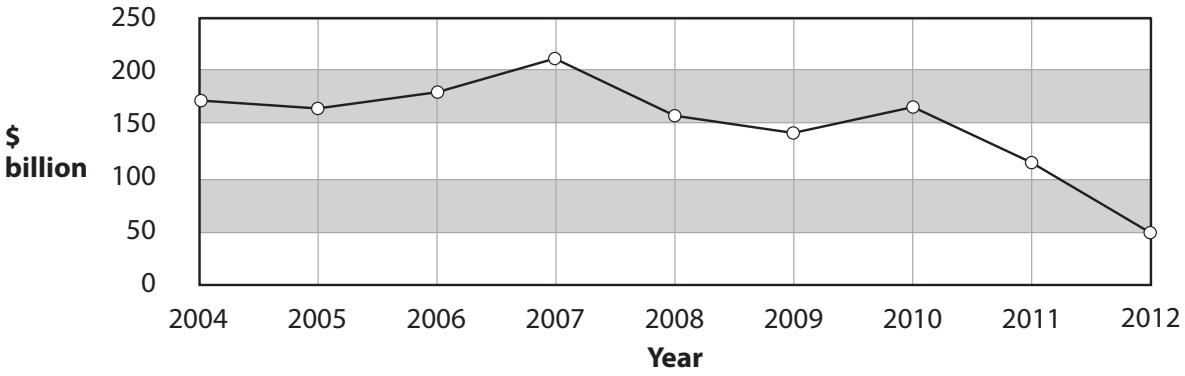
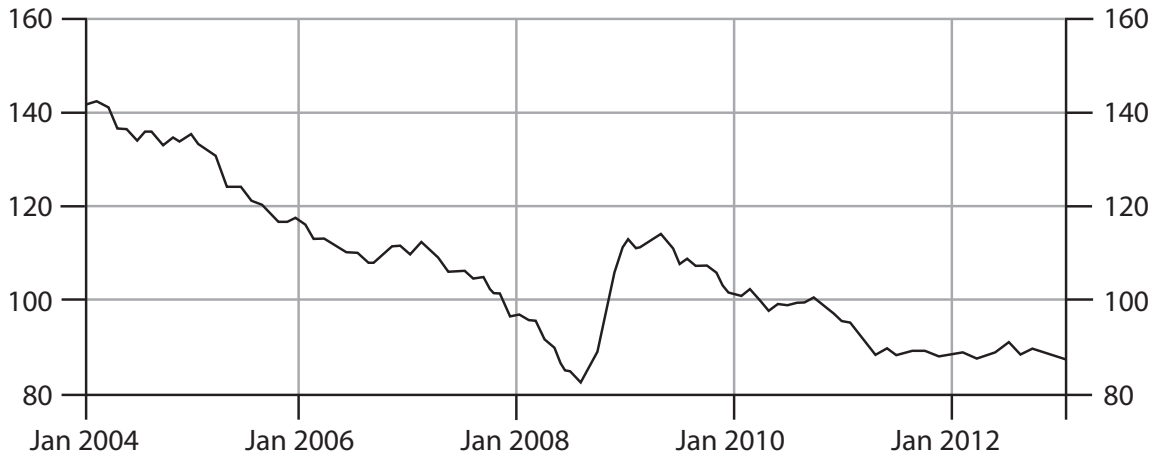


Figure 4 Japan's terms of trade 2004–2012 (January 2010 = 100)



(Source: www.tradingeconomics.com/japan/terms-of-trade)

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Extract 1 Japan's new Prime Minister's policies to revive the economy

In his first major speech of 2013, Japan's new Prime Minister, Shinzo Abe, called for a "rocket-like start towards economic recovery". In January 2013, his cabinet agreed on a stimulus package worth ¥10.3 trillion (US$120 billion). The aim is to add about 2 percentage points to the economy's real growth rate and create more than 600 000 jobs.

Abe has made it clear that he expects government action to be complemented by a more expansionary monetary policy on the part of the Bank of Japan, including raising the country's inflation target from 1% to 2%.

While 'Abenomics' is a departure from the previous government's priorities of debt reduction and tax increases to fund welfare spending, Abe's approach has a familiar ring. It marks a return to old-style spending on public works, a policy heavily criticised in the past for funding the construction of huge community centres in rural villages and infamous 'roads to nowhere'. Abe has promised to put an end to such waste and, instead, wants to focus investment on three things: the region ravaged by the March 2011 tsunami; making repairs to ageing infrastructure and earthquake-proofing schools and hospitals.

The stock and currency markets responded better than perhaps even Abe could have hoped. Japanese share prices have risen dramatically, while the yen is finally depreciating against the US dollar, bringing relief to Japan's exporters.

Voters in last month's general election approved of Abe's focus on growth in the world's third-largest economy, even if it meant setting aside measures to tackle national debt, now more than 230% of its GDP.

Robert Dujarric of Temple University in Tokyo believes Abe's plan to pull Japan out of two decades of stagnation and deflation "could work up to a point". "What's missing in his proposals are microeconomic reforms: to deal with structural problems that would make it easier for women to contribute to the economy and for families to have children," he says.

Polls show that consumers doubt Abe's ability to turn the economy around. A weaker yen will help exporters. However, the price of imports on which Japan is heavily reliant, especially food and energy, will hit households if incomes fail to keep up with inflation. While doubts remain over job security and wages continue to stagnate – they have failed to rise for nine of the past 12 months – consumers are unlikely to increase spending substantially. Dujarric says that after 20 or more years of stagnation or low growth, it will take a lot to convince consumers that things have changed.

(Source for extract and Figures 1, 2 & 3: Justin McCurry; The Observer, Sunday 20 January 2013)

(a) What does Figure 2 suggest about the change in the real burden of private sector debt since 2009?

(5)

(b) With reference to Figure 4, analyse **two** likely economic effects of the trend in Japan's terms of trade.

(8)

(c) Analyse **two** structural reforms to "make it easier for women to contribute to the economy and for families to have children". (Extract 1, lines 24–25)

(10)

*(d) Assess the possible implications of the increase in the size of Japan's national debt to 'more than 230% of its GDP'. (Extract 1, line 21)

(12)

*(e) Evaluate the likely economic effects of Japan's measures to stimulate its economy.

(15)

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(12)

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*(e) Evaluate the likely economic effects of Japan's measures to stimulate its economy.

(15)

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(Total for Question 4 = 50 marks)

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Question 5 starts on the next page

If you answer Question 5 put a cross in this box ☒ .

5 Tanzania's economy

Figure 1 Economic growth rates in Tanzania, Sub-Saharan Africa and the World 2000– 2012

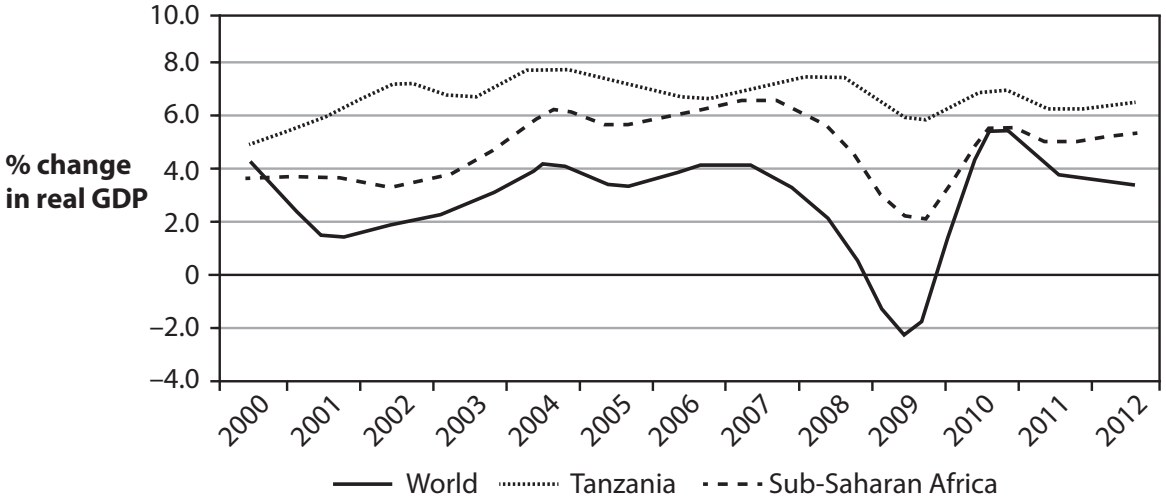
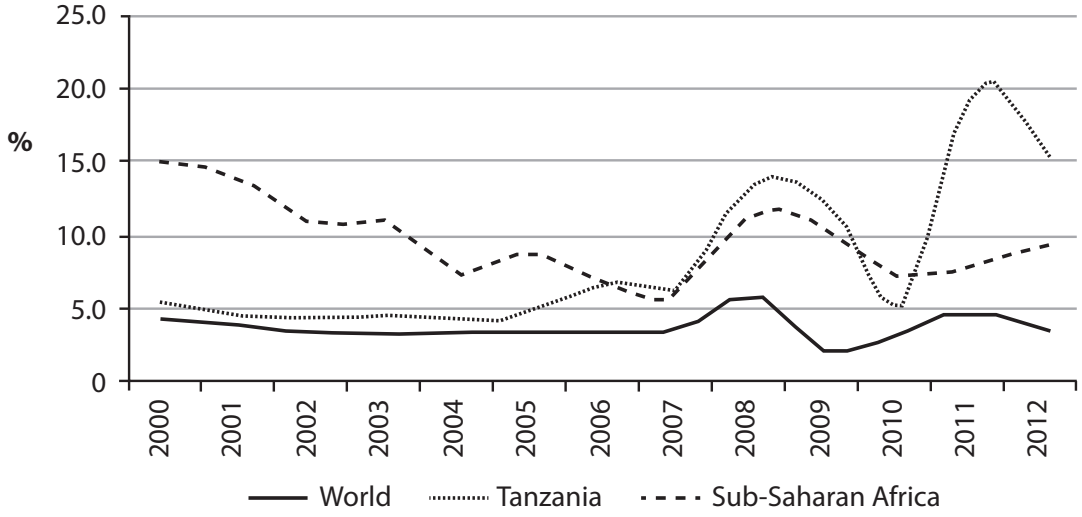
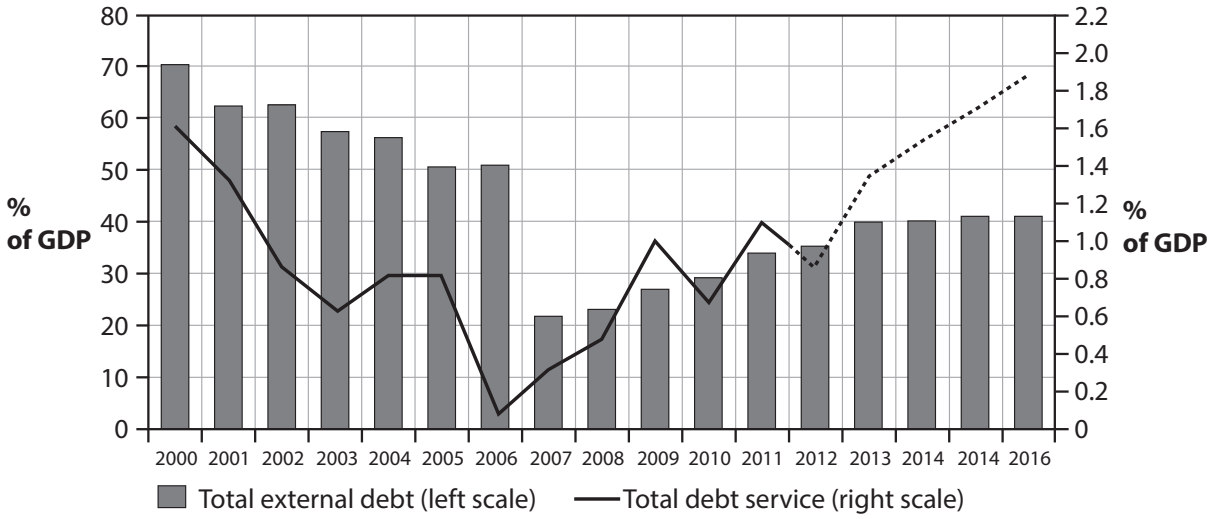


Figure 2 Inflation rates in Tanzania, Sub-Saharan Africa and the World 2000–2012



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Figure 3 Tanzania's total external debt and annual external debt service as a % of GDP (2000–2011; forecast from 2012–2016)



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Extract 1

The Tanzanian economy experienced rapid growth from 2000–2010. As a result, the country's per capita income increased from US$310 in 2000 to more than US$540 in 2010. Macroeconomic stability has brought significant dividends in terms of economic growth. Despite this, Tanzania is still a poor country, with approximately one third of its population living below the subsistence level. It is a predominantly rural country with approximately 30 million people, or about 75% of the total population, living in the countryside. Since 2001, the level of absolute poverty in rural areas has remained stagnant at around 37–40% of households. These poor rural households constitute 80% of the country's poor. Furthermore, the Gini coefficient has risen from 0.34 in 1992 to 0.38 in 2007, with signs that this trend is continuing.

After a brief dip in 2010/11, Tanzania's economy has bounced back. Partly driven by the high level of performance of the telecommunications, banking and mining sectors, the quarterly rate of growth in GDP was 7.1% for the period from January to March 2012. This is up from 6.1% for the same period in 2011. However, the agricultural, manufacturing and construction sectors recorded lower rates of growth than the overall economy.

The rate of growth is largely driven by increased demand from the public sector and not from the private sector or exports. The Government's contribution to aggregate demand accounted for more than half of economic growth during 2009–11. This compares to the period from 1998 to 2008 when the Government's contribution accounted for only one third of growth. In the same period, the contribution of the private sector declined significantly. A possible cause of this was crowding out resulting from extensive Government borrowing on the domestic market in 2009/10 and 2010/11.

Tanzania's remarkable macroeconomic performance has to be qualified on two counts. First, the increase in GDP appears less impressive when adjusted to take into account the rapid expansion of the population. Secondly, with the exception of the construction industry, economic growth has been concentrated in capital intensive rather than labour intensive sectors. The expansion of the telecommunications, banking, and transportation sectors has had a number of positive impacts on the economy. However, in total, these sectors employ less than 1% of Tanzania's workforce. By contrast, agricultural (including fisheries) and manufacturing sectors are relatively weak. Indeed, agriculture accounts for more than 25% of GDP, provides 85% of exports, and employs 80% of the work force. Cash crops, including coffee (its largest export), tea, cotton and cashews, account for the majority of export earnings. Geographical conditions, however, limit cultivated crops to only 4% of the land area.

For now, economic growth has not had a significant impact on reducing poverty rates especially in rural areas. Broadening the growth base will ensure that more Tanzanians benefit from economic growth. Therefore, diversification could involve the development of traditional activities other than crops, such as fishing and livestock; encouraging farmers to explore new high-value products and encouraging non-farm activities including tourism and mining, which offer new opportunities.

(Source for all figures and text: Tanzania Economic Update: From Growth to Shared Prosperity. October 2012. The World Bank Group Region: Africa Poverty Reduction and Economic Management Issue 2.)

(a) With reference to Extract 1, explain the difference between absolute poverty and relative poverty.

(5)

(b) With reference to the first paragraph of Extract 1, outline the change in income inequality in Tanzania between 1992 and 2007. Illustrate your answer with a Lorenz curve diagram.

(8)

(c) With reference to Extract 1, examine the importance of agriculture to the Tanzanian economy.

(10)

*(d) Assess the potential economic benefits of expanding tourism in Tanzania or in a developing country of your choice.

(12)

*(e) Evaluate factors, other than agricultural dependency, which might act as constraints on economic development in Tanzania.

(15)

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(15)

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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Mark Scheme (Results)

Summer 2014

Pearson Edexcel GCE
in Economics (6EC04/01R)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Mark scheme: 6EC04/01R JUNE 2014

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

QUALITY OF WRITTEN COMMUNICATION:
Quality of written communication (QWC) is assessed in **both parts of the essays and in parts (d) & (e) of the data response questions** and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question No.	Answer	Mark
1 (a)	KAA: 14; *EV: 6* Effects include impact on: • Income distribution: may be argued that VAT is regressive, especially in relation to energy, food *But: some research suggests that the overall affect of VAT in the UK is mildly progressive* • Prices: analysis could include appropriate supply and demand diagram. N.B. Inflation would only result if the increase in VAT results in a wage-price spiral *But: impact on individual goods and services depends on the PED* • Living standards: fall in real incomes *But: other things may not be equal e.g. wages may be rising faster than prices* • Unemployment likely to increase *unless offset by other components of AD* • Incentives to work: a higher VAT rate would cause a fall in real incomes. This could increase incentives to work if people wish to maintain their standard of living. *But: there may be no impact on incentives if there is no change in income tax rates* • Tax revenues: these would increase if demand for the goods and services affected are price inelastic *But: if the tax rise causes a recession, overall tax revenues will fall.* • Public finances: budget deficit may fall *But danger that a fall in AD would reduce tax revenues* Award a maximum of 16/20 if no example of a specific country is given.	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are of limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Answer	Mark
1 (b)	KAA: 21; *Ev: 9* Several approaches may be adopted e.g. • Whether or not the budget deficit should be cut at all • Case for cutting public expenditure rather than raising taxes • Case for cutting public expenditure The third is the most likely option but the other approaches should be credited. Case for cutting public expenditure: • Reduce danger of crowding out • Reduce possibility of government failure • Size of public sector already too large according to some economists – waste and inefficiency • Low productivity in the public sector • More efficient allocation of resources • Greater possibility of borrowing at low interest rates (and maintaining triple A credit rating) *Evaluation could include:* • *Job losses might be extensive. (IFS estimates it will be 1.2m by 2017-18)* • *Reduction in both quantity and quality of public services which could reduce productivity* • *Income distribution might become more uneven if cuts in welfare benefits are implemented* • *Reduction in productive capacity in the long run if investment is cut* • *Impact depends on the areas in which public expenditure is being cut and on size of the multiplier* • *Danger that public expenditure cuts might cause a triple dip recession and cause fiscal deficit to rise*	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Answer	Mark
2 (a)	KAA:14; *Ev: 6* Factors include: • Relative inflation rates: reference to purchasing power parity theory *But: small interest rate differences might be offset by other factors e.g. stability of the economy* • Relative interest rates *But: quantitative easing might play a more significant role now* • Relative strength of the economy: euro crisis; sovereign debt crisis *But: in Japan's case, its national debt of 230% has not prevented an appreciation of its currency* • Expectations play a very important role in relation to all of the above *Could be argued that this is the most significant factor* • Balance of payments: current account balance; FDI; hot money flows *But: current account relatively unimportant because other capital flows are much more significant* • Macroeconomic management: e.g. quantitative easing has caused a depreciation in the value of some currencies *But: underlying strength of the economy may be more important than short term macroeconomic management* • Allow analysis based on government/central bank manipulation of the exchange rate through the buying and selling of the currency *Other evaluative comments include:* • *Significance of factors in the short run and long run* • *Prioritisation*	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
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Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Answer	Mark
2(b)	KAA:21; *Ev: 9* Analysis might include: • Consideration of the effect on a country's import prices and exports prices and impact on price competitiveness *But: a depreciation in the exchange rate will not improve non-price competitiveness* • Improvement in net exports *But: only true in the Marshall-Lerner condition is fulfilled i.e. sum of price elasticities of demand for imports and exports must be greater than 1* *Also: may only be true in the long run – J curve effect* • Increase in aggregate demand: leading to higher living standards *But: other things may offset increase in AD e.g. fall in investment or in government expenditure* • Reduction in unemployment if net exports increase *But may not happen if there is under-employment* • Inflation: depreciation may cause a rise in cost of imported raw materials and finished goods *But: this will not be the case if firms cut profit margins or if productivity rises*	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
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Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Answer	Mark
3(a)	KAA: 14; *Ev: 6* Analysis might include consideration of: • Impact on domestic producers – increased output; higher producers' surplus • Impact on consumers – higher prices; lower consumers' surplus • Welfare losses; misallocation of resources • Impact on producers in other countries • Impact on world growth: decreased specialisation; lower output • Impact on the pattern of trade: trade creation and trade diversion • Impact on developing economies *Evaluation:* • *Effect on producers and consumers depends on PED & PES* • *Size of tariff* • *Differential effect on producers in other countries depending on how important EU market is to them* • *Effect on world growth partially offset by increased growth within EU*	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
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Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question No.	Answer	Mark
3(b)	KAA: 21; *Ev: 9* Effects include: • Pattern of trade: possibility that a smaller proportion of UK's trade will be with the EU and more with countries outside the EU *But: EU may wish to maintain favourable trading relationships with the UK. (The EU has a net trade surplus with the UK)* • Balance of payments: UK runs a significant balance of trade deficit with the EU. This may fall. *But much will depend on PED and PES for exports and imports* • FDI: this could decline without free access to the EU market *But: other factors may be more important in FDI decisions e.g. corporation tax rate; availability of skilled labour* • Employment: could fall if export industries suffer *But: depends on how successful UK manufacturers are in developing new markets* • Inflation: some goods become significantly cheaper e.g. food while others could become more expensive because they can no longer be imported freely from EU countries *But: food prices may be more unstable and food supplies may be less secure* • Public finances: might improve because UK is a net contributor to the EU budget *But: may not do so if exit from the EU causes a rise in Unemployment* • Impact on other EU countries e.g. on their growth rates; balance of payments	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Answer	Mark
4(a)	Understanding of 'real' values (1) Data shows fall in price level. (1) Therefore, real debt burden is increasing (2) Application: specific reference to Figure 2 (2 marks). 3 marks for knowledge (2 + 1 or 1 + 2) for interpretation/ impact on real debt burden 2 for application/i.e. 2 data references from Figure 2	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for data references

Question No.	Answer	Mark
4(b)	Knowledge: 2 marks for either of the following: The terms of trade is the average price of exports in relation to the average price of imports OR the rate at which exports exchange for imports. OR: Measurement: $\frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$ Application: specific reference to terms of trade in 2 years from Figure 4 (1 + 1). Analysis: 4 marks (2 + 2): Fall in terms of trade implies that: • More must be exported to gain a given quantity of imports • In turn, this might imply that living standards will fall • If caused by export prices falling relative to import prices, • then it implies that Japanese goods are becoming more competitive	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification (2 of the marks for definition or the formula)
Level 2	3-4	2 marks for identification; 2 for application (indicated above)
Level 3	5-8	2 marks for identification; 2 for application (indicated above) and 4 for analysis (other 2 marks for diagram and explanation)

Question No.	Answer	Mark
4(c)	Measures include (3 + 3 marks – maximum 1 mark for identification): • Improved child care facilities *May take a significant length of time before new child care facilities could be established* • Child care subsidies *But: cost implications for a country with a very high national debt* • Child benefits *But: opportunity cost of having children may be very high* • Improved career opportunities for women *Cultural factors might still restrict opportunities for women* • Positive discrimination *Evaluation: up to 4 marks: 2 + 2; 3 +1*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification; 2 for basic application/analysis
Level 2	4-6	1 mark for identification; 5 for analysis of 2 issues.
Level 3	7-10	1 mark for identification; 5 for analysis of 2 issues; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question No.	Answer	Mark
4(d)	Meaning of national debt: cumulative total of past government borrowing (2 marks) Implications include: (up to 5 marks; and *5 marks for evaluation)*: • Danger of loss of triple A credit rating and higher future borrowing costs *But: much of Japan's debt is financed internally* • Opportunity cost associated with interest payments to service the national debt *But: interest rates very low so impact is limited* • Possibility of inflation if country follows policies designed to reduce the real burden of the debt *But Japan currently suffering from deflation which is increasing the real debt burden* • Crowding out: reduction in investment by the private sector if market interest rates increase *Other factors may be* • Loss of confidence in the economy leading to a decrease in FDI	**(12)**

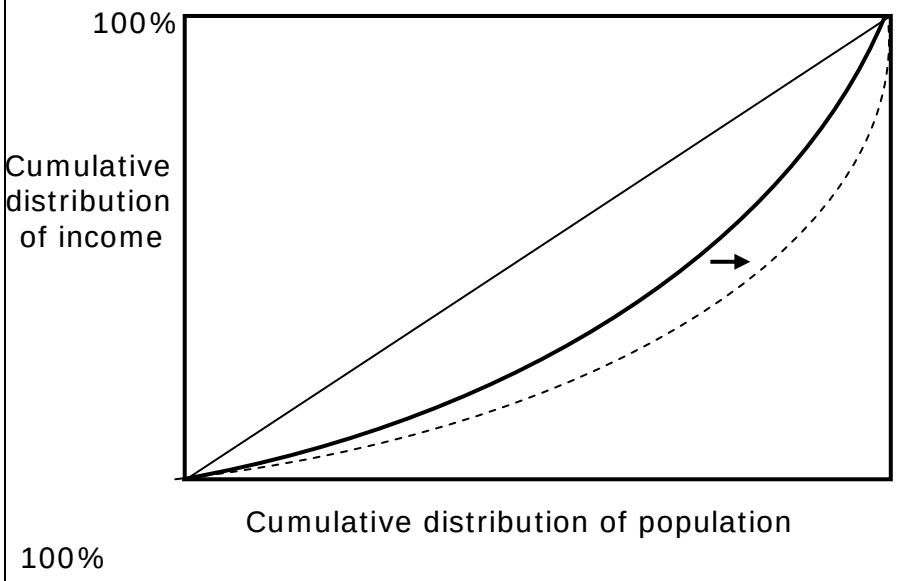
Level	Mark	Descriptor
Level 1	1-2	2 marks for definition;
Level 2	3-7	2 marks for definition; 2 for application (points related to Japan); 3 for analysis of 2 implications
Level 3	8-12	2 marks for definition; 2 for application (points related to Japan); 3 for analysis of 2 implications; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question No.	Evaluate the likely economic effects of Japan's measures to stimulate its economy. Answer	Mark
4 (e)	For knowledge, application and analysis: 3 x 3 marks or 4 + 5 marks, of which 2 marks are for use of data from the information provided) *Marks for evaluation: (3+ 3; or 4 + 2; or 2 + 2 + 2)* Effects of increase in inflation target and fiscal stimulus include: • Fall in value of the yen *But: much will depend on expectations regarding the future state of the economy* • Higher rate of inflation *But: Japan has suffered from deflation for many years* • Multiplier effect on GDP *But: size of multiplier may be small* • Increase in employment *But: depends on whether the stimulus is successful in increasing economic growth* • Impact on balance of payments: might improve if yen depreciates *But: demand for some products e.g. food and energy is likely to be very price inelastic* • Impact of public finances – could deteriorate in the short run *But could improve in the long run if the policies cause an increase in economic growth* • Analysis of impact on effects on the global economy: exports from other countries to Japan will now be less price competitive *But: with rising economic growth, Japanese consumers might demand more imports* • Consideration of how the stimulus is spent	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 effects; 2 for application
Level 2	5-9	2 marks for identification of 2 effects; 2 for application; 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 effects; 2 for application; 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

Question No.	Answer	Mark
5(a)	Absolute poverty: insufficient resources to meet basic needs e.g. food, shelter, water, clothing Measurement of absolute poverty: those living on less than $1.25 a day (accept $1 or $2 a day) Relative poverty: those living below a certain income threshold in a country OR measurement of relative poverty: e.g. the % of the population living below 60% (accept 50%) of the median income. Application: Reference to example from Extract 1: e.g. level of absolute poverty has remained at 37-40% since 2001; 3 marks for knowledge (2 + 1 or 1 + 2) for definitions 2 for application/i.e. 2 data references	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for 2 data references

Question no.	Answer	Mark
5(b)	**Lorenz curve diagram : 4 marks awarded as follows:** Axis correctly labelled: 1 mark for income and population/households; 1 mark for cumulative %; Line of income equality (45º line): 1 mark Lorenz curve: 1 mark.  Explanations: up to 2 marks for any one of the following: • Measurement of Gini coefficient: Area A (between 45°line and Lorenz curve) ÷ Area A +B (whole area under 45°line) • Increase in inequality because those in rural areas (75% of the total population) have remained poor whereas those in other sectors have seen large increases in their incomes Application: Specific data reference from extract Or correctly indicating new Lorenz curve for 2007 further away from the original Lorenz curve (on diagram or as part of written answer) (2) *NB. Credit 1 diagram mark if candidate identifies Lorenz Curve in their explanation rather than on the diagram*	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification (2 of the marks for the diagram)
Level 2	3-4	2 marks for identification; 2 for application (indicated above)
Level 3	5-8	2 marks for identification; 2 for application and 4 for analysis (other 2 marks for diagram and explanation)

Question No.	Answer	Marks
5(c)	Factors include (2+2 marks – maximum 1 mark for identification): • Employment: 80% of the workforce *But low wages, a reflection of low productivity* • GDP: accounts for 25% *But resources might be more efficiently employed in other sectors; reference to Tanzania's comparative advantage* • Balance of Payments on current account: agriculture accounts for 85% of its exports *But price fluctuations and extreme weather events mean that export earnings are volatile* • Application: 2 marks for 2 specific data references *Evaluation: up to 4 marks: 2 + 2; 3 +1*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1factor; 2 for application
Level 2	4-6	1 mark for identification of 1 factor; 2 for application; 3 for analysis of 2 factors.
Level 3	7-10	1 mark for identification of 1 factor; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 factors; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question No.	Answer	Marks
5(d)	Potential benefits include (up to 5 marks; maximum 2 for identification only) and *5 marks for evaluation*: • FDI: TNCs might invest in hotels and infrastructure in order to promote development *But profits will be repatriated to shareholders of the TNCs* • AD & Economic growth: likely to increase as a result of FDI, increase in net exports *But may not be as significant as would be the case if the country developed manufacturing* • Employment: tourism is a labour-intensive industry so many jobs may be created *But: jobs may be seasonal only; most jobs may be unskilled with high skilled jobs going to foreign employees of the TNCs* • Balance of payments: inflows into the financial account (FDI); inflows into the current account (from tourists) *But: outflows because of need to import materials required for hotels and food for tourists* • Tax revenues: increased revenues from higher incomes, profits and expenditure by tourists *But: TNCs may avoid paying taxes. Also, higher tax revenues may be required to pay for extra infrastructure and public services needed by tourists* • Environment: tourism provides an incentive and the tax revenues to conserve the environment and cultural heritage of the country *But: tourists might cause external costs e.g. pollution* • Demand for tourism likely to be income elastic so industry would prosper during a period of world economic growth	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 benefits;
Level 2	3-7	2 marks for identification of 2 benefits; 2 for application (e.g. (reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 benefits
Level 3	8-12	2 marks for identification of 2 benefits; 2 for application (e.g. (reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 benefits; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2+ 2 + 1)

Question No.	With reference to the information provided, evaluate factors which might act as constraints on economic development in Tanzania. Answer	Marks
5(e)	For knowledge, application and analysis: 3 x 3 marks or 4 + 5 marks, of which 2 marks are for clear reference or definition of economic development) *Marks for evaluation: (3+ 3; or 4 + 2; or 2 + 2 + 2)* Possible constraints include: • Relatively high rate of inflation which may cause uncertainty and deter investment e.g. in health services so limiting development *But: rate of inflation is falling and may not be a major issue in the near future* • Increase in debt service ratio which may limit foreign currency available for buying imports of capital goods *But: forecasts may be inaccurate* • Crowding out: higher debt service may cause market interest rates to increase. Therefore, less money available to improve health, education, housing • Falling investment *But Tanzania has potential for further growth which might encourage investment* • Increasing trade deficit: might limit imports of goods important for development *But: depends on cause of deficit: imports of capital goods can stimulate growth and development* • Increasing role of the government as a contributor to growth – may be inefficient and corrupt *But: if expenditure improves the supply side, then it could contribute to growth and development* • Increasing population: could lead to lower GDP per capita; over-crowding *But: this provides the workforce and consumers of the future so may help to stimulate growth and development* • Savings gap *But could be filled by FDI, aid* • Lack of skilled workforce *But TNCs might import skilled labour*	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 factors; 2 for application (references relevant to Tanzania)
Level 2	5-9	2 marks for identification of 2 factors; 2 for application; 5 for analysis of at least 2 factors
Level 3	10-15	2 marks for identification of 2 factors; 2 for application; 5 for analysis of at least 2 factors; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (a) Questions: Performance Criteria for Mark base 20	
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis*
Level 3	11-14 11-12 13-14	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation* Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are ***not*** well developed/reasoned Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 3 factors with 1 evaluative point*

Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 3 factors with 2 evaluative points*

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

Level	Part (b) Questions: Performance Criteria for Mark base 30	
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis*
Level 3	16-21 16-18 19-21	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation* Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are ***not*** well developed/reasoned Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are well developed and reasoned
Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 4 factors with 2 evaluative points*

Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 4 factors with 3 evaluative points*

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Write your name here

Surname	Other names

Centre Number | Candidate Number

Edexcel GCE

Economics

Advanced

Unit 4: The Global Economy

Tuesday 11 June 2013 – Morning
Time: 2 hours

Paper Reference
6EC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

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P 4 2 3 0 3 A 0 1 4 0

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SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

***1** (a) Assess possible reasons why the annual average growth rates of developing economies have been more than 4.5% higher than those of developed economies in recent years.

(20)

(b) To what extent is monetary policy the most effective way of stimulating economic growth? Refer to at least one example of a developed economy in your answer.

(30)

***2** (a) In 2011, Germany recorded a trade in goods surplus of €146.1 billion whereas the USA recorded a trade in goods deficit of $737 billion and the UK a deficit of £99.7 billion. Assess the possible causes of such differences in trade balances.

(20)

(b) Evaluate means by which trade imbalances could be reduced.

(30)

***3** (a) Assess the effect of globalisation on inequality in the world economy.

(20)

(b) Inequality within many developed countries is increasing. Evaluate the impact of policies designed to reduce inequality in a developed country of your choice.

(30)

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Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen ☒.
If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen Question Number: **Question 1** ☒ **Question 2** ☒ **Question 3** ☒

TOTAL FOR SECTION A = 50 MARKS

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SECTION B

Answer ONE question from this section.

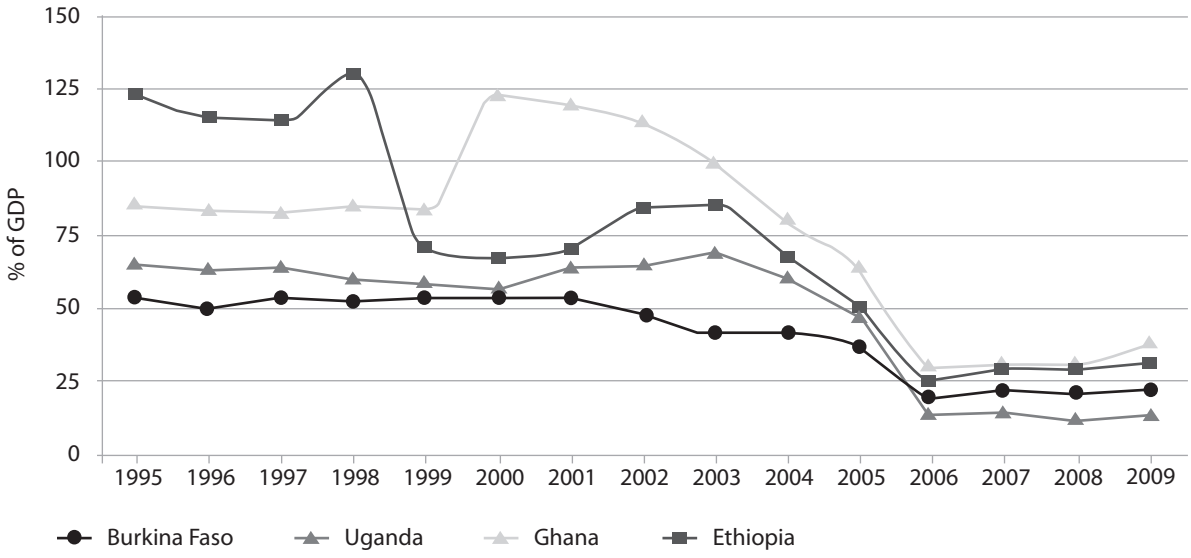
You should spend 60 minutes on this section.

If you answer Question 4 put a cross in this box ☒

Question 5 starts on page 28.

4 The Lion Kings

Figure 1 External debt of selected African countries as a % of Gross Domestic Product (GDP), 1995-2009



(Source: © 2012 African Economic Outlook)

Figure 2 The World's Fastest-Growing Economies 2001-2010: Annual Average GDP Growth (%)

Angola	11.1
China	10.5
Myanmar	10.3
Nigeria	8.9
Ethiopia	8.4
Kazakhstan	8.2
Chad	7.9
Mozambique	7.9
Cambodia	7.7
Rwanda	7.6

(African countries in bold italics)

Figure 3 Forecast Annual Average GDP Growth (%), 2011-2015

China	9.5
India	8.2
Ethiopia	8.1
Mozambique	7.7
Tanzania	7.2
Vietnam	7.2
Congo	7.0
Ghana	7.0
Zambia	6.9
Nigeria	6.8

(African countries in bold italics)

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Extract 1 Africa on the point of take-off

The World Bank says Africa "could be on the brink of an economic takeoff much like China was thirty years ago". Jeffrey Sachs, one of the leading experts on developing countries, says the continent could become "the surprise winner of the coming decade". The scale and extent of Africa's economic boom is unprecedented: from 2001 - 2010 six out of the ten fastest growing countries were African. In eight of the last ten years, Africa's lion states have grown faster than Asia's tigers. The fastest-growing economy in the world in 2011 was Ghana at 13%, compared with barely 1% in most European countries and just over 1% in America. Thanks to external debt relief in Africa and the massive increase in borrowing in Europe, many European countries are now more indebted than African nations.

New African billionaires and multi-millionaires are being created at an astonishing rate and the wealth is trickling down. Some 313 million people, 34% of the continent's population, spend $2.20 a day, a 100% rise in less than 20 years, according to the African Development Bank Group (AfDB).

Some African firms are now so big they are buying global rivals. South African Breweries has bought America's Miller, to become SAB Miller, the world's second largest brewer. The world's leading multinationals are rushing to invest in Africa. For example, America's Walmart, the world's biggest retailer, recently spent $2.4 billion acquiring a majority stake in South African firm Massmart. Overall foreign investment in Africa has grown more than 600% in the last decade.

Why is Africa suddenly shaking off decades of decline? Traditional industries of mining and agriculture are now more valuable and more productive. Africa has about half of the world's gold deposits, 10% of its oil reserves, and a third of its diamonds, copper, platinum and "rare earth" minerals used in smartphones, tablet computers and flat-screen TVs. Prices for these commodities are high, having risen significantly over the last decade. Furthermore, some of the old problems which have held Africa back are easing: the birth rate is falling and infrastructure is slowly improving, largely thanks to investment from China. Thousands of miles of roads and railways, oil and gas pipelines and new ports are being built in Kenya, Ghana, Nigeria and Mozambique.

While many macro factors are creating the right conditions for growth, micro factors, such as technology, are also generating prosperity. Until as recently as 2005, Africa was almost isolated from a technological perspective with most countries only having a few ancient landline telephone systems. Today, thanks to vast new underground fibre-optic cables that run from the east and west coasts of Africa, and millions of mobile phone masts, the continent is plugged into the world. The 400 000 landline subscribers in Nigeria have become 60 million mobile phone subscribers. The continent is the world's fastest-growing mobile phone market, expanding by 20% per year since 2006. Internet speeds have risen 100-fold in the last few years while connection costs have fallen 40-fold. Internet usage grew by 2 527% between 2000 and 2011. The real effects of the technological boom are felt beyond the high-tech companies themselves. These improvements in communication have created the one thing Africa lacked: a consumer society. In Kenya, for example, around 41% of the population use mobile phones to pay for goods by transferring credits from one handset to another in seconds. McKinsey & Company, a research consultancy, predicts that African consumer spending will rise from $869 billion in 2008 to $1.3 trillion by 2020.

Nevertheless, Africa is still the poorest continent on earth. Most of its one billion population live on less than $2 a day and average life expectancy in some countries

is as low as 46. Education may have improved but is very weak by international standards. Deforestation and desertification are rising, causing conflicts over access to land and water. South Africa, which used to be a model for the continent, is tainted with corruption – a problem common in many other African countries. Despite all the advances in technology, only 12% of Africans are regular internet users, compared with a world average of 30%. All the new infrastructure has done little to overcome the problems of excessive bureaucracy, congested roads and over-crowded ports and airports. Basic services, such as power supplies, are inadequate with power cuts a common occurrence. Internal security is a major problem in countries such as Nigeria.

(Source for Extract 1 and Figures 2 and 3: © The Sunday Times 26 February 2012)

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(a) With reference to Figure 1 and the first paragraph of Extract 1, outline the effect of 'external debt relief' (line 8) on a country's balance of payments.

(5)

(b) With reference to the fifth paragraph of Extract 1 (lines 29-44), analyse **two** benefits of improved technology for Africa.

(8)

(c) Examine the possible impact on poverty of economic growth in Africa.

(10)

*(d) Apart from technology and debt relief, assess reasons why Africa is 'suddenly shaking off decades of decline' (Extract 1, line 20).

(12)

*(e) With reference to Extract 1, evaluate factors which continue to limit economic development in many African countries.

(15)

(a) With reference to Figure 1 and the first paragraph of Extract 1, outline the effect of 'external debt relief' (line 8) on a country's balance of payments.

(5)

(b) With reference to the fifth paragraph of Extract 1 (lines 29-44), analyse **two** benefits of improved technology for Africa.

(8)

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(12)

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*(e) With reference to Extract 1, evaluate factors which continue to limit economic development in many African countries.

(15)

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(Total for Question 4 = 50 marks)

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If you answer Question 5 put a cross in this box ☒

5 Brazil

Figure 1 Brazil's Gross Domestic Product (GDP) per capita (PPP) in US dollars ($)

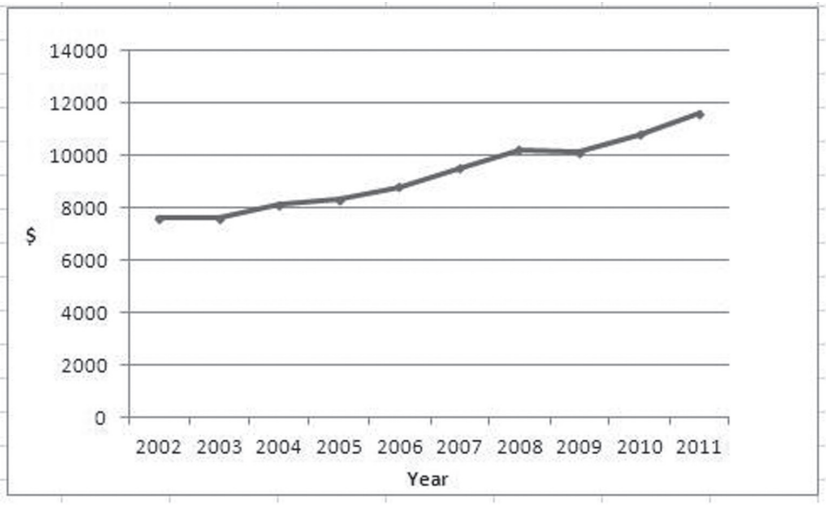
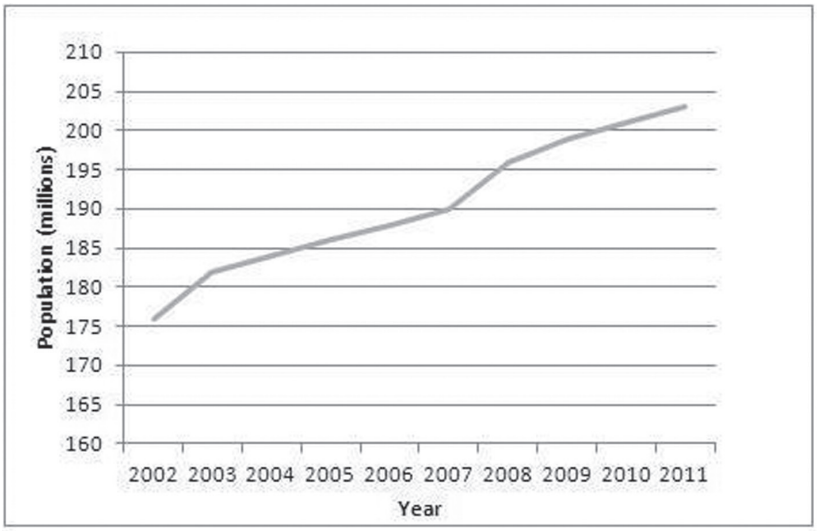
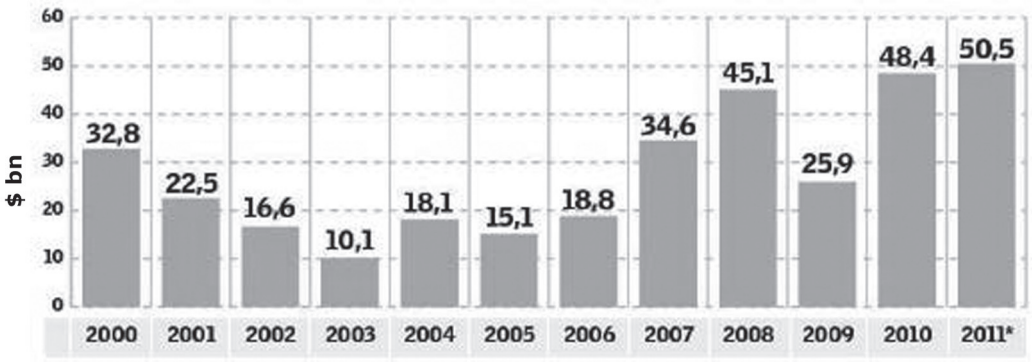


Figure 2 Population of Brazil (millions)



(Source for Figure 1 and Figure 2: © Index Mundi)

Figure 3 Annual Foreign Direct Investment in Brazil (billion US$)



*estimate

(Source: © Brasmari)

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Extract 1 Brazil's economy overtakes UK

Brazil has claimed the UK's spot as the world's sixth largest economy after official figures showed its economy grew 2.7% in 2011 against the UK's 0.8%. France remains in fifth place behind Germany, Japan, China and the US. The per capita income of Brazilians remains less than a third of that enjoyed in the UK at approximately $11 900 (£7 400) per head, but the gap is narrowing all the time while developed economies largely stagnate.

Brazil's dash for growth can be traced back to the mid-1990s when a series of privatisations ended the state's dominance of commercial life. China became a big customer, with a particular liking for soya beans and iron ore. The US also began to invest heavily in the country. Top of the list of economic attractions is agriculture and the processing of foodstuffs, which account for about a quarter of Brazilian GDP and 36% of exports. In the last 20 years it has become the world's largest producer of sugarcane, coffee and tropical fruits. It also has the world's largest commercial cattle herd (50% larger than that of the US) at 170 million animals, according to official figures. Oil is expected to become the next big commodity for export, especially if a way can be found to drill safely in the Atlantic's deep waters. Reserves are believed to equal those shared by Norway and the UK in the North Sea.

President Lula da Silva brought in social policies to raise the incomes of Brazil's poorest people after his election in 2002. Dilma Rousseff, his successor, oversees a country where most people are considered middle class. Absolute poverty has dropped dramatically from 10% of the population in 2004 to 2.2% in 2009 and inequality, as measured by the Gini coefficient, has fallen to a 50-year low of 0.519. Key factors in these trends have been low inflation, consistent economic growth, social programmes and real increases in the minimum wage.

Rousseff is a strong advocate of tackling corruption and increasing transparency in government. Within the first year of her government, several cabinet ministers resigned after accusations of bribery in awarding contracts. Yet bribery and the politicisation of the civil service continue to cause problems, with many overseas companies complaining that contracts are only signed and completed after bribes have been paid to civil servants.

The combination of huge natural resources and significant growth in manufacturing and services has attracted foreign direct investment while high interest rates have meant Brazil is one of the most attractive places for the world's super-rich to save their money. One of the knock-on effects has been to push up the value of the *real*, Brazil's currency, which has appreciated 40% since the financial crisis of 2008. For Brazil's wealthy it is a bonus because it increases their wealth and foreign buying power. It has also allowed the government to embark on a spending spree.

But for exporters it is a huge headache because if the commodity boom ends, the high value of the *real* could mean the country has little in the way of business to fall back on. Guido Mantega, Brazil's finance minister, blames the US, UK and continental Europe for driving investors towards Brazil. He argues that quantitative easing schemes have cheapened the world's major currencies, leaving his as one of the few attractive ones around. However, he is trapped because domestic savings are not sufficient to sustain long-term high growth rates. That means Brazil must continue to attract foreign investment, especially as the government plans to cover the cost of oil extraction, nuclear power and other infrastructure sectors over the next few years.

(Source: Adapted from Philip Inman, © Guardian News and Media Limited, 6 March 2012 and © World Bank)

(a) With reference to Figures 1 and 2, what might be inferred about the change in Brazil's GDP between 2002 and 2011?

(5)

(b) With reference to Extract 1, analyse **two** reasons why the value of the *real*, Brazil's currency, has appreciated.

(8)

(c) Examine the likely effects of the appreciation of the *real*, Brazil's currency, on its Balance of Payments accounts.

(10)

*(d) Assess the potential problems associated with primary product dependency for a country such as Brazil.

(12)

*(e) Evaluate the benefits of inward foreign direct investment for a country such as Brazil.

(15)

(a) With reference to Figures 1 and 2, what might be inferred about the change in Brazil's GDP between 2002 and 2011?

(5)

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(12)

*(e) Evaluate the benefits of inward foreign direct investment for a country such as Brazil.

(15)

(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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Mark Scheme (Results)

Summer 2013

GCE Economics (6EC04/01)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Mark scheme: 6EC04 JUNE 2013

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

QUALITY OF WRITTEN COMMUNICATION:
Quality of written communication (QWC) is assessed in **both parts of the essays and in parts (d) & (e) of the data response questions** and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

FOR ALL QUESTIONS: No markscheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the markscheme.

Question Number	Answer	Mark
1 (a)	**KAA: 14 marks;** *Ev: 6 marks* Possible reasons for more rapid growth in developing countries include: • Developing countries more isolated from financial crisis – banks less integrated into global economy • Fewer trading links with developed economies • Many developed economies suffered from a sharp fall in house prices e.g. Spain, Ireland, UK • Debt problems in developed economies resulting in austerity measures e.g. euro zone countries, UK in contrast with massive fiscal stimulus in China • Less dependence on financial services as a proportion of GDP • Developing economies have greater scope for growth e.g. into manufacturing where potential productivity gains are greater than in many service sector industries • More FDI in some developing economies • Increase in demand and prices of primary products • Impact of investment in human capital on productivity in developing countries • Rapid population growth • Improvements in infrastructure • Cheaper, more flexible labour force: link to comparative advantage in manufacturing shifting away from developed economies Possible reasons for slower growth in developed countries include: • Austerity measures • Ageing populations • Deleveraging/saving • Low bank lending • Many developed economies suffered from a sharp fall in house prices e.g. Spain, Ireland, UK *Evaluation (6 marks) might include:* • *Time period under consideration might not reflect longer term trends* • *Insignificant because developing countries are starting from a lower base i.e. GDP lower than for developed economies* • *Although GDP growth rates are higher, GDP per capita is often much lower in developing economies* • *Prioritisation of most significant factor(s) with supporting reason(s)* • *Disadvantages associated with FDI e.g. repatriation of profits* • *Problems associated with primary product dependency* • *Overall figures obscure significantly different growth rates between countries*	**(20)**

	• *Validity of growth figures may be questioned* *N.B. Answers can only achieve a maximum of 14/20 if they do not refer to both developed and developing countries (Some specific examples of countries should be included)*	

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
1 (b)	**KAA: 21 marks; Evaluation 9 marks.** Analysis of monetary policy in a specific developed country: Interest rate transmission mechanism: i.e. • impact on consumption; • investment; • net trade via the effect of exchange rate changes Quantitative Easing and transmission mechanism • Bank of England purchase of government bonds; causing increase in their price and fall in yields Role of Credit Easing: in UK four banks will offer loans to SMEs at a 1% interest rate discount Bank of England Loan Guarantee Scheme worth £40bn Monetary policy may not have an impact on the budget deficit *Evaluation points could include:* • *Interest rates already low and little scope to reduce them further* • *Interest rate policy is ineffective if business and consumer confidence is low* • *Time frame: monetary policy does not usually have an immediate effect on behaviour e.g. people with fixed mortgage rates; traders who have fixed term contracts* • *Limited evidence that QE has resulted in increased lending to businesses and growth* • *It is argued that QE has resulted in increased asset and commodity prices*	

	• *No guarantee that credit easing will result in an increase in the overall level of lending by banks* • *Conditions attached to Loan Guarantee Scheme are so tight that it is unlikely to have much effect* • *Primary role of monetary policy to control inflation* • *Some countries do not have an independent monetary policy e.g. members of eurozone* *.* Consideration, analysis and evaluation of at least one alternative policy i.e. fiscal policy or supply side policies. Analysis of fiscal policy: e.g. Cuts in income taxes: • Increase in disposable income • Impact on consumption • Impact on aggregate demand, real output and employment *But:* • *Tax cuts may be used to repay debts or to increase savings or may be used to purchase imports* • *Difficult to implement for countries with huge budget deficits and national debts* • *Danger of credit rating downgrade* Analysis of supply side policies: e.g. Cuts in state benefits: • Increase incentives for the unemployed to seek work or for inactive people to seek employment *But:* • *if aggregate demand is very low, then supply side policies will be ineffective* • *danger of increased inequality* *N.B. If no reference to a specific country then award a maximum of 24/30*	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
2 (a)	**KAA: 14 marks; Eval: 6 marks** Possible causes of Germany's surplus include: • More competitive in terms of labour costs • Strong manufacturing base • Previous investment in modern technology • Highly educated and productive workforce • Reputation for producing high quality, highly reliable goods • Has developed markets outside EU USA & UK deficits caused by: • Inability to compete with goods produced by low wage countries such as China • Until 2008-9, the dollar and sterling were overvalued • Relatively low productivity • UK's manufacturing base eroded during period of high exchange rate • High marginal propensity to import *If no reference to BOTH a deficit and a surplus country, then award a maximum of 14/20* *Evaluation (6 marks) points might include:* • *These are data for one year only – may not be maintained in the long run. Germany now suffering from crisis in euro zone* • *Significance depends on deficits/surplus as a percentage of GDP* • *Germany is in Euro zone and more competitive than other members* • *Trade in goods balance is just one part of the current account and may be balanced by surplus in trade in services account or in investment income* • *Deficit might be financed by inflows into the Financial Account*	**(20)**

Level	Mark	Descriptor

Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
2 (b)	Evaluate means by which trade imbalances could be reduced. **KAA: 21 marks; Evaluation: 9 marks** Methods include: • Measures taken by the German government/surplus countries to stimulate domestic consumption e.g. tax cuts; reduction in incentives to save *But tax cuts may be saved or spent on domestically produced goods rather than spent on imports* • Measures taken by the US and UK governments/deficit countries to promote saving e.g. tax free savings schemes *But these measures may be ineffective if interest rates are low and consumers continue to spend* • Supply side measures in US and UK/ deficit countries to increase productivity and competitiveness e.g. investment incentives; cuts in corporation tax; investment in education and training (could count as 3 points) *But these measures might involve extra public expenditure; they might result in increased inequality e.g. cuts in benefits and cuts in higher rates of income tax; time lags may be considerable* • Contractionary fiscal and monetary policies in deficit countries *But these measures might cause an increase in unemployment* • Protectionist measures by deficit countries / e.g. awarding major infrastructure projects to domestic companies; subsidies; tariffs. *But might be risk of retaliation* • Allow exchange rate adjustments i.e. depreciation of the dollar and pound and/or appreciation of the euro only if mechanism by which this may be achieved is included. *But this will depend on whether or not the Marshall-Lerner*	**(30)**

	condition is met. *Also: short run/long run effects: J curve* *N.B. If no reference to context e.g. in discussing protectionism then award a maximum of 24/30*	

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
3 (a)	**KAA: 14 marks;** *Evaluation 6 marks* Accept analysis of different types of inequality e.g. income and wealth. Analysis that inequality between countries has decreased: • Closer integration of countries e.g. through trade liberalisation has resulted in increased living standards in developing countries *But: monopsony power of TNCs in developed economies might keep people in developing countries relatively poor* • Increased trade has resulted in rapid growth rates in countries such as China and India which have lifted large numbers of people out of poverty *But: some countries left behind e.g. those with civil wars such as Mali or wars with neighbours Sudan/South Sudan* • Differences in levels of foreign direct investment • Differences in the take up of technology/internet/broadband/mobile phones • Increased demand for commodities has resulted in an increase in prices so leading to an improvement in the terms of trade and higher living standards of some developing countries. *But: problem that supplies of some non-renewable commodities will be exhausted in the future so the decrease in inequality might be temporary; fluctuating commodity prices so reduction in inequality might be*	

	temporary Analysis that inequality within countries has increased: (these points may be used as evaluation) • Unskilled workers in developed countries have been priced out of the market by outsourcing of work to low wage countries *But: with rising transport and wage costs in developing countries, some companies are moving factories back to developed countries* • In developing countries, workers moving to industrialised areas likely to see their wages rise relative to those remaining in rural areas • Evidence that earnings of top 1% of workers has increased relative to those on middle incomes – related to global market for top executives/footballers/entertainers • Relative poverty within countries has increased e.g. because of fall in demand for unskilled labour in developed countries; industrialisation in developing countries *But governments can take measures to redistribute incomes.* *Further evaluative point:* • *Consideration of the difference between inequality of income and wealth* *If discussion relates to one country only or if there is no reference to the world economy, then award a maximum of 14/20*	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
3 (b)	**KAA: 21 marks; Evaluation 9 marks** Policies include: • More progressive tax system *But a higher top rate of tax might have disincentive effects e.g. people and businesses relocating abroad*	

	• Increase in benefits to those on low incomes *But this could act as a disincentive to work for the unemployed* • Increase in the National Minimum Wage *But those on NMW are not necessarily in the poorest households e.g. someone in household could be on a high salary* • Increased opportunities for women in the workforce *But positive discrimination might result in an overall loss in productivity* • Increased incentives for women to join the workforce e.g. better and cheaper childcare *But cost of childcare might have to be met by the taxpayer* • Improved training and education for the unemployed *But difficulty of knowing what type of training to provide; cost of training must be met by firms or the government; also: quality, relevance and time lags* • Measures to reduce the geographical immobility of labour e.g. housing subsidies *But cost associated with this and problem of targeting subsidies effectively* • Reduction in indirect taxes *But: loss of tax revenue for the government which could have been used more directly to reduce inequality* • Improvements in health care, so increasing longevity/productivity *But: cost to the government* • Job creation schemes *But issues with quality and relevance to the needs of the economy* *N.B. Award a maximum mark of 24/30 if there is no reference to a specific country*	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
4(a)	• Understanding of external debt relief: e.g. cancellation or partial cancellation of debt by developed economies/owed to other countries (1 mark); • Impact on Balance of Payments: reduction in interest outflows on 'investment income' section of current account (1 mark) • Leading to improvement in current account (1 mark) • Credit to 'capital transfers' on capital account (1mark) • Leading to improvement in capital and financial account (1 mark) • Example of one country from Figure 1 with data reference (1 + 1 marks)	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for application –see above

Question Number	Answer	Mark
4(b)	Possible benefits:(2 marks for identification; 4 for analysis i.e. 2 x 2 marks) • Better communications enables business to become more productive; easier to trade with other countries • Easier to make payments/development of informal banking system • Both of above would encourage FDI • Mobile phones/internet also allows markets to become more efficient; reducing barriers to entry on the supply side; and improving the flow of information reducing market failure on the demand side. • Creation of consumer society • Increased employment opportunities resulting from improved technology Analysis of above points could include impact on in	**(8)**

	aggregate demand, long run aggregate supply and economic growth 2 marks for 2 data references from the fifth paragraph e.g. 60 million mobile phones; market expanding at 20% per year; 40-fold fall in internet connection costs; 2 527% increase in internet usage between 2000 and 2011; 41% of population use mobile phones to pay for goods or specific examples of new technology e.g.fibre optic cables. 2 marks for identification; 2 for application and 4 for analysis.	

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 effects
Level 2	3-4	2 marks for identification of 2 effects; 2 for application as indicated above
Level 3	5-8	2 marks for identification of 2 effects; 2 for application as indicated above and 4 for analysis

Question Number	Answer	Mark
4(c)	Meaning of poverty e.g. absolute poverty – inadequate resources to meet basic human needs of food, water, shelter, clothing or measurement: those living on less than $1.25 a day. (Allow: $1 / $1.50 / $2.00) (1 mark for either verbal description or monetary measure) OR Meaning of relative poverty – Relative poverty refers to those who fall below a certain threshold income or below the poverty line in a country. (Allow measurement of relative poverty: e.g. the % of the population living below 50% or 60% of the median household income. (1 mark) Data references: e.g. astonishing growth in number of billionaires and millionaires; 100% increase in number of people spending $2.20 a day; or examples from own knowledge. (2 marks for 2 data references) Possible impact (Analysis: up to 3 marks for any analysis of one point or 2 + 1 marks;): • With higher real incomes, more people should be	

	lifted out of poverty: "the wealth is trickling down" *But: differential impacts e.g. males/females; urban/rural communities.* • Associated analysis of the trickle down effect *But: economic growth might be associated with increased inequality so may be limited impact* • Increase in consumption *But Africa still one of the poorest continents on earth – most live off less than $1 a day* • Increased tax revenues which could be used to redistribute incomes or to improve public services *But: tax evasion and avoidance; inefficient tax collection systems* • Increased employment *But depends on sources of growth* *Other evaluative comments:* • *Poverty difficult to determine because of subsistence agriculture* • *Economic growth rates vary between countries so impact will vary across Africa* • *Corruption/military expenditure/interest payments on debt/expenditure on prestigious projects/droughts/civil wars ….might limit the impact of growth on poverty* • *Could contast impacts on absolute and relative poverty* *Marks for evaluation (points in italics above): 2 + 2 or 3 + 1.*	(10)

Level	Mark	Descriptor
Level 1	1-3	1 mark for understanding of poverty; 2 for application (reference to 2 relevant examples from the extract/data)
Level 2	4-6	1 mark for understanding of poverty; 2 for application (reference to 2 relevant examples from the extract/data); 3 for analysis.
Level 3	7-10	1 mark for understanding of poverty; 2 for application (reference to 2 relevant from the extract/data); 3 for analysis; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
4(d)	Key reasons (Up to 5 marks for knowledge and analysis; maximum 2 marks for identification only): • Increased demand and value of commodities found in African countries – leading to improved terms of trade, increased foreign currency earnings from exports (could count as 2 points) *But: an increase in the terms of trade would reduce*	

	competitiveness of the country's goods and services; *possibility that price rises will not be maintained in the long run* • Lower birth rates – leading to decreased dependency ratios *But: may have greater proportion of elderly people in the longer term.* *Also, problems such as AIDs, famines and civil wars might reduce the size of the workforce* • Improvements in infrastructure – leading to increased productivity *But: evidence that infrastructure is still deficient e.g. power cuts* • Increases foreign direct investment e.g. from China *But: possible exploitation of labour and resources by TNCs* • Improvements in education; • Aid from developed economies; • Improvements in governance; • Property rights allocated and enforced; rule of law upheld For the 2 application marks, there should be reference to 2 relavant examples either from extract or own knowledge. These could be countries or groups of products. *Evaluation marks (points in italics above): 2 +3; or 2 + 2 + 1.*	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 reasons;
Level 2	3-7	2 marks for identification of 2 reasons; 2 for application (reference to 2 relevant examples); 3 for analysis of at least 2 reasons
Level 3	8-12	2 marks for identification of 2 reasons; 2 for application (reference to 2 relevant examples); 3 for analysis of at least 2 reasons; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question Number	Answer	Mark
4(e)	**For knowledge, application and analysis**: **9 marks** for up to 3 points (up to 5 marks for any one point) *Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks)* Factors include: • Poor quality of education so human capital is weak resulting in low productivity • Poor infrastructure: interruptions to power supplies disrupting production so reducing economic growth • Corruption: resulting in an inefficient allocation of resources and deterring FDI. This factor is also likely to reduce economic growth. • Conflicts over land and water resulting from climate change • Problems regarding internal security • Primary product dependency • Natural environment • Debt Also allow as a third issue: • Geography: some countries are landlocked and far away from large markets • Legacy of colonialism • Diseases e.g. HIV/AIDs; malaria • Poor health care *Evaluation:* • *Rapid rates of growth in some countries will enable more resources to be devoted to health and education* • *FDI is increasing rapidly because countries such as China wish to gain access to raw materials and land* • *More democracy might reduce corruption* • *Internal security issues may be short term only* **Application: 2 marks may be awarded for any 2 relevant examples from extract** **N.B. If there is no reference to any of the factors identified in Extract 1, then award a maximum of 13/15.** **If the answer makes no reference to economic development (either explicitly or implicitly) then award a maximum of 7/9 marks for KAA.** **Therefore, an answer which makes no reference to any of the factors in Extract 1 or to economic development may only achieve a maximum of 11/15.**	15

Level	Mark	Descriptor
Level 1	1-4	Identification of one or two factors with superficial analysis
Level 2	5-9	Identification, applcation and and analysis of at least two factors
Level 3	10-15	At least two factors analysed well with at least one convincing evaluative comment

Question Number	Answer	Mark
5(a)	• Definition of GDP or change in GDP or GDP per capita:(1 mark) OR Distinction between GDP and GDP per capita (1) • Population has been increasing steadily and for most of the period GDP per capita has been increasing in the same period(1) OR because GDP per capita rising, so must GDP (1) • GDP has risen (1) • This implies that GDP has been increasing at a faster rate than population (2) Application: Specific data references to population growth from Figure 2 (1) and to change in GDP per capita from Figure 1 (1)	5

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for data references

Question Number	Answer	Mark
5(b)	Factors include:(2 marks for identification; 4 for analysis i.e. 2 x 2 marks) • Wealth of natural resources • High interest rates • Foreign direct investment • QE in other countries has caused their currencies to depreciate against the *real* • Significant growth in manufacturing and services suggesting that exports have	

	increased • Speculative reasons • Brazil as a safe haven 2 marks for 2 data references from Extract 1 e.g. 40% increase in value of *real*; in 2011, Brazil attracted $50.5bn in FDI; privatisations in 1990s attracted FDI from China and US. 2 marks for identification; 2 for application and 4 for analysis (This should include transmission mechanisms) .	8

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 reasons
Level 2	3-4	2 marks for identification of 2 reasons; 2 for application as indicated above
Level 3	5-8	2 marks for identification of 2 reasons; 2 for application as indicated above and 4 for analysis

Question Number	Answer	Mark
5(c)	Understanding of the impact of an appreciation of the *real:* Higher price (in foreign currency) of Brazil's exports; Lower price of imports into Brazil (in domestic currency). (1 mark) Data references: e.g. 40% increase in value of the *real* or comment on magnitude of rise; dependence on primary products such as sugarcane, coffee and tropical fruit. (2 marks for 2 data references) Possible effects: (Up to 3 marks for any analysis of one point or 2 + 1 marks): • Lower import prices for intermediate goods, raw materials reduces price level and improves competitiveness in the long-run • Loss of competitiveness of Brazil's goods and	

	services (resulting from an increase in its terms of trade): could lead to a deterioration in its current account balance (depends on whether or not Marshall-Lerner condition is fulfilled) • *But: there would be a reduction in the cost of imported raw materials* • If commodity boom ends, then Brazil would suffer a fall in the value of its exports so causing a deterioration of its current account. *But this depends on the price elasticity of demand for its exports of commodities.* • Less attractive for FDI which would cause a fall in inward flows into the financial account of the Balance of Payments *But: if price of commodities continues to remain high, then Brazil will still be attractive to TNCs as living standards will continue to increase* • Brazil's wealthy individuals might increase investments abroad (outward flow from the financial account) but would receive interest, profits and dividends in the medium term (inward flow to the current account) • Impact on capital and financial accounts: e.g. could lead to increase in overseas investment. *Marks for evaluation (points in italics above): 2 + 2 or 3 + 1.*	10

Level	Mark	Descriptor
Level 1	1-3	1 mark for understanding of appreciation of the *real*; 2 for application (reference to 2 relevant examples)
Level 2	4-6	1 mark for understanding of appreciation of the *real*; 2 for application (reference to 2 relevant examples); 3 for analysis.
Level 3	7-10	1 mark for understanding of appreciation of the *real*; 2 for application (reference to 2 relevant examples); 3 for analysis; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question Number	Answer	Mark
5(d)	Possible problems include: Key reasons (Up to 5 marks for knowledge and analysis; maximum 2 marks for identification only): • Price volatility (price inelastic supply and demand) making it difficult to plan investment and output *But possibility of reducing risks by modern farming methods and diversification by producers* • When prices of primary products are rising, then the exchange rate of the currency is likely to appreciate. *But this would make imports cheaper e.g. of capital goods* • Fluctuations in producers' revenues *But these could be offset by futures contracts/hedging* • Income inelastic demand for primary products – so incomes of countries producing these products will rise less quickly than countries producing manufactured goods or services *But demand for some of Brazil's primary products are likely to be income elastic e.g. tropical fruit, beef, oil* *However, if demand is income elastic, then it makes producers more vulnerable to world recessions* • Danger of declining terms of trade (reference may be made to the Prebisch-Singer Hypothesis) – leading to relative fall in living standards *But: primary product prices have been increasing over the last decade* • Some primary products are finite and resources might eventually be exhausted *But income gained may be used to diversify into other products* • Lack of diversification so no balanced growth across the sectors of the economy leading to risk of shocks, lack of structural change *But country may have comparative advantage in primary*	12

	products so resources are being used in most efficient way *Evaluation marks (points in italics above): 2 +3; or 2 + 2 + 1.*	

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two problems;
Level 2	3-7	2 marks for identification of two problems; 2 for application (reference to 2 relevant examples); 3 for analysis of at least 2 reasons
Level 3	8-12	2 marks for identification of two problems; 2 for application (reference to 2 relevant examples); 3 for analysis of at least 2 reasons; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question Number	Answer	Mark
5(e)	**For knowledge, application and analysis**: **9 marks** for up to 3 points (up to 5 marks for any one point) *Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks)* Benefits include: • Economic growth: investment is an injection into the circular flow and will have a multiplier effect on GDP *But multiplier may be small* • Increased employment *But: these may be low skill jobs if the TNC brings its own managers and skilled workers* • Increase in skills of the workforce if TNCs invest in training *But would not be the case if only unskilled jobs are created* • Reduction in absolute poverty *But possibility of increased inequality* • Increased tax revenues *But tax avoidance schemes might be used by TNCs* • Technology transfer/New management techniques *But domestic firms might not benefit if*	

	technologies are protected by patents • For balance of payments: inflow into financial account; in medium term inflow into current account because of increase in exports *But: outflow from current account in long term in form of interest, profits and dividends* Other evaluative comments: • *External costs: e.g. resulting from deforestation; pollution from extra traffic and factories* • *Finite resources might be exhausted more quickly than would otherwise be the case* • *Exploitation of labour: low wages; use of child labour* • *Political influence of TNCs e.g. influence on tax policies* **Application: 2 marks may be awarded for any 2 relevant examples from own knowledge/use of Figure3/extract** **N.B. If there is no reference to any country(s) or to Figure 3 then award a maximum of 7/9 marks for KAA**	15

Level	Mark	Descriptor
Level 1	1-4	Identification of one or two factors with superficial analysis
Level 2	5-9	Identification, applcation and analysis of at least two factors
Level 3	10-15	At least two factors analysed well with at least one convincing evaluative comment

Unit 4 Assessment Grid JUNE 2013

Question Number	AO1 Marks	AO2 Marks	AO3 Marks	AO4 Marks	Total marks for question
Section	**Knowledge**	**Application**	**Analysis**	**Evaluation**	
A					
Qu.1(a)	4	4	6	6	20
Qu.1(b)	6	6	9	9	30
Total	**10**	**10**	**15**	**15**	**50**
Qu.2(a)	4	4	6	6	20
Qu.2(b)	6	6	9	9	30
Total	**10**	**10**	**15**	**15**	**50**
Qu.3(a)	4	4	6	6	20
Qu.3(b)	6	6	9	9	30

Total	**10**	**10**	**15**	**15**	**50**
B					
Qu.4(a)	3	2			5
Qu.4(b)	2	2	4		8
Qu.4(c)	1	2	3	4	10
Qu.4(d)	2	2	3	5	12
Qu.4(e)	2	2	5	6	15
Total	**10**	**10**	**15**	**15**	**50**
Qu.5(a)	3	2			5
Qu.5(b)	2	2	4		8
Qu.5(c)	1	2	3	4	10
Qu.5(d)	2	2	3	5	12
Qu.5(e)	2	2	5	6	15
Total	**10**	**10**	**15**	**15**	**50**
Combined % (A + B)	**20**	**20**	**30**	**30**	**100**

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2013

Level	Part (a) Questions: Performance Criteria for Mark base 20	
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which have limited relevance*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis*
Level 3	11-14	• Displays knowledge and understanding of economic principles, concepts and

		theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation*
	11-12	Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are *not* well developed/reasoned
	13-14	Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 3 factors with 1 evaluative point*
Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 3 factors with 2 evaluative points*

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2013

Level	Part (b) Questions: Performance Criteria for Mark base 30	
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which have limited relevance*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis*
Level 3	16-21	• Displays knowledge and understanding of economic principles, concepts and

		theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation*
	16-18	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are *not* well developed/reasoned
	19-21	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are well developed and reasoned
Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 4 factors with 2 evaluative points*
Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 4 factors with 3 evaluative points*

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Surname	Other names

Centre Number | Candidate Number

Edexcel GCE

Economics

Advanced

Unit 4: The Global Economy

Wednesday 20 June 2012 – Morning
Time: 2 hours

Paper Reference
6EC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ONE question from this section.

You should spend 60 minutes on this section.

***1** (a) Between January 2005 and January 2011, The Economist's commodity price index increased from 100 to 230. Evaluate the likely economic effects of such a rise in commodity prices on the global economy.

(20)

(b) Assess macroeconomic policies which might be used to respond to rising commodity prices during a period of slow economic growth.

(30)

***2** (a) Assess the significance of **three** factors which might limit economic development in developing countries.

(20)

(b) Discuss debt cancellation and trade liberalisation as alternative means of promoting economic development in developing countries.

(30)

***3** (a) Assess the view that the main cause of globalisation is the increased significance of transnational companies.

(20)

(b) To what extent do the costs of globalisation outweigh the benefits?

(30)

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Do not use pencil. Use black ink or ballpoint pen.
Put a cross in the box indicating the question from Section A that you have chosen ☒.
If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen Question Number: **Question 1** ☐ **Question 2** ☐ **Question 3** ☐

TOTAL FOR SECTION A = 50 MARKS

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SECTION B

Answer either Question 4 or Question 5.

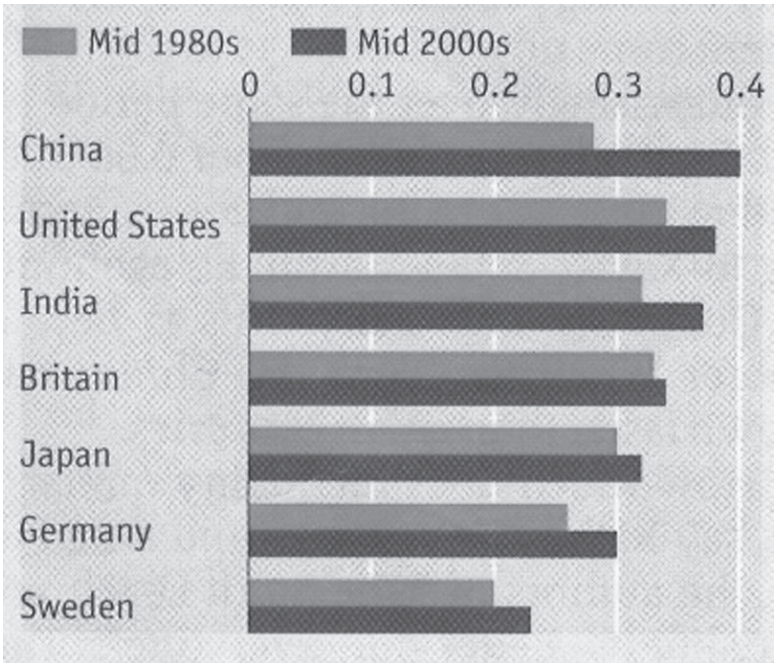
You should spend 60 minutes on this section.

If you answer Question 4 put a cross in this box ☒ .

Question 5 starts on page 28.

4 Inequality

Figure 1 Inequality within selected countries as measured by the Gini Coefficient



(Source: © *The Economist Newspaper* Special report on global leaders, 22 January 2011 page 8)

Extract 1 Changes in income inequality

Globally, the income gap *between* the rich and poor countries has been narrowing as some poorer countries are achieving faster rates of economic growth. However, the gap between the rich and the poor has increased *within* many emerging economies (notably India and China) as well as *within* many rich countries. This is true not only in the United States, but also in countries with a reputation for being more focused on equality, such as Sweden.

In China increased inequality has been associated with the drive towards capitalism, helping to enrich the growing entrepreneurial class. The continued industrialisation of regions bordering the sea has helped to increase incomes of urban workers. Consequently relative poverty is increasing. Poverty is becoming increasingly difficult to address, as the rural poor are now concentrated in remote regions with difficult natural conditions.

However, at the same time, China's rapid economic development in the past two decades has generated the most rapid decline in absolute poverty ever witnessed. It has already achieved the goal of halving the number of people in extreme poverty by 2015, set by the UN as one of eight Millennium Development Goals.

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In the United States, income inequality began to widen in the 1980s largely because the poor fell behind those in the middle income group. More recently, the shift has been overwhelmingly due to a rise in the share of income going to the very top – the highest 1% of earners and above – particularly those working in the financial sector.

Analysis by The Economist suggests that the gap between poorer and richer regions of a country increased during the recession of 2008–09 in some developed economies. In Britain, the income gap between richer and poorer regions is likely to widen further as government spending cuts fall disproportionately on less prosperous parts of the country. GDP per head in the poorest quarter of Britain's regions is now lower than the richest region of China.

Extract 2 Attempts to reduce inequality

The European Union's "structural funds", more than a third of the EU's budget, are designed to shift cash from the richer to the poorer regions of the single market. The United States Government has invested federal dollars into deprived regions such as West Virginia.

Unfortunately, the regional development strategies have a poor record. Despite massive transfers, the gap in participation rates between Italy's richer north and its poorer south is still huge: only 40% of people in Calabria have a job compared with 65–70% in Lombardy and Bolzano. Even policies that, in principle, should be helpful, such as improving infrastructure, provide no simple solutions. West Virginia now has an extensive road network, but is still poor.

The best ways to combat inequality are as follows. First, governments should invest in and remove barriers to education, and refocus government spending on those that need it most. Oddly, the urgency of these kinds of reform is greatest in rich countries, where prospects for the less-skilled are poor and falling. Second, governments should eliminate subsidies for uncompetitive industries. In the emerging economies the policies should be aimed at eliminating monopolies and reducing trade barriers. Third, governments should make it easier for people to move from declining regions to prospering regions.

(Source for Extract 1 and Extract 2: © *The Economist Newspaper*, 22 January 2011 page 11 and 12 March 2011 pages 14–15)

(a) With reference to Extract 1, explain the difference between absolute and relative poverty.

(5)

(b) With reference to Figure 1, explain how income inequality is measured. Illustrate your answer with a Lorenz curve diagram.

(8)

(c) To what extent is income inequality an essential ingredient of capitalism?

(10)

* (d) With reference to the information provided and your own knowledge, assess the likely reasons for the change in inequality ***within*** countries.

(12)

* (e) Evaluate policies which a government could employ to reduce inequality within its country.

(15)

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(a) With reference to Extract 1, explain the difference between absolute and relative poverty.

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(12)

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* (e) Evaluate policies which a government could employ to reduce inequality within its country.

(15)

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(Total for Question 4 = 50 marks)

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If you answer Question 5 put a cross in this box ☒ .

5 Crisis in the Eurozone

Figure 1: Budget deficits as a percentage of GDP of selected Eurozone countries (2010)

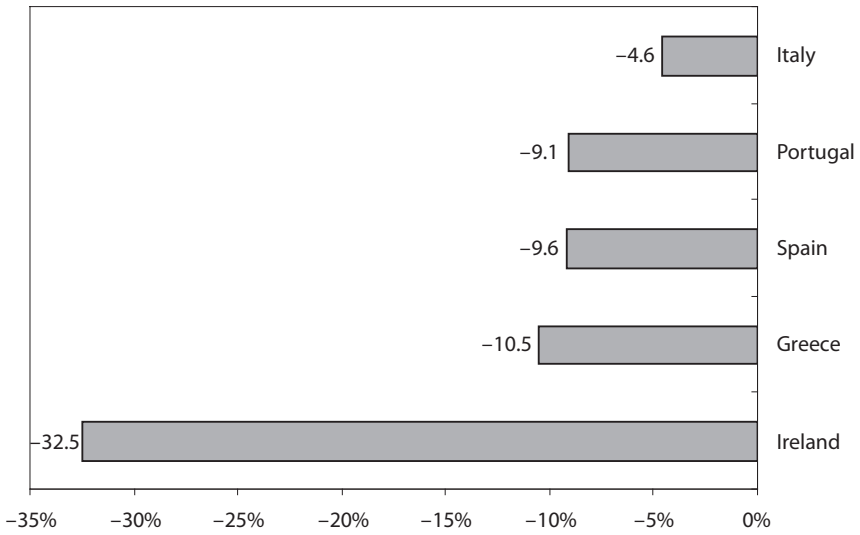
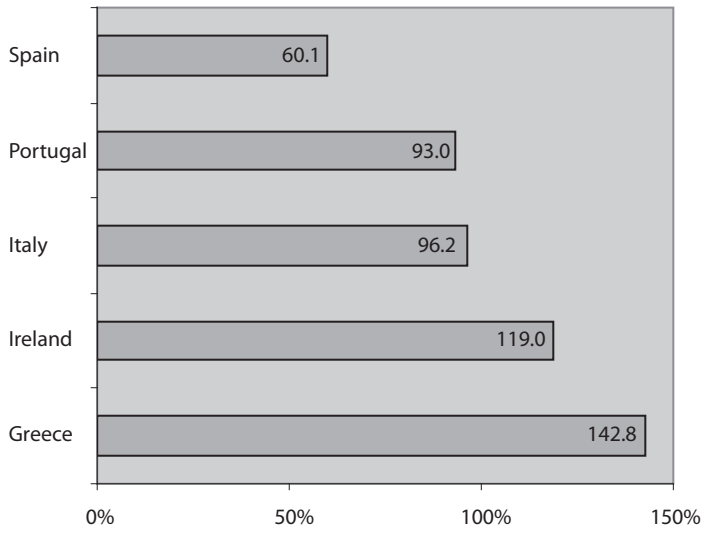


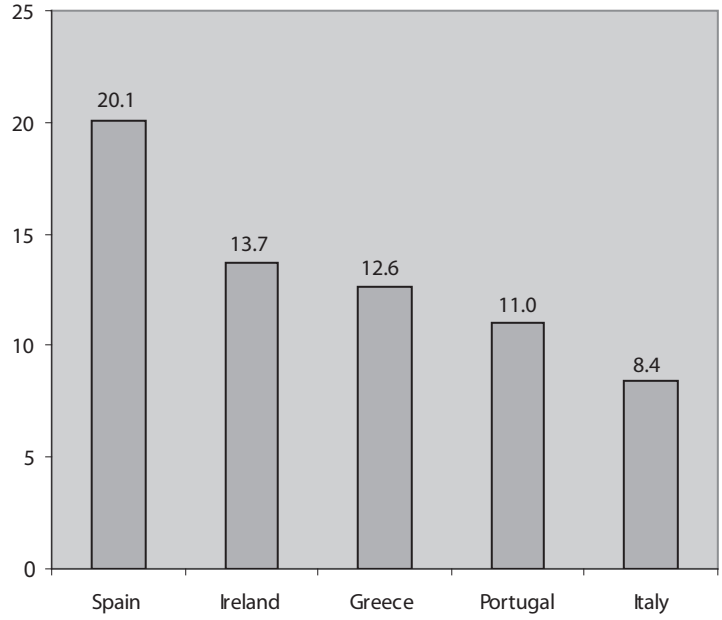
Figure 2: National debts as a percentage of GDP of selected Eurozone countries (2010)



(Source for Figures 1 & 2: Eurostat © European Union http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-26042011-AP/EN/2-26042011-AP-EN.PDF)

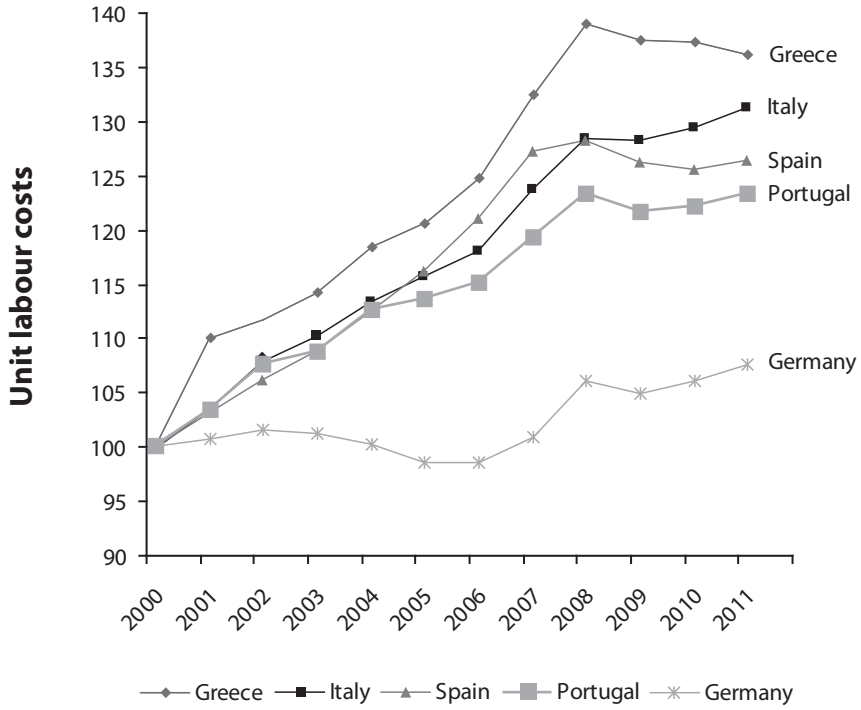
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Figure 3: Unemployment in selected Eurozone countries, per cent (2010)



(Source: Eurostat © European Union http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics#A_detailed_look_at_2010)

Figure 4: Unit Labour Costs in selected Eurozone countries (2000 = 100)



(Source: Eurostat © European Union http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_aux_ulc&lang=en)

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Extract 1: Differences in performance in Eurozone economies

The fear that Greece's debt crisis might be the first of similar problems elsewhere in the Eurozone has been borne out. In November 2010, Ireland joined Greece in being forced to apply for funds from the European Union (EU) rescue scheme and the International Monetary Fund (IMF). A few months later in April 2011, Portugal became the next country to seek substantial financial support.

Although economic growth picked up in most EU countries in 2010, there were marked differences in performance. Germany's economy is booming, with Gross Domestic Product (GDP) increasing 3.5% but the Irish economy contracted by 1.6% in the final quarter of 2010 and is forecast to grow by less than 1% in 2011. The outlook for Greece is worse: GDP fell by 3.9% in 2010. It is notable that GDP in countries outside the Euro such as Britain, Poland and especially Sweden grew at a rate faster than the Eurozone average in the first nine months of 2010.

In many countries unemployment has not risen by as much as might be expected given the depth of the financial crisis of 2008-9. Germany now has lower unemployment than before the crisis, thanks in part to short-time working and flexible time arrangements in its manufacturing sector. The worst affected countries include Ireland and Spain, where a collapse in construction activity has caused a sharp rise in unemployment.

Weak growth and high unemployment could cause serious problems for countries that already have high levels of national debt. That explains why Greece was first to lose the confidence of the markets with a national debt to GDP ratio of 127% and a budget deficit of 15.5% of GDP in 2009. Both Ireland and Spain had low national debt to GDP ratios before 2008, but a combination of recession and a collapse in their housing markets resulted in a massive fall in tax revenues.

(Source: © *The Economist* Newspaper, 6 April 2011)

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(a) With reference to Figures 1 and 2, explain the difference between a budget deficit and the national debt of a country.

(5)

(b) With reference to Extract 1, explain why 'weak growth and high unemployment could cause serious problems for countries that already have high levels of national debt' (Extract 1, lines 19–20).

(8)

(c) Assess possible reasons why the GDP of European Union countries outside the Eurozone grew at a faster rate than the Eurozone average in the first nine months of 2010.

(10)

* (d) Examine policies which might improve the competitiveness of the goods and services produced by Greece, Italy and Portugal.

(12)

* (e) Discuss the view that governments of countries with large budget deficits should take measures to reduce them as quickly as possible.

(15)

(a) With reference to Figures 1 and 2, explain the difference between a budget deficit and the national debt of a country.

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(8)

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(12)

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* (e) Discuss the view that governments of countries with large budget deficits should take measures to reduce them as quickly as possible.

(15)

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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Mark Scheme (Results)

Summer 2012

GCE Economics (6EC04)
Paper 01

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Mark scheme: 6EC04 JUNE 2012

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

QUALITY OF WRITTEN COMMUNICATION:
Quality of written communication (QWC) is assessed in **both parts of the essays and in parts (d) & (e) of the data response questions** and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question Number	Answer	Mark
1 (a)	Effects include: • Cost push inflationary pressures – AD/AS analysis showing leftward shift in AS curve for manufactured goods *But increased costs might be offset by increased productivity or efficiency gains* • Danger of wage price spiral and rising inflationary expectations *But.. monetary policy might help to keep inflation under control* • Lower growth – AD/AS analysis *But… if the rise in commodity prices is caused by rapid world growth, then the impact on growth might be limited* • Possibility of increased unemployment *But not so likely if increased global demand is the cause of higher commodity prices* • Impact on the trade in goods balance *Differential effects depending on whether the country is a net importer or exporter of commodities. In the UK's case, there is likely to be an adverse effect on the trade in goods balance but countries exporting commodities will see a rise in their terms of trade and will benefit from increasing export revenues (assuming demand is price inelastic)* • Impact on income distribution • Impact on real incomes and consumption ***N.B. If analysis is related to just one country i.e. no reference to the global economy then 14/20*** **Also for evaluation:** • *Impact will be different on commodity producers compared with commodity importers* • *different effects before and after the financial crisis* (Synoptic element: reference to inflation, growth, unemployment and AD/AS analysis (unit 2) and use of Economist's tool-kit in analysis and evaluation and in approach to question)	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
1 (b)	***N.B Answers may discuss reflationary or deflationary demand-side policies but if there is no reference to context of the question 'i.e. rising commodity prices and to slow economic growth' then award a maximum of 21/30 (top of level 3)*** Candidates must use at least **two** macroeconomic policies (fiscal, monetary, and supply side). If only one of the above discussed up to 21/30 – top of level 3. Policies include: **Monetary policy**: discussion of transmission mechanism; AD/AS analysis *Evaluation:* • *consideration of whether it is appropriate to target inflation or asset prices;* • *adverse effects on other variables of changing interest rates e.g. on exchange rate;* • *time lags;* • *Negative impact on growth and employment* • *Inappropriate to raise interest rates when inflation is caused by cost push factors* **Supply side policies**: discussion of those which impact on the price level i.e. measures to increase competition and productivity; transmission mechanism; education and training *Evaluation: some policies will have implications for public finances; time lags* **Fiscal policy:** discussion of transmission mechanism; AD/AS analysis	**(30)**

	Evaluation: ineffective if consumers reduce savings following a rise in taxes; very blunt instrument – adverse impact on other variables e.g. unemployment. • In the case of oil, governments might react by cutting the tax on petrol (Synoptic elements: reference to analysis introduced in unit 2 e.g. monetary, fiscal and supply side policies; use of Economist's tool-kit in analysis and evaluation and in approach to question)	

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
2 (a)	A wide range of factors may be considered. For example: • Primary product dependency *But less of an issue if prices of primary products are rising; some countries have developed on the basis of specialisation in primary products* • Savings gap *But could be offset by FDI or aid;* • Foreign exchange gap *But could be offset by debt cancellation* • Protectionism by developed economies *But WTO active in bringing about a reduction in tariffs* • Debt *But could be offset by debt cancellation* • Rapid population growth: creating a high dependency ratio *But: larger markets will be created in the future and larger workforces* • Poor education and health care • Poor/inadequate infrastructure; land-locked countries • Corruption; poor governance • Political instability; Civil war • Disease e.g. AIDS *Other evaluative comments could include:* • *Prioritisation of factors* • *Problem of defining economic development precisely* • *Some problems may be of a short term nature only* ***N.B. If there is no reference to economic development (either explicitly or implicitly) then award a maximum of 14/20 (top of level 3)*** (Synoptic element: analysis of price fluctuations of primary products (unit 1) and use of Economist's tool-kit in analysis and evaluation and in approach to question)	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
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Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

Question Number	Answer	Mark
2(b)	Case for debt cancellation: • To reduce absolute poverty: no more interest payments on debt • More resources available for health care leading to increased life expectancy • More resources for education leading to increased school enrolment and higher literacy rates • To provide resources for investment: multiplier effects: link to increased growth and more resources for health, education…. • Effective as an immediate way to fill savings gap • Helps to fill foreign exchange gap enabling LEDCs to buy capital equipment; oil etc • Opportunity cost of debt servicing • More resources for public services *However:* • *Danger of corruption: money saved not spent e.g. to improve health and education* • *Misuse of money saved e.g. for defence purposes* • *Creation of a dependency culture* • *Moral hazard* • *May be used to generate political influence* Case for trade liberalisation: • LEDCs have access to markets in developed countries: increased exports and higher GDP, the proceeds of which may be used for health, education, improved access to clean water • Increased competition might promote increase efficiency in LEDCs • Incentive for multinationals to establish production plants in the country so contributing to industrialisation • Consumers benefit from lower prices and more choice • More efficient use of resources – based on law of comparative advantage leading to increased growth • Enables LEDCS to become less dependent on aid • Use of tariff diagram to illustrate impact of cut in tariffs e.g. on	**(30)**

	consumer surplus, producer surplus, welfare gains *However:* • *Domestic firms in LEDCs may be unable to compete with TNCs from developed economies* • *Infant industries may be unable to survive* • *Monopsony power of TNCs might result in exploitation of resources of LEDcs* • *Environmental arguments against free trade* • *Problems of overspecialisation* • *Dumping by developed countries* *Other evaluative comments:* • *It could be argued that without individual freedom, democracy and the rule of law, economic development is not possible* • *Difficulty of defining economic development precisely* ***N.B. If there is no reference to economic development (either explicitly or implicitly) then award a maximum of 21/30 (top of level 3)*** (Synoptic elements: reference to concepts introduced in unit 1 e.g. negative externalities and from unit 3 e.g. monopsony; use of Economist's tool-kit in analysis and evaluation and in approach to question)	

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question Number	Answer	Mark
3(a)	***N.B. Candidates may take either perspective as analysis and use the reverse arguments for evaluation i.e. might argue that TNCs are or are not the main cause of globalisation. However, there must be some consideration of TNCs in the answer, otherwise maximum 14/20.*** Meaning of globalisation: increased economic interdependence between countries e.g. increased trade as a % of GDP; more FDI; capital market liberalisation. Comment on increased significance of transnational companies as major cause of globalisation e.g. growth of offshoring and outsourcing by multinationals resulting from factors such as: • Reduction in transport costs • Reduction in communication costs • Low labour costs • Regulations (health & safety and environmental) less stringent than in developed economies • Capital market liberalisation Other factors causing globalisation (These may be regarded as evaluation or further analysis): • Reduction in trade barriers linked to the work of the WTO; application of law of comparative advantage • Opening up of economies to world market e.g. China; former Communist countries • Economic development in LDCs leading to more demand for foreign goods • Higher real incomes create increased demand for imported goods (depending on value of the marginal propensity to import) • Increase in the number and size of trading blocs *Other evaluative comments could include:* • *Prioritisation of factors* • *Critical view of accuracy of measures of trade and world GDP* • *Application of concepts such as income elasticity of demand and marginal propensity to import* • *Deglobalisation resulting from financial crisis* (Synoptic element: reference to trade (unit 2) and use of Economist's tool-kit in analysis and evaluation and in approach to question)	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

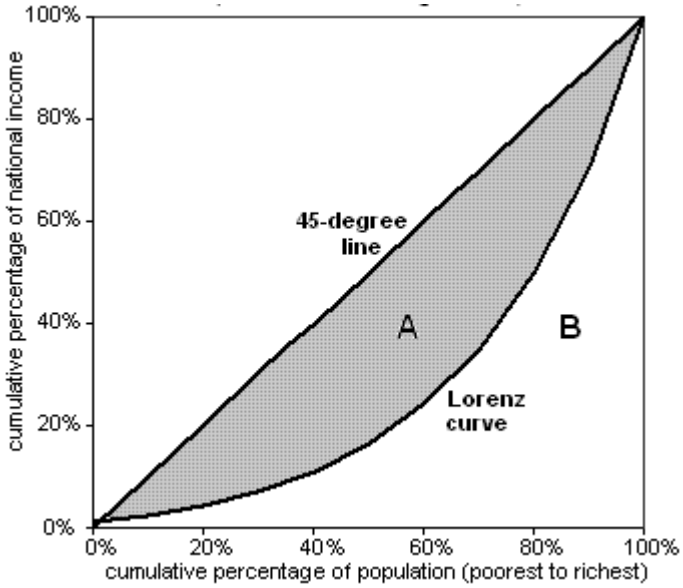
Question Number	Answer	Mark
3(b)	***N.B. Candidates may take either perspective as analysis and use the reverse arguments for evaluation*.** Costs of globalisation include: • Over-dependence on imports or on exports • Exploitation of labour • Negative externalities from increased trade e.g. increased air freight causing pollution- climate change • Increased inequality between developed economies and LEDCs • TNCs might engage in tax avoidance policies so causing reduction in tax revenues for governments Benefits of globalisation include: • Application of the law of comparative advantage: explanation leading to…….. • Increased world output; higher living standards; • Reduction in absolute poverty in LDCs • Consumers: Lower prices (increased consumer surplus); more choice • Firms: Larger markets; benefits arising from economies of scale • Technology transfer • Increased tax revenues *Other evaluative approaches which may be rewarded include:* • *Conclusions based on a weighing up of the arguments* • *Assessment of the significance of the point(s) considered* • *Prioritisation of the points made supported by reasoned arguments*	**(30)**

	• *Consideration of costs and benefits for different countries and different economic agents* (Synoptic elements: reference to concepts introduced in unit 1 e.g. consumers' surplus; negative externalities; reference to concepts introduced in unit 3 e.g. economies of scale; use of Economist's tool-kit in analysis and evaluation and in approach to question)	

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

Question No.	Answer	Mark
4(a)	Absolute poverty: insufficient resources to meet basic needs e.g. food, shelter, water, clothing OR measurement of absolute poverty: those living on less than $1.25 a day (accept $1 or $2 a day) Relative poverty: those living below a certain income threshold in a country OR measurement of relative poverty: e.g. the % of the population living below 60% (accept 50%) of the median income Application: Reference to example from Extract 1: e.g. China: fall in absolute poverty (1); rise in relative poverty (1) 3 marks for knowledge (2 + 1 or 1 + 2) for definitions) 2 for application/i.e. 2 data references	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for data references

Question No.	Answer	
4(b)	**Lorenz curve diagram : 4 marks awarded as follows:** Axis correctly labelled: 1 mark for income and population/households; 1 mark for cumulative % Line of income equality (45º line): 1 mark Lorenz curve: 1 mark.  Explanations: up to 2 marks for any one of the following: • Measurement of Gini coefficient: Area A (between 45°line and Lorenz curve) ÷ Area A + B (whole area under 45°line) • Further explanation of diagram (e.g. how a change in inequality would affect the Lorenz curve) and/or Gini coefficient • Explanation of other measures of inequality Application: Specific data reference from Figure 1 e.g. to a specific country and its Gini Coefficient (2)	**8**

Level	Mark	Descriptor
Level 1	1-2	2 marks for knowledge
Level 2	3-4	2 marks for knowledge; 2 for application (i.e. data reference to a country and its Gini Coefficient in Figure 1)
Level 3	5-8	2 marks for knowledge; 2 for application (e.g. data reference to a country and its Gini Coefficient in Figure 1) and 4 for analysis (2 for explanation and other 2 marks for diagram)

Question No.	Answer	Mark
4(c)	Understanding of capitalism - explicit or implicit e.g. private ownership of resources; free enterprise(1) Reasons why inequality is necessary (up to 3 marks for one good point or 2+1 marks): • Incentive for entrepreneurs • Profits necessary for investment, R & D • Private ownership of resources • Owners of resources will tend to become richer relative to those who own none • Wage determination through supply and demand for labour • Price mechanism ignores equality/inequality Application e.g. reference to 2 examples of countries e.g. USA & Sweden from the information provided or from own knowledge; or reference to one country including data (2 marks) *Evaluative comments (up to 4 marks: 2 + 2; 3 +1) could include:* • *Although inequality may be an essential ingredient, the degree of inequality may vary between different capitalist systems* • *Inequality might be reduced by government policy* • *Private ownership of resources is a key reason for inequality because these may be used to gain further income* • *Argument that capitalism is reducing global inequality*	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for understanding of capitalism; 2 for application (e.g. reference to 2 examples of countries from the information provided or from own knowledge or reference to one country including data)
Level 2	4-6	1 mark for understanding of capitalism; 2 for application (e.g. reference to 2 examples of countries from the information provided or from own knowledge or reference to one country including data); 3 for analysis.
Level 3	7-10	1 mark for understanding of capitalism; 2 for application (e.g. reference to 2 examples of countries from the information provided or from own knowledge or reference to one country including data); 3 for analysis; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question No.	Answer	Marks
4(d)	Reasons include (up to 5 marks; maximum 2 for identification only): • Income gap between rural and urban areas increases as industrialisation takes hold – workers in more productive manufacturing industries earn more than those in less productive agriculture *But workers may be exploited and paid low wages i.e. owners of resources are getting richer at the expense of workers* • Entrepreneurs and shareholders in these industries benefit from profits *But profits may be repatriated to shareholders of TNCs in developed economies* • Increased capitalism in developing countries • Corruption • Increased rewards for those producing commodities in high demand • Discrimination • Falling demand for unskilled workers and those of low skills • Differences in qualifications *But still possible to become very wealthy without formal qualifications* • Increased incomes of the top 1% - bankers' bonuses *But now being subject to 50% tax and special taxes* • Impact of public expenditure cuts e.g. cuts in benefits; job losses among low paid; benefits and pension increased in line with CPI rather than RPI *But more generous public sector pensions have contributed to increased inequality amongst the elderly* • The increased inequality is part of a long term trend associated with declining trade union power *But: until recently state means-tested benefits have been increasing to reduce inequality* • Shift from direct to indirect taxation • Globalisation *Also for evaluation:* • *Changes in factors over time* • *Differences in causes of income and wealth inequality* *Marks for evaluation (points in italics above): (2 + 3; or 3 + 2; or 2 + 2 + 1)* Application e.g.reference to 2 relevant examples or use of Gini coefficients (2marks); (Synoptic element: wage determination from unit 1; concept of productivity from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**12**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 reasons;
Level 2	3-7	2 marks for identification of 2 reasons; 2 for application (reference to 2 relevant examples or use of Gini coefficients); 3 for analysis of 2 reasons
Level 3	8-12	2 marks for identification of 2 reasons; 2 for application (reference to 2 relevant examples or use of Gini coefficients); 3 for analysis of 2 reasons; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2 + 2 + 1)

Question No.	Answer	Marks
4 (e)	For knowledge, application and analysis: 3 x 3 marks or 4 + 5 marks) A range of policies may be considered including: • Education: improving access to education for all; government efforts directed especially to those who need it most *But: much depends on the quality of education; also considerable time lag* • Removal of subsidies- money saved might be used for job creation programmes • promotion of free trade *But could cause some domestic industries to close down if they are unable to compete* • Measures to eliminate monopolies *But could result in loss of economies of scale* • Measures to increase the geographical mobility of labour e.g. housing subsidies; increased provision of affordable houses *But cost of these scheme to the government; implications for taxes* N.B. Credit discussion of policies not in the extract e.g. • increase in means-tested benefits; • more progressive tax system on incomes • wealth taxes • Increased public expenditure • National Minimum Wage *Also for evaluation:* • *Differences in impact of policies on income and wealth inequality* *Marks for evaluation (points in italics above): (3 + 3; or 4 + 2; or 2 + 2 + 2)*	**(15)**

	(Synoptic element: immobility of labour from Unit 1; education as a supply side policy from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	

Level	Mark	Descriptor
Level	Mark	Descriptor
Level 1	1-4	Identification of one or two arguments with superficial analysis
Level 2	5-9	Identification and analysis of at least two arguments
Level 3	10-15	At least two arguments analysed well with at least one convincing evaluative comment

Question No.	Answer	Marks
5(a)	Budget deficit: government expenditure greater than tax revenues with data reference National Debt: cumulative total of past government borrowing with data reference 3 marks for knowledge (2 + 1 or 1 + 2) for definitions) 2 for application: 2 data references (one for budget deficit and one for national debt from Figures 1 and 2)	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for 2 data references

Question no.	Answer	Marks
5(b)	Analysis of any 2 issues arising from weak growth and high unemployment: 2x 2 marks. For example: • Rising/high unemployment and the implications of this for public expenditure on benefits • Slow rise in tax revenues from income tax and expenditure taxes • More bankruptcies/ lower profits leading to a fall in corporate tax revenues • Implications for servicing debt • Issues relating to credit rating This implies an increase in the budget deficit and, in turn, an increase in the National Debt (2) Application: Reference to Extract 1 e.g. one data reference to national debt to GDP ratio of Greece, Ireland or Spain (2) or to growth rates (2). Do **not** credit references to unemployment rates.	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identifying 2 problems
Level 2	3-4	2 marks for identifying 2 problems; 2 for application as indicated above
Level 3	5-8	2 marks for identifying 2 problems; 2 for application as indicated above and 4 for analysis

Question No.	Answer	Marks
5(c)	Reasons include (up to 4 marks; maximum 1 for identification only): • Independent monetary policy could be followed by these countries (UK interest rate 0.5%; Euro-zone 1.0% until April 2011) • Currencies of countries outside the Eurozone could (and did) depreciate against other currencies • High unit labour costs in peripheral euro zone countries resulting in a loss in competitiveness • More flexible labour markets • Eurozone growth average brought down by poor performance of weaker economies Application e.g. reference to 2 relevant examples of countries (2 marks) *Evaluation (up to 4 marks: 2 + 2; 3 +1) could include:* • *Prioritisation e.g. significance of depreciation of currency* • *Average figure disguises strong performance of economies such as Germany* • *Situation after 2010 changed: e.g. UK economy had negative economic growth by end of 2011* • *Membership of Eurozone might be an insignificant factor influencing growth e.g. FDI might be more important* • *Size of difference in interest rates* • *Possible long run benefits of Eurozone membership* (Synoptic element: economic growth and monetary policy from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (reference to 2 relevant examples of countries)
Level 2	4-6	1 mark for identification of 1 reason; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 issues.
Level 3	7-10	1 mark for identification of 1 reason; 2 for application (reference to 2 relevant examples of countries); 3 for analysis of 2 issues; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

Question No.	Answer	Marks
5(d)	Policies include: (up to 5 marks; maximum 2 for identification only): • Labour market reforms e.g. making easier to hire and fire workers; increasing retirement age; reducing minimum wages; reducing unemployment benefits *But: danger of worker exploitation; increased inequality; some countries like the UK are already very flexible* • Measures to increase productivity e.g. training, education; investment allowances *But: costs are difficult to finance when budget deficits have to be cut* • Measures to increase competitiveness in the product market e.g. further privatisations *But: most countries have exhausted potential industries to be privatised* • Also: measures to increase incentives for FDI e.g. decrease corporation tax *But: if confidence is low foreign investment is unlikely to take place* • Allow answers suggesting that these countries should leave the euro so allowing currency depreciation *But could lead to cost push inflation reducing gain in competitiveness* *Marks for evaluation (points in italics above): (2 + 3; or 3 + 2; or 2 + 2 + 1)* Application e.g. reference to 2 relevant examples or references from Figure 4 (2marks) (Synoptic element: Supply side policies and concept of productivity from unit 2; wage determination from unit 1. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(12)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of 2 policies;
Level 2	3-7	2 marks for identification of 2 policies; 2 for application (e.g. reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 policies
Level 3	8-12	2 marks for identification of 2 policies; 2 for application (e.g. (reference to 2 relevant examples or references from Figure 4); 3 for analysis of 2 policies; 5 marks for up to 3 evaluative points (2 + 3; or 3 + 2; or 2+ 2 + 1)

Question No.	Answer	Marks
5(e)	***N.B. Candidates may take either side of the argument for analysis and then evaluate by discussing the opposing view.*** For knowledge, application and analysis: 3 x 3 marks or 4 + 5 marks): Arguments for reducing budget deficits quickly: • To prevent loss of confidence of purchasers of government bonds (which could result in higher bond yields) and so avoid the need for a bailout • High budget deficits lead to increasing national debts. In turn, the debt servicing payments rise so that the government has less money to spend on public services • Could cause crowding out • Possible inflationary consequences of persistent and high deficits • High debt increases the risk premium on government bonds increasing financing costs Arguments against reducing budget deficits quickly: • Danger that austerity measures will cause another recession and then higher budget deficits • Higher taxes might cause disincentive effects so that tax revenues do not rise • Austerity measures may result in rapidly increasing unemployment and the emigration of workers e.g. Ireland: 50 000 people leaving each week • Increased inequality if means-tested benefits are cut • Reduction in quality of public services leading to a fall in productivity *Marks for evaluation 3 + 3; or 4 + 2; or 2 + 2 + 2)* (Synoptic element: fiscal policy, inflation and unemployment from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(15)**

Level	Mark	Descriptor
Level 1	1-4	Identification of one or two arguments with superficial analysis
Level 2	5-9	Identification and analysis of at least two arguments
Level 3	10-15	At least two arguments analysed well with at least one convincing evaluative comment

Unit 4 Assessment Grid JUNE 2012

Question Number	AO1 Marks	AO2 Marks	AO3 Marks	AO4 Marks	Total marks for question
Section	**Knowledge**	**Application**	**Analysis**	**Evaluation**	
A					
Qu.1(a)	4	4	6	6	20
Qu.1(b)	6	6	9	9	30
Total	**10**	**10**	**15**	**15**	**50**
Qu.2(a)	4	4	6	6	20
Qu.2(b)	6	6	9	9	30
Total	**10**	**10**	**15**	**15**	**50**
Qu.3(a)	4	4	6	6	20
Qu.3(b)	6	6	9	9	30
Total	**10**	**10**	**15**	**15**	**50**
B					
Qu.4(a)	3	2			5
Qu.4(b)	2	2	4		8
Qu.4(c)	1	2	3	4	10
Qu.4(d)	2	2	3	5	12
Qu.4(e)	2	2	5	6	15
Total	**10**	**10**	**15**	**15**	**50**
Qu.5(a)	3	2			5
Qu.5(b)	2	2	4		8
Qu.5(c)	1	2	3	4	10
Qu.5(d)	2	2	3	5	12
Qu.5(e)	2	2	5	6	15
Total	**10**	**10**	**15**	**15**	**50**
Combined % (A + B)	**20**	**20**	**30**	**30**	**100**

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2012

Level	Part (a) Questions: Performance Criteria for Mark base 20	
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis*
Level 3	11-14 11-12 13-14	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation* Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are ***not*** well developed/reasoned Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 3 factors with 1 evaluative point*
Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of

		issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 3 factors with 2 evaluative points*

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2012

Level	Part (b) Questions: Performance Criteria for Mark base 30	
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis*
Level 3	16-21	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation*
	16-18	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are ***not*** well developed/reasoned
	19-21	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are well developed and reasoned

Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 4 factors with 2 evaluative points*
Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 4 factors with 3 evaluative points*

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Surname	Other names

Edexcel GCE

Centre Number	Candidate Number

Economics

Advanced
Unit 4: The Global Economy

Thursday 23 June 2011 – Afternoon **Time: 2 hours**	Paper Reference **6EC04/01**

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

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SECTION A

Answer ONE question from this section

You should spend 60 minutes on this section.

***1** (a) Many countries have experienced a substantial rise in their fiscal deficits since 2008. Assess the factors which might explain this trend in the public finances of a country of your choice.

(20)

(b) Evaluate the case for cutting public expenditure rather than raising taxes as a means of reducing fiscal deficits.

(30)

***2** (a) Assess the causes of absolute poverty in a developing country of your choice.

(20)

(b) To what extent is reducing the number of people living in absolute poverty sufficient to achieve economic development?

(30)

***3** (a) Assess the economic effects of the growth of trading blocs on the global economy.

(20)

(b) The UK is a member of the European Union but has not adopted the euro as its currency. To what extent do the benefits of membership of a monetary union such as the Eurozone outweigh the costs?

(30)

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Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).

Chosen Question Number: **Question 1** ☐ **Question 2** ☐ **Question 3** ☐

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P 3 8 8 2 0 A 0 8 4 0


P 3 8 8 2 0 A 0 1 0 4 0

TOTAL FOR SECTION A: 50 MARKS

SECTION B

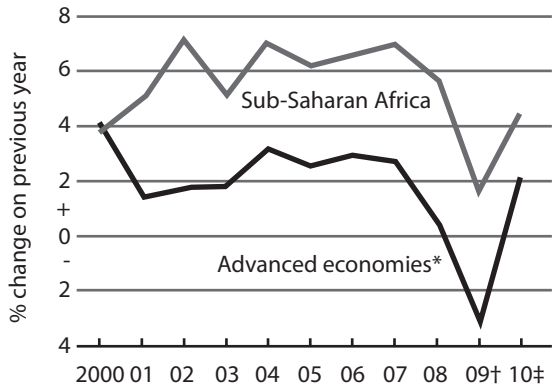
Answer ONE of the questions in this section.

You are advised to spend a maximum of 60 minutes on this section.

If you answer question 4 put a cross in this box ☒ .

4 Sub- Saharan Africa and the Global Recession

Figure 1: GDP, % change on previous year



*33 countries †Estimate ‡Forecast Source IMF

Extract 1: The Impact of the World Recession on Sub-Saharan Africa

The global recession was slow to hit Africa. Its banks and stock exchanges were isolated enough from the wider capital markets to suffer few shocks. Foreign investment remained steady. Oil-rich countries such as Angola continued to boom. However, reduced demand for African exports in 2009, together with the shrinking of private investment flows, has hit the continent hard after a long period of unusually strong growth. It is estimated that countries south of the Sahara (Sub-Saharan Africa) on average grew by less than 2% in 2009. In many countries income has started to fall and unemployment to rise.

Therefore, the confidence of Dominique Strauss-Kahn, the IMF's head, who has been touring Africa, struck some as strange. He went out of his way to praise Africa's central banks. He even said Africa's economies were more dynamic than most of Asia's. The main point, he said, was that Africa was recovering from the global crisis faster than expected.

According to the IMF, Sub-Saharan Africa's economy will grow overall by 4.5% in 2010. But this may be distorted by a large boost from oil and gold, as well as from the guaranteed aid which makes up half the budget in some countries. Kenya will struggle to grow by 3% in 2010 and even that depends on an upswing in tourism. Nearly every African country will grow more slowly than the 6% that many development economists consider is the minimum necessary to allow countries with rapidly increasing populations to maintain living standards.

Source (for both figure 1 and extract 1): *The Economist*, 11 March 2010, http://www.economist.com/world/middle-east/displaystory.cfm?story_id=15679939

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Extract 2: Emerging Economies and Sub-Saharan Africa

As poor countries emerge from recession and the rich world struggles to recover, the BRIC countries – Brazil, Russia, India and China – see an opportunity to increase their influence. A new study by the Overseas Development Institute (ODI), says the emerging countries, such as the BRIC countries, increasingly affect the growth of poorer countries. China has a huge list of pledges to Africa: it has promised $10 billion of cheap loans over 3 years; it has also offered debt forgiveness, new hospitals, professional training for 15,000 Africans and a doubling of aid. When Sudan ran into trouble repaying $34 billion foreign debt, it turned to China, India and regional development funds in the Gulf. India helped to bail out Tanzania's financial institutions.

Trade and foreign direct investment (FDI) from the West are already falling, but the middle-income countries are filling the gap. While total FDI in Africa fell by about a third between 2008 and 2009, the flow from China rose by 80% (admittedly from a low base). Brazil says it has invested $10 billion in the continent since 2003. Since 2009, the BRIC countries' investments and loans have increased rapidly (see Figure 2).

Aid agencies consider that China and others are "rogue donors" because they give to and support corrupt regimes. Aid from China is usually 'tied' to hospitals, roads and equipment built or sold by Chinese companies. Further, much 'aid' is loans at near-commercial rates of interest. African governments have had their debts to the West mostly forgiven and are accumulating new loans elsewhere.

Trade with the BRIC countries may be a trap. The BRIC countries import raw materials like copper and cotton from poor countries; rich countries tend to buy manufactured goods such as garments. So more trade with the BRIC countries and less with the developed world offers less chance of growth in the secondary sector – the opposite of how China grew richer. Eswar Prasad of Cornell University says that China and India's enormous appetite for raw materials may help poor countries diversify their export markets but not their industry, leaving them more dependent on volatile commodities than before.

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Figure 2: Examples of Foreign Direct Investment (FDI) and loans by BRIC countries in Africa since January 2010

COUNTRY	SECTOR	$m	TYPE
BRAZIL			
Angola	Oil	800	FDI
Mozambique	Mining	1 300	FDI
Nigeria	Oil	2 000	FDI
RUSSIA			
Angola	Construction	500	FDI
Nigeria	Gas	2 500	FDI
INDIA			
Chad	Textiles	25	Loan
Malawi	Development Projects	50	Loan
Zambia	Hydro Power	50	Loan
CHINA			
Liberia	Mining	2 600	FDI
Tanzania	ICT	180	Loan
Zambia	Development	1 000	Loan

Source (for both Extract 2 and Figure 2): *The Economist*, 20 March 2010

(a) With reference to lines 18–19 of Extract 1, explain why many development economists consider that a growth rate of 6% is the minimum desirable in most African economies.

(5)

(b) With reference to Figure 1 and Extract 1, analyse why the growth rate of the Sub-Saharan African economies was higher than that of Advanced Economies between 2000 and 2010.

(8)

(c) With reference to Figure 2 and Extract 2, assess the benefits of foreign direct investment in primary sector industries of countries in Sub-Saharan Africa.

(10)

*(d) With reference to Extract 2, evaluate the benefits to African countries of increased trade with the BRIC economies.

(12)

*(e) With reference to Extract 2, to what extent might aid from the 'BRIC' economies promote development in Sub-Saharan Africa?

(15)

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(15)

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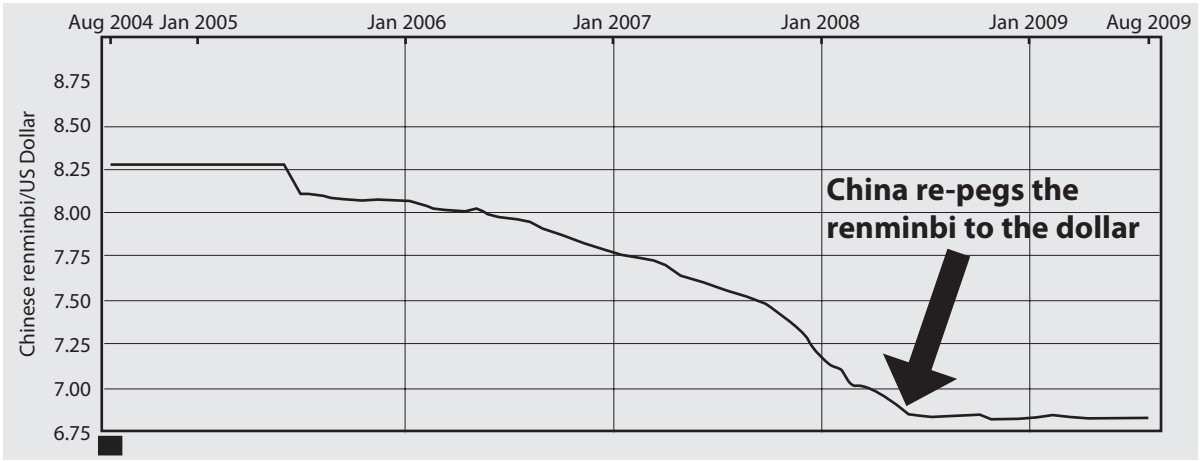
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If you answer question 5 put a cross in this box ☒.

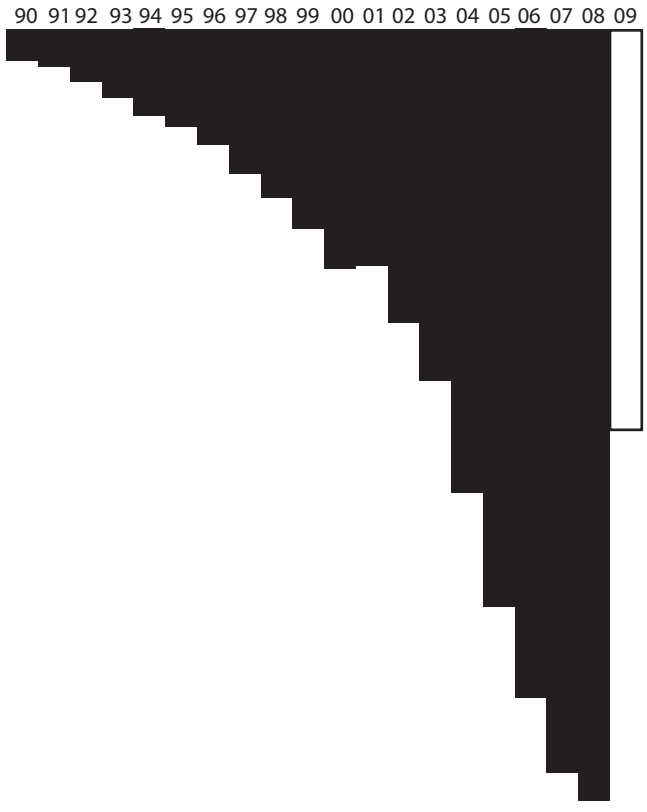
5 Trade Imbalances

Figure 1: Value of Chinese renminbi against the US Dollar



Source: http://www.marketskeptics.com/2010/04/cracks-appearing-in-us-financial-system.html

Figure 2: US trade deficits with China since 1990



1990: $10 billion.
1991: $13 billion.
1992: $18 billion.
1993: $23 billion.
1994: $30 billion.
1995: $34 billion.
1996: $40 billion.
1997: $50 billion.
1998: $57 billion.
1999: $69 billion.
2000: $84 billion.
2001: $83 billion.
2002: $103 billion.
2003: $124 billion.
2004: $162 billion.
2005: $202 billion.
2006: $234 billion.
2007: $259 billion.
2008: $268 billion.
2009 (until August): $144 billion.

TOTAL: $2,009 billion

Source: http://www.census.gov/foreign-trade/balance/c5700.html

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Extract 1 US trade disputes

President Obama has promised that two million of the jobs which America needs to create in the next five years are to come from doubling US exports. The US is to have a National Export Initiative which will include an export promotion cabinet and a policy of getting tough with trading partners who "have not played by the same set of rules" as the US. A major problem is the undervaluation of China's currency, the renminbi, against the dollar.

President Obama will also have to settle several trade disputes, especially the one with Mexico. Mexico imported $129 billion in American exports in 2009. In response to trade union pressure, the US Congress cancelled a trial programme that allowed Mexican trucks to travel more freely into the US. In retaliation, Mexico imposed $2.4 billion in tariffs on a variety of American goods, resulting in a loss of $2.6 billion in US exports and 25 000 jobs.

Additionally, in 2009, Brazil persuaded the World Trade Organisation (WTO) that American government subsidies and loan guarantees to cotton growers violated WTO rules. This ruling allows Brazil to impose $560m in retaliatory tariffs on cotton goods, beauty products and cars. More importantly, Brazil is free to impose other penalties, most notably ignoring US patents in the media, pharmaceutical and technology industries. This retaliation by Brazil could result in thousands of American workers losing their jobs.

Source: *The Sunday Times*, 14 March 2010 and the *Financial Times*, 12 March 2010.

Extract 2 The Chinese currency

The undervaluation of China's currency, the renminbi, against the dollar has been a source of tension between the US and China for some time. The Chinese government has kept the renminbi at 6.83 per dollar since mid-2008 to protect its exporters from the global recession and a contraction in world trade. China has accumulated a record $2.4 trillion of reserves and $889 billion of US government debt, partly as a result of its exchange rate policy. Global growth would be about 1.5% higher if China stopped undervaluing its currency and running trade surpluses, according to Paul Krugman, a leading economist. If China did not start to appreciate the renminbi over the next few weeks, there was a good chance that the US would label China a 'currency manipulator'. That could allow the US to impose new tariffs on Chinese products.

Stephen Roach, Chairman of Morgan Stanley Asia said Paul Krugman's call for a stronger renminbi is "very bad" advice because the US trade deficit is due to a low level of savings in the US. Boosting Chinese spending and increasing savings in the US is a better way of reducing trade imbalances, according to Roach.

Source: http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aaDhEg_mZprU

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(a) With reference to Extract 1, explain the role of the World Trade Organisation (WTO)

(5)

(b) With reference to Figures 1 and 2 and to Extract 2, analyse the effects of an undervaluation of the Chinese currency, the renminbi, for the US economy.

(8)

(c) To what extent might a higher level of savings in the USA be sufficient to eliminate trade imbalances between China and the USA?

(10)

*(d) To what extent are large trade imbalances a cause for concern?

(12)

*(e) With reference to Extract 1, assess the impact of tariffs, such as those imposed by Mexico and Brazil, on US consumers and producers. Illustrate your answer with an appropriate diagram.

(15)

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(15)

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(Total for Question 5 = 50 marks)

TOTAL FOR SECTION B: 50 MARKS
TOTAL FOR PAPER: 100 MARKS

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Mark Scheme (Results)

June 2011

GCE Economics
(6EC04) Paper 01

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N.B. Quality of written communication (QWC) is assessed in both parts of the essays and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

Question Number	Answer	Mark
1(a)	Causes could include: • Global recession leading to rising unemployment – falling income tax and VAT receipt; increased expenditure on unemployment benefits • Falling consumer spending; falling profits; business failure and lower revenue from corporate taxes) • Decrease in employment/rising inactivity rates: e.g. more people in higher education; • Fiscal stimulus to prevent recession turning into depressions • Financial crisis resulting in need for bank bailouts • For UK: increased expenditure on public services • Rising cost of state pensions and benefits • Rise in risk premium on some countries' debt If no country reference then maximum top of level 3 (14/20) Evaluation: • Some countries had fiscal deficits before the financial crisis • Comment of magnitude of rise in fiscal deficit • Comment on implication for national debt and for servicing national debt • Prioritisation of factors • Significance of each factor (Synoptic element: reference government expenditure and taxation (unit 2) and use of Economist's tool-kit in analysis and evaluation and in approach to question))	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

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Question Number	Answer	Mark
1(b)	• Candidates could take either side of the argument OR they could analyse and evaluate 2 arguments for cutting public expenditure and 2 for raising taxes Effects of tax increases include: • Disincentive to work of higher taxes: could be analysed using income and substitution effects • Reduce danger of crowding out • Reduce possibility of government failure • Size of public sector already too large according to some economists – waste and inefficiency • Low productivity in the public sector • More efficient allocation of resources • Raising taxes could reduce tax revenues - use of Laffer curve analysis • Less likelihood of tax avoidance and tax evasion • Impact of cutting public expenditure may be more certain than raising taxes Evaluation could include: • Job losses from cutting public expenditure might be more extensive than raising taxes (because rise in taxes might be offset by dissaving by consumers to maintain living standards) • Reduction in both quantity and quality of public services • Income distribution might become more uneven than if progressive taxes were increased • Reduction in productive capacity in the long run if investment is cut • Impact depends on the areas in which public expenditure is being cut • Danger that public expenditure cuts might cause a double dip recession and cause fiscal deficit to rise • (Synoptic elements: reference to concepts introduced in unit 2 e.g. fiscal policy; use of Economist's tool-kit in analysis and evaluation and in approach to question)	• **(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

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Question Number	Answer	Mark
2(a)	Points could include: • Definition and measurement of absolute poverty: Inability to meet basic needs e.g. food, shelter, clothing, access to clean water. Measured by those living on less than $1.25 a day at 2005 PPP GDP or those living on less than $2 a day • Savings gap (Harrod- Domar model): link to low tax revenues; lack of government provision of public services and Lack of resources • No property rights • Civil wars/wars with neighbouring countries • Natural disasters • Population growing faster than GDP • Corruption • Debt • HIV/AIDs • Primary product dependency • Weak policies aimed at promoting growth resulting in low productivity; little FDI Evaluative points could include: • Problem of isolating most important factor • Absolute poverty may only be short term if caused by natural disaster • Problem of defining absolute poverty • Prioritisation of factors discussed. *If no reference to a specific country then maximum 14 marks.* (Synoptic element: reference to characteristics of development (unit 2) and to use of Economist's tool-kit in analysis and evaluation and in approach to question))	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

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Question Number	Answer	Mark
2(b)	Meaning of economic development (improvement in welfare over time) – either implicit or explicit is necessary to access levels 4 and 5 i.e. a mark above 21. Could be considered in terms of how it may be measured e.g. HDI Candidates may take either side of the argument or they could analyse and evaluate 2 arguments on one side and 2 on the other Reducing absolute poverty is important in order to: • Improve life expectancy (costs of health) • Increase school enrolment and literacy rates (school fees) • Improve access to clean water Some may argue that development is also dependent on factors other than poverty reduction e.g.: • Improvements in education as evidenced by increased literacy rates/increases in primary school enrolment • Improvements in health (associated with higher immunization rates; more doctors per 1000 of population; better diet) as evidenced by increased life expectancy • Improved access to clean water • Improved infrastructure • Greater democracy (Amartya Sen) • If income and wealth are unevenly distributed then number of people in absolute poverty may remain constant but rest of population might have improvement in welfare • Absolute poverty would inhibit access to health and education • Micro-credit schemes • Access to technology e.g. mobile phones Evaluative points could include: • Argument that the proportion of population living in absolute poverty is more relevant than absolute number • Points listed above may only follow from a reduction in absolute poverty • Some may argue that development is impossible without a reduction in absolute poverty • Attempt to come to a conclusion on basis of evidence presented • Normative nature of development (Synoptic element: reference to measures of economic development (unit 2) and to use of the Economist's tool-kit in analysis and evaluation and in approach to question))	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

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Question Number	Answer	Mark
3(a)	• Understanding of the term 'trading blocs' – usually groups of countries in specific regions that manage and promote trade activities. Could consider various types: free trade areas; customs unions; common markets; monetary unions • Consideration of trade creation – based on the law of comparative advantage • Consequent implications for: • Global economic growth • Resource alloaction • Global inflation rates • Inequality • Consideration of trade diversion – distortion of comparative advantage might be used in evaluation) • Free movement of labour within a common market leading to increased geographical and occupational mobility • Increase in FDI If no reference to the impact on the global economy then maximum top of level 3 (14/20) Evaluative comments might include: • Differential impact on those countries in blocs and those outside blocs • Trade diversion: Distortion of comparative advantage • Short run and long run effects e.g. in long run WTO might have further success in reducing trade barriers between blocs • Impact depends on number of trading blocs • And on size and extent of protectionist measures (Synoptic element: and use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

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Question Number	Answer	Mark
3(b)	Candidates could take either side of the argument OR they could analyse and evaluate 2 benefits and 2 costs Analysis might include: • Consideration of key features of a monetary union: single currency • Help from other members should one country get into difficulties e.g. loans from ECB Other benefits: e.g. • no transactions costs; might help to attract more FDI • monetary union designed to impose limits on macroeconomic management e.g. to ensure low rate of inflation • price transparency: increase in competition; rightward shift in AS curve and lower inflationary pressures • Increased trade Evaluation could include: • Fiscal and political changes required as pre-requisite of monetary union • Inability of a country to allow its currency a depreciate e.g. Greece, Ireland, Portugal, Spain whereas the pound sterling has depreciated 25% against other currencies • Resulting in loss of competitiveness and fall in real GDP and employment • 'One size fits all' interest rate which is determined by the ECB for all Eurozone countries but which may be inappropriate for a particular member. Bank of England's MPC can set interest rates to meet UK's inflation target • Costs of economic mismanagement by individual members fall on other Eurozone members e.g. Greece, Ireland. Moral hazard issue • Possible loss of control of fiscal policy • Crisis in eurozone could lead to closer economic union which UK could benefit from as a member • Transition costs –allow as half a point (Synoptic element: monetary policy (unit 2) and use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

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Question Number	Answer	Mark
4(a)	Population growing rapidly (1) with some explanation (1); OR 1 mark for definition of GDP per capita GDP needs to grow faster than population for living standards to increase (2); Kenya only expected to grow by 3% so resulting in a fall in living standards (2) or 'grew less than 2% in 2009' (2) 3 marks for knowledge, 2 for application/ data reference	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge – see above
Level 2	4-5	Up to 3 marks for knowledge and 2 marks for one data reference

Question Number	Answer	Mark
4(b)	Reasons include: • FDI remained relatively stable • Less integrated into world economy/less dependence on foreign trade • Banks and stock markets less exposed to financial crisis • Oil-rich countries benefited from relatively high oil prices • Commodity price boom Data reference: 'growth rate 3-4% higher' or from extract Could approach this question by considering why advanced economies suffered more than those in SSA	**(8)**

Level	Mark	Descriptor
Level 1	1	2 marks for identification of two points
Level 2	2-5	2 marks for identification of 2 issues; 2 for application (e.g. one data reference from Figure 1 or from extract)
Level 3	6-8	2 marks for identification of 2 issues; 2 for application(e.g. one data reference from Figure 1 or from extract) and 4 for analysis of at least two issues (2 + 2 or 3 + 1)

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Question Number	Answer	Mark
4(c)	Benefits could include: • Impact on growth – AD/AS analysis; multiplier effect • Employment implications • Inflow into financial account of B/P • Longer term: increase in foreign currency earnings from exports: improvement in current account • Boost to tax revenues • TNCs might provide new infrastructure • Technology transfer Also: reward analysis of benefits to those making the investments N.B. Do not reward analysis related to loans or aid Evaluation might include: • Might limit diversification out of primary products • Overspecialisation, leading to unbalanced or unstable growth, especially when primary product prices are unstable • Repatriation of profits to TNCs in developed countries • Employment might be in low skilled jobs only • TNC might exert political influence on governments of these countries • Repatriation of profits: adverse impact on current account of balance of payments • TNCs might leave the country – resulting in economic and social disruption	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 benefit; 2 for application (reference to 2 specific examples-named countries or primary industries - from data)
Level 2	4-6	1 mark for identification of 1 benefit; 2 for application (reference to 2 specific examples named countries or primary industries from data); 3 for analysis of 2 issues.
Level 3	7-10	1 mark for identification of 1 benefit; 2 for application (reference to 2 specific examples named countries or primary industries from data); 3 for analysis of 2 issues; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

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Question Number	Answer	Mark
4(d)	Analysis might include: • BRIC economies buying goods from African countries offsetting fall in demand from rich countries • Foreign currency earnings can be increased and used for debt servicing, purchasing of capital goods • African countries specialising and exporting goods in which they have a comparative advantage • Exports are a source of AD which can stimulate growth, leading to increase employment and an improvement in the current account • Has enabled African countries to avoid recession • Provided diversification of markets • Trade important if domestic market is small access to larger markets and economies of scale • Gains from increased competition and efficiency Evaluative comments might include: • African countries locked into dependence on primary products with associated disadvantages • No diversification into manufacturing, usually associated with growth and development • Import substitution might be a better, alternative means of growth at least in the initial stages of development • Increased vulnerability to external shocks • Over-reliance on a narrow group of countries – problem if BRICs go into recession • Volatility of commodity markets • Short run/long run effects (Synoptic element: concept of current account of balance of payments from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	**(12)**

Level	Mark	Descriptor
Level 1	1-3	2 marks for identification of 2 benefits;
Level 2	4-7	2 marks for identification; 2 for application (2 examples from text – products or countries- or own knowledge); 3 for analysis
Level 3	8-12	2 marks for identification; 2 for application (examples from text- products or countries- or own knowledge); 3 for analysis; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)

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Question Number	Answer	Mark
4(e)	Key issues: Aid might help to…. • Reduce poverty • Helps to fill savings gap • Helps to fill foreign exchange gap • Impact on AD; multiplier effects • Improvement in infrastructure • Improvement in health and education • Also: Provision of expertise • Provision of new technology Evaluation might include: • Issue of tied aid • Loans may not be at much below market rate • Aid might help to keep corrupt governments in power • Corruption; • Creation of dependency culture: reduction in productivity and efficiency; • Undermining of domestic industries • Time lag before aid trickles down to poorest members of society • Asymmetric information may mean that aid is not used efficiently Maximum 12/15 if there is no clear application to development (Synoptic element: analysis of economic growth from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identifying 2 points; 2 for application (reference to 2 data references or to 2 examples)
Level 2	5-9	2 marks for identifying 2 points; 2 for application(reference to 2 data references or to 2 examples) ; 5 for analysis of at least 2 issues (maximum 2/5 if not related to development)
Level 3	10-15	2 marks for identifying 2 points; 2 for application (reference to 2 data references or to 2 examples) ; 5 for analysis of at least 2 issues(maximum 2/5 if not related to development) ; 6 marks for any 2 or 3 evaluative points

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Question Number	Answer	Mark
5(a)	WTO is primarily concerned with the promotion of free trade (2) by organising negotiations to reduce trade barriers such as tariffs and quotas (1). Also concerned with enforcing trade rules and settling disputes(1). Comment on any particular dispute from text or comment on current round of trade talks (Doha) (2)	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for outline of role of WTO (see above)
Level 2	4-5	Up to 3 marks for 2 aspects of the role of the WTO and 2 marks for application (reference to an example of work of WTO)

Question Number	Answer	Mark
5(b)	With currency undervalued, it implies that • Price of Chinese exports is relatively low • Impact on US inflation • Price of imports to China is relatively high making Chinese goods more competitive than would be the case if the exchange rate appreciated • Implies US current account balance will be worse • Higher unemployment in US • Lower rate of economic growth in US	**(8)**

Level	Mark	Descriptor
Level 1	1	2 marks for identification of two points
Level 2	2-5	2 marks for identification of 2 points; 2 for application (e.g. one data reference to value of 6.83 remnimbi to the $ or reference from extract)
Level 3	6-8	2 marks for identification of 2 issues; 2 for application (e.g. one data reference to value of 6.83 remnimbi to the $ or reference from extract) and 4 for analysis of at least two issues (2 + 2 or 3 + 1)

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Question Number	Answer	Mark
5(c)	Key issues: • Higher US savings implies lower consumer expenditure • Therefore, lower amount spent on Chinese imports – dependent on marginal propensity to import (evaluative comment) • If exports remain steady then US trade deficit should fall • Analysis considering link between savings and investment Evaluative points could include: • Impact will depend on marginal propensity to import • Short run and long run effects – lower demand for Chinese goods might imply lower demand for US goods in the long term • Higher savings would not necessarily be translated into higher investment – necessary for US to compete more effectively with China and other countries • US trade deficit might be caused by fundamental structural weakness of US economy e.g. lack of competitiveness of US goods • If manufacturing base in China continues to expand then higher savings in US may have little impact • Much depends on exchange rate movements • Effect of QE is to cause depreciation of the $ - currency manipulation • Lower US inflation due to cheaper imports • (Synoptic element: concept of current account of the balance of payments from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question))	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (comment on size of US trade deficit or low savings ratio)
Level 2	4-6	1 mark for identification of 1 reason; 2 for application(comment on size of US trade deficit or low savings ratio) ; 3 for analysis of 2 issues
Level 3	7-10	1 mark for identification of 1 reason; 2 for application (comment on size of US trade deficit or low savings ratio); 3 for analysis of 2 issues; 4 marks for any two evaluative points (2 + 2; 1 + 3; or 3 + 1)

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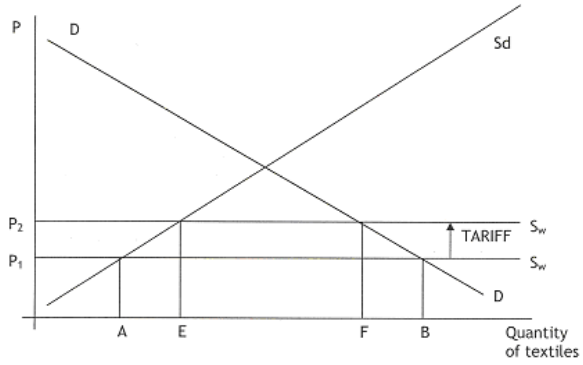
Question Number	Answer	Mark
5(d)	Candidates may approach this question in a variety of ways: e.g. a general approach… • Danger of increased use of protectionist measures by countries with trade deficits • Financial inflows from surplus countries to western capital markets led to asset price bubbles and to financial institutions taking excessive risks (could count as 2 points) • Financial crisis led to sharp downturn in economies of both deficit and surplus countries • Surplus countries were heavily reliant on export-led growth which resulted in deep falls in GDPs of those countries *Evaluative comments might include:* • *WTO rules might prevent protectionism* • *World trade declined only for a relatively short period of time* • *Trade imbalances may be offset by imbalances in other parts of B/P accounts* In the case of trade deficits analysis could include: • Might indicate a lack of competitiveness • Might imply rising unemployment in manufacturing industries • The trade in goods deficit might be difficult to finance • In turn, a trade deficit might cause a depreciation in the exchange rate, with possible inflationary consequences *Evaluative points include:* • *Trade imbalance may be offset by surplus on the services balance and/or in financial account* • *It may be easy to finance the deficit e.g. through inflows into the financial account* • *May be desirable if trade imbalances are caused by imports of capital goods which would increase the country's productive capacity in the long run* • *Exchange rate might change to bring about correction of B/P deficit/surplus* • *Might be a short term problem only* In the case of trade surpluses analysis could include: • Implies other countries have deficits which might result in the adoption of protectionist measures by these countries (Synoptic element: balance of payments (unit 2); use of the Economist's tool-kit in analysis and evaluation and in approach to question))	

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	Quality of written communication (QWC) is assessed on the candidate's ability: • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	**(12)**

Level	Mark	Descriptor
Level 1	1-3	2 marks for identifying 2 issues;
Level 2	4-7	2 marks for identifying 2 issues; 2 for application e.g. 2 examples of countries with surpluses and/or deficits; 3 for analysis
Level 3	8-12	2 marks for identifying 2 issues; 2 for application e.g. 2 examples of countries with surpluses and/or deficits; 3 for analysis for analysis; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)

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Question Number	Answer	Mark
5(e)	Diagram to show effect of a tariff on price: (from P1 to P2) and an increase in domestic production (from A to E). Imports decline from AB to EF.  Discussion of: • Effects on consumers e.g. loss of jobs (25 000, line 12); • Effects on producers e.g. loss of export markets (loss of $2.6bn worth of exports, line 11) ; fall in profits; • Tariffs imposed in retaliation so ultimately trade war could result in less choice and higher prices for US consumers • Fall in economic growth (distortion of comparative advantage) leading to lower real incomes for US consumers N.B. Allow analysis of tariffs by the US Evaluative comments might include: • Significance of PED in determining impact on US consumers and producers • Significance of PES in determining impact on US consumers and producers • Short run/long run effects. • Retaliation. Maximum 13/15 if there is no clear application to US consumers and producers (Synoptic element: supply and demand analysis including elasticities from unit 1. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for tariff diagram; 2 for application (2 data references)
Level 2	5-9	2 marks for tariff diagram; 2 for application(2 data references); 5 for analysis of at least 2 effects
Level 3	10-15	2 marks for tariff diagram; 2 for application(2 data references) ; 5 for analysis of at least 2 effects; 6 marks for any 2 or 3 evaluative points

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GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2011

Level	Performance Criteria for Mark base 20	
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis*
Level 3	11-14	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation*
	11-12	Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are *not* well developed/reasoned. This could be several points and evaluation but limited analysis.
	13-14	Award in this range for 2 factors and 1 evaluative comment (or 3 factors with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 3 factors with 1 evaluative point*
Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 3 factors with 2 evaluative points*

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GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2011

Level	Performance Criteria for Mark base 30	
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis*
Level 3	16-21	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation*
	16-18	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are *not* well developed/reasoned. This could be several points and evaluation but limited analysis
	19-21	Award in this range for 3 factors and 1 evaluative comment (or 4 factors with no evaluation) which are well developed and reasoned
Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Typically, answers will consider 4 factors with 2 evaluative points*
Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Typically, answers will consider 4 factors with 3 evaluative points*

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Edexcel GCE

Centre Number	Candidate Number

Economics

Advanced
Unit 4: The Global Economy

Friday 25 June 2010 – Morning
Time: 2 hours

Paper Reference
6EC04/01

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
  – *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- You are advised to divide your time equally between Section A and Section B.
- Check your answers if you have time at the end.

Turn over ▶

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Section A: Answer ONE of the questions in this section

You are advised to spend a maximum of 60 minutes on this section.

1 *(a) Examine the causes of income and wealth inequality in the UK **or** any country of your choice.

(20)

*(b) In the 2009 budget the UK government announced that a new 50% rate of income tax would be introduced in 2010. This creates three marginal tax rates of 20%, 40% and 50%, instead of two. Evaluate the likely economic effects of this change in the tax structure.

(30)

2 *(a) To what extent is primary product dependency a constraint on economic growth and development in developing countries?

(20)

*(b) Evaluate **four** ways in which economic growth and development might be promoted in developing countries.

(30)

3 *(a) The UK fell from 9th to 12th place in The Global Competitiveness Index between 2007 and 2008. Examine the factors which might have caused a decrease in the international competitiveness of the UK's goods and services.

(20)

*(b) Evaluate strategies which may be used by businesses **and** governments to improve the competitiveness of a country's goods and services.

(30)

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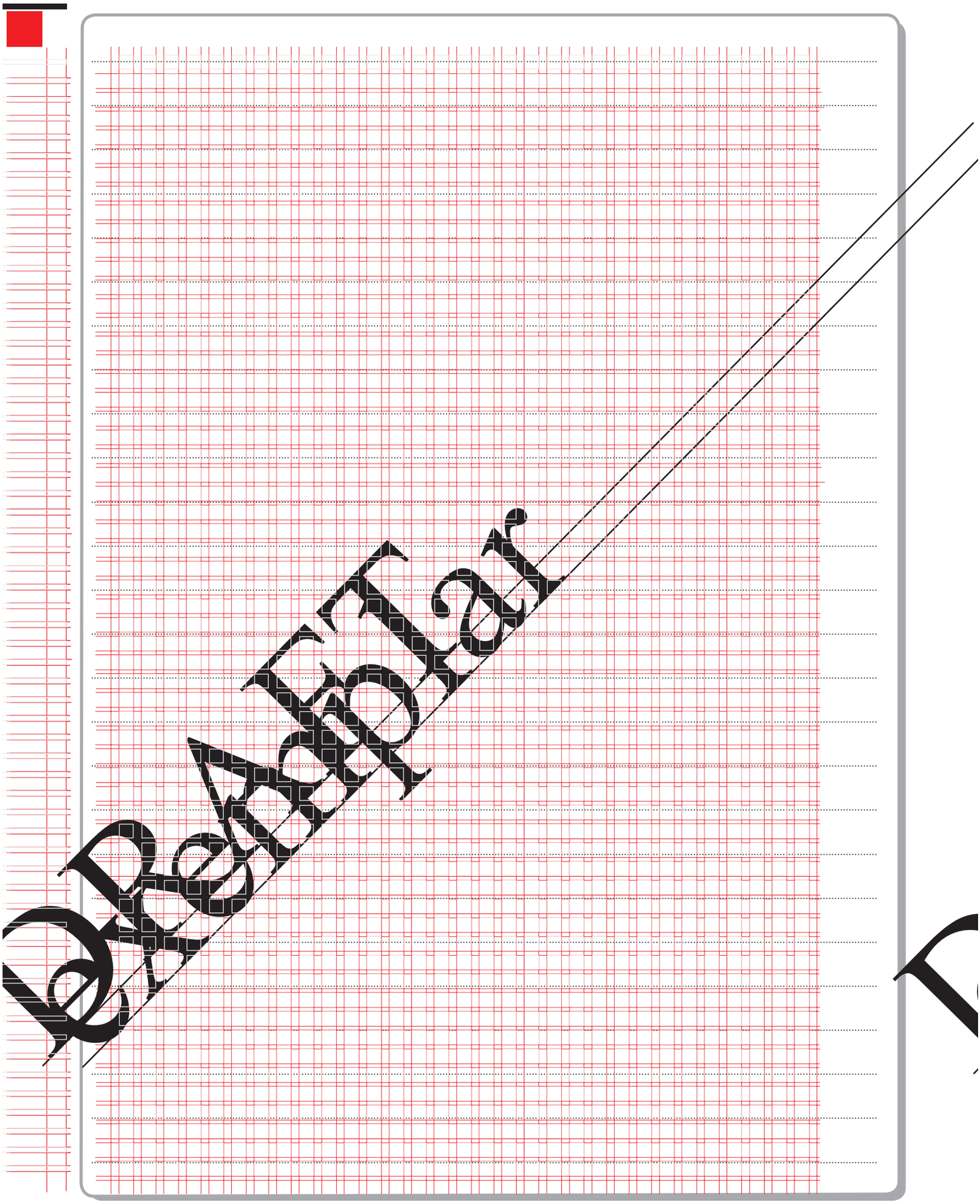
Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).

Chosen Question Number: **Question 1** ☒ **Question 2** ☒ **Question 3** ☒

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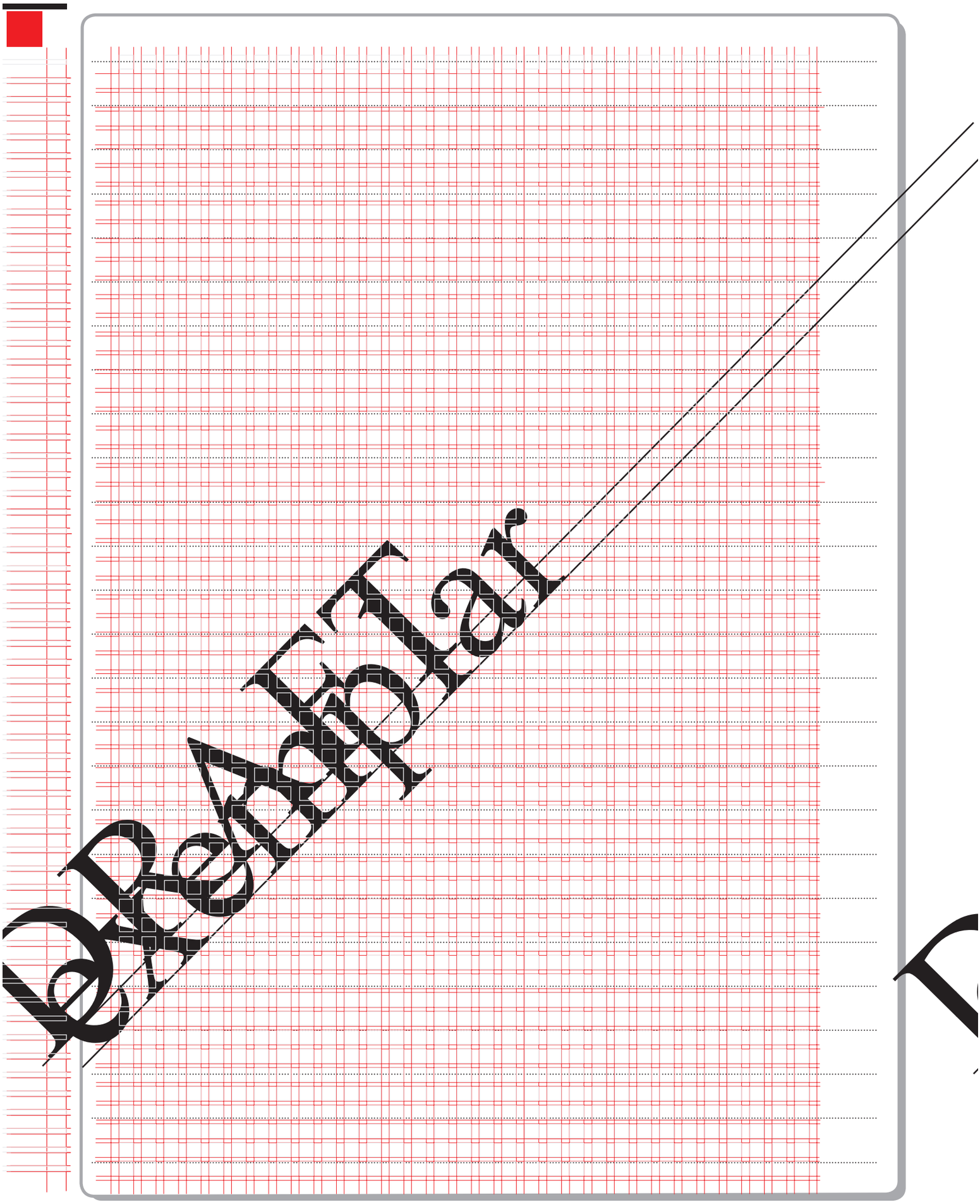
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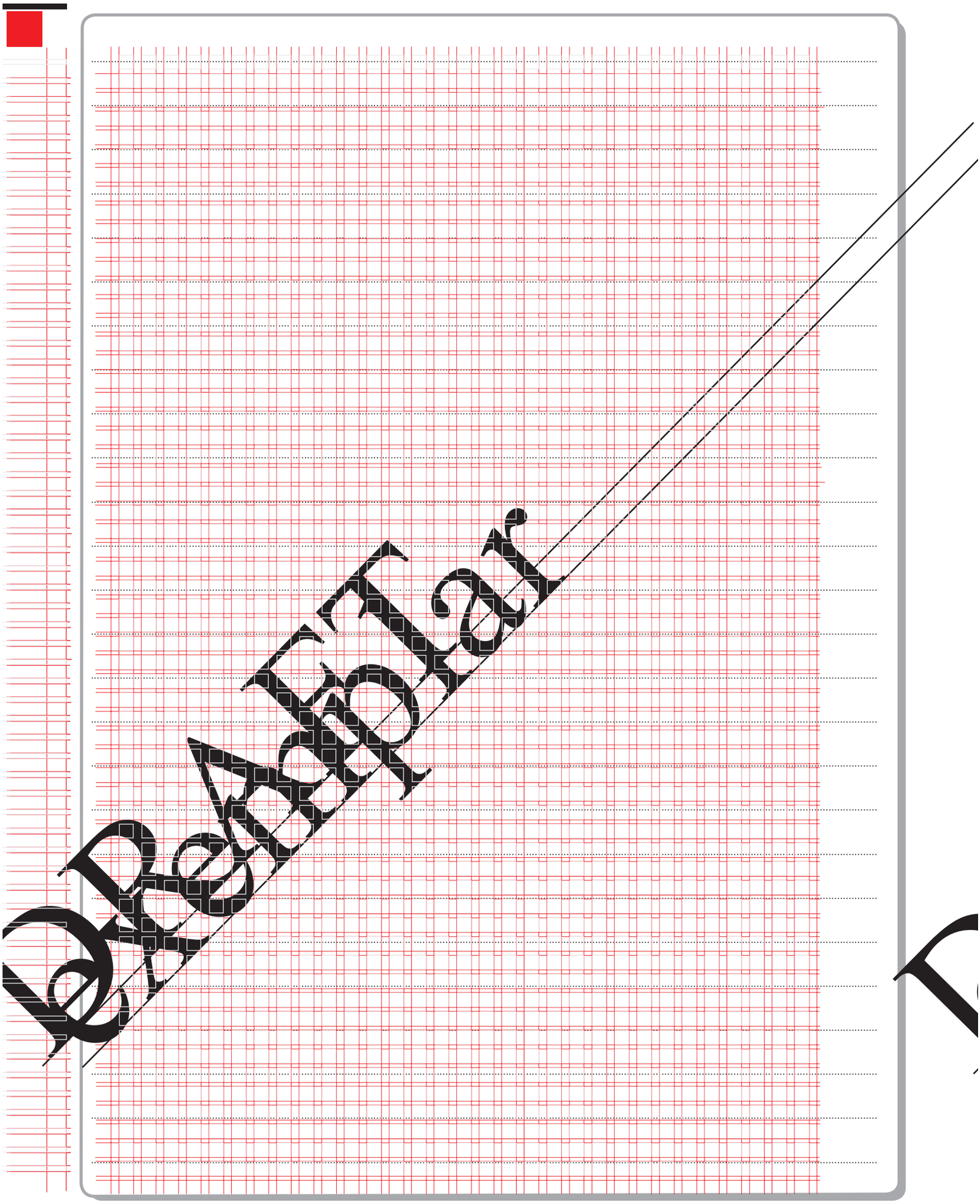
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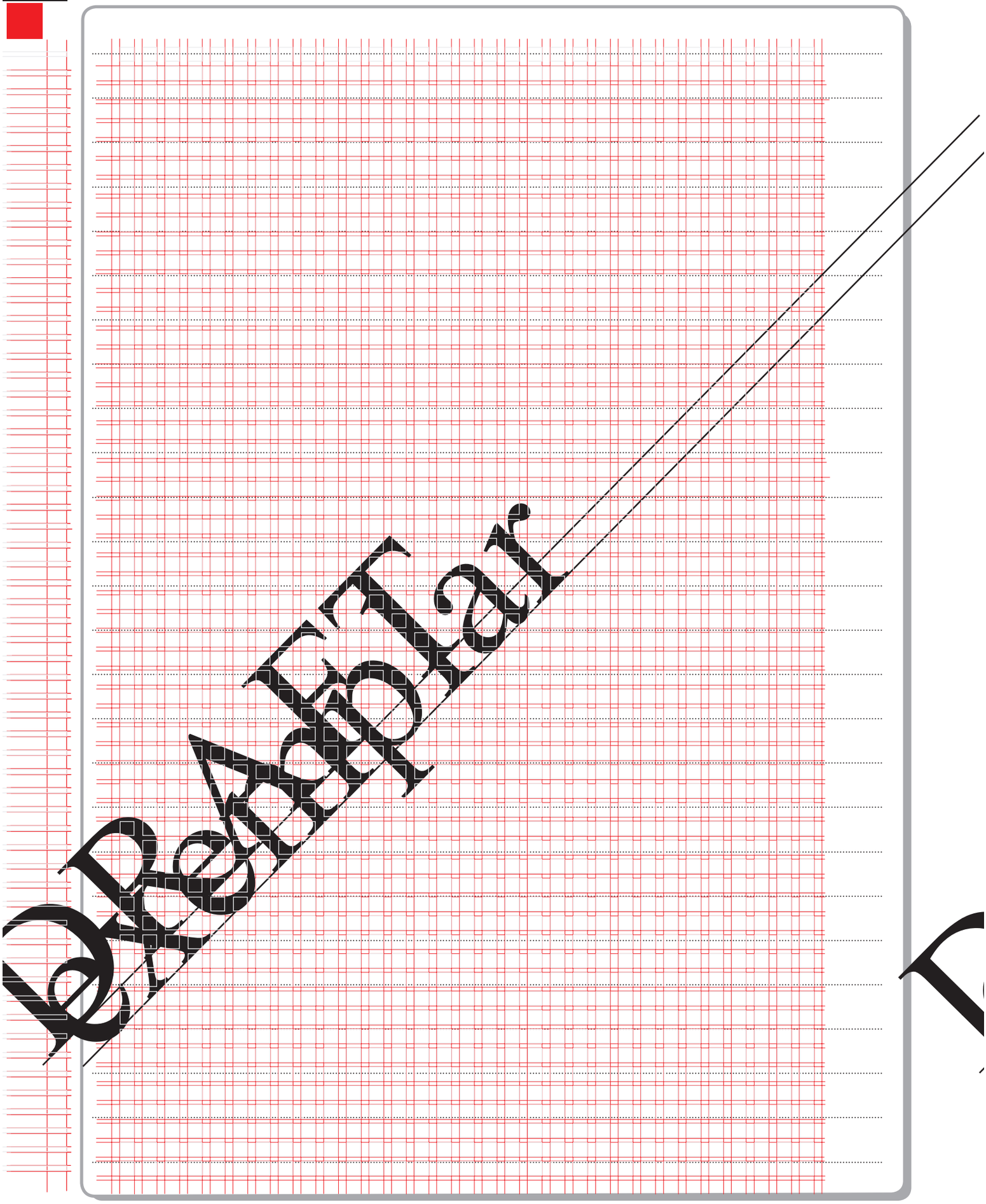
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TOTAL FOR SECTION A: 50 MARKS

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Section B: Answer ONE of the questions in this section.

You are advised to spend a maximum of 60 minutes on this section.

If you answer question 4 put a cross in this box ☒ .

4 The Global Financial Crisis

Figure 1: Real GDP: % Change on Previous Year

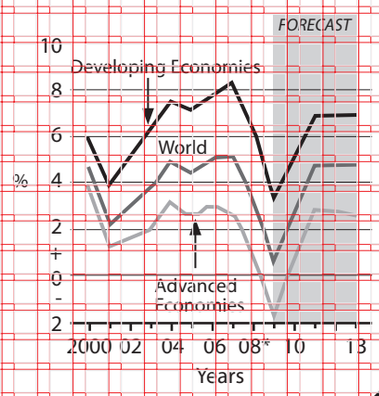
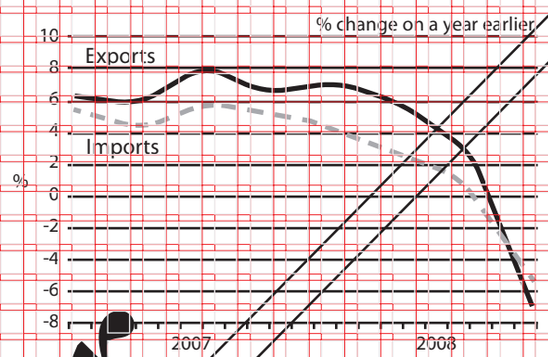
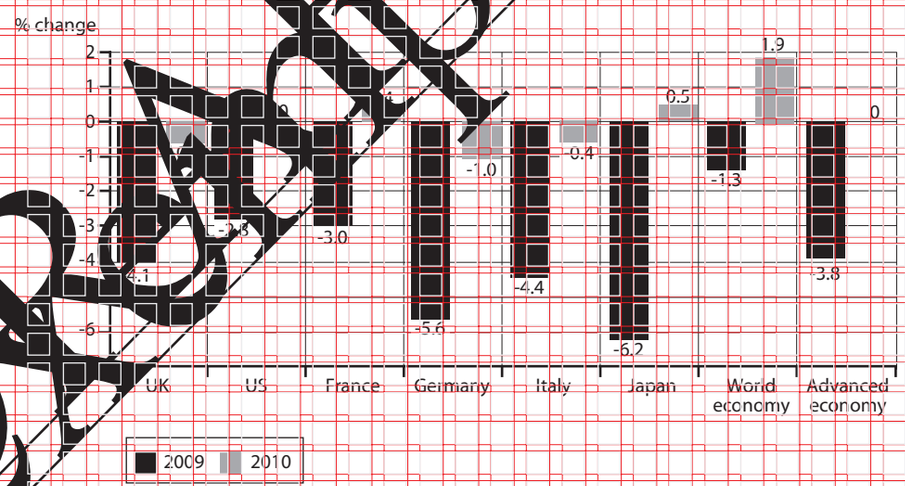


Figure 2: Value of World Exports and Imports: % Change on a Year Earlier



Source for Figure 1: *The Economist*, 21 February 2009 (Turning their backs on the world).
Source for Figure 2: *The Sunday Times*, 1 March 2009 (extract) (Giants sink most as World Trade Slumps by David Smith).

Figure 3: Real GDP Forecasts in 2009 and 2010, selected countries (% change)



Source: IMF.

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Extract 1: Globalisation in retreat?

Between 2000 and 2008 the value of world trade in goods and services rose by 12% a year. Free trade has made the biggest contribution to more than 60 years of global prosperity. However, a golden age of global trade has come to an abrupt end. The economic meltdown has popularised a new term: deglobalisation. For the first time for many years, trade and investment flows are declining, but is globalisation really ending? At the end of 2008, the International Monetary Fund (IMF) said the world economy would grow at 2.2% in 2009, but by March 2009 it expected negative growth of between 0.5% and 1% over the year. Moreover, this recession appears to be affecting most economies simultaneously.

Falling trade has been the transmission mechanism from the financial crisis to the world's factories. In the second half of 2008 the value of trade fell. Pascal Lamy, the World Trade Organisation's (WTO) director-general estimates that world trade dropped by 5% in November 2008, by a further 7% in December and another 7% in January 2009.

The downturn has been sharpest in the countries which opened up most to world trade, especially East Asia's tiger economies. Singapore's exports are 186% of GDP; its economy shrank at an annualised rate of 17% in the last three months of 2008. Taiwan's exports are 60% of its GDP and its economy may fall as much as 11% this year. The downturn will also hurt rich countries which specialise in manufacturing: the IMF forecasts a contraction of about 2%, but Germany and Japan, who are big exporters of capital goods, cars and electronics are expected to shrink by much more (see Figure 3).

In contrast, the biggest emerging economies are holding less badly so far. In India, where exports are only around 15% of GDP, growth is expected to be 5% for 2009 and China was still growing by 6.8% in 200[illegible]

There are several reasons why the banking system's problems have affected trade so quickly. First, the global recession is more severe than most thought possible. Secondly, according to the World Bank, global supply chains mean that a downturn quickly spreads. The [illegible] dependence of economies has rapidly transmitted the recession around the globe. Another problem is that trade finance has dried up. Firms have found it difficult to get export credits, without which they cannot do business.

A further issue is that the world recession is leading to protectionism. Lamy identifies several types including import tariffs and subsidies to support industries which have faced difficulties.

Financial globalisation is hitting countries in a variety of ways. Foreign direct investment (FDI) fell by 21% in 2008 and is expected to fall a further 12%-15% in 200[illegible] countries seem to have suffered most so far. They have seen FDI falls of 33% on average and by 50% or more in Britain, Italy and Germany while Finland and Ireland have seen net outflows. FDI flows to developing countries were still growing in 2008, but by only 4%, after a rise of 20% in 2007. Flows to big South American countries were up by about 20% and those to India more than 100%.

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Meanwhile, small countries that developed industries such as tourism, which grew as a result of globalisation, are also suffering. The WTO says international tourist numbers fell 1% in the second half of 2008, which may not sound bad, but this compares with growth of more than 5% per annum in the previous four years. In the Caribbean, visitors may fall by 33% this season: hotels are half empty, flights are being cancelled and fiscal deficits are rising.

45

Source: adapted from *The Economist*, 21 February 2009 'Turning their backs on the world' and *The Sunday Times*, 29 March 2009 'Export giants sink most as world trade slumps' by David Smith.

(a) Explain the characteristics of 'deglobalisation' (*Extract 1, line 4*).

(5)

(b) Explain why some countries may experience a more severe recession than others.

(8)

(c) Examine the possible effects of the global recession on countries with well-established tourist industries.

(10)

*(d) With reference to lines 26–34 of Extract 1, evaluate reasons why the banking crisis has hit world trade so severely.

(12)

*(e) In the light of the global recession, assess the likely economic effects of an increase in protectionism on the world economy.

(15)

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(a) Explain the characteristics of 'deglobalisation' (*Extract 1, line 4*).

(5)

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(b) Explain why some countries may experience a more severe recession than others.

(8)

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(c) Examine the possible effects of the global recession on countries with well-established tourist industries.

(10)

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*(d) With reference to lines 26–34 of Extract 1, evaluate reasons why the banking crisis has hit world trade so severely.

(12)

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*(e) In the light of the global recession, assess the likely economic effects of an increase in protectionism on the world economy.

(15)

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(Total for Question 4 = 50 marks)

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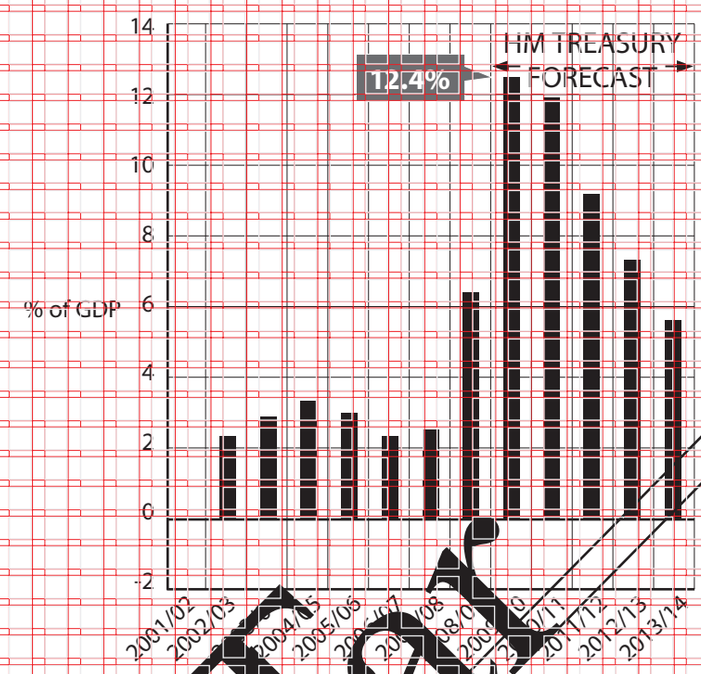
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If you answer question 5 put a cross in this box ☒ .

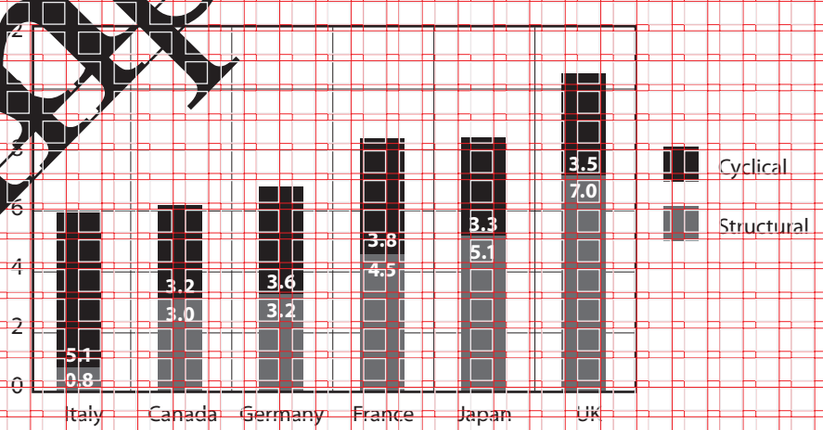
5 Public Finance

Figure 1: The UK's fiscal deficits 2001/02--2013/14 (% of GDP)



Source: *The Independent*, 23 April 2009 Sean O'Grady 'So much for balancing the books: this is worse than we ever imagined'

Figure 2: Fiscal deficits in selected countries as a percentage of GDP 2009/10 (OECD forecasts)



Source: *The Independent*, 23 April 2009.

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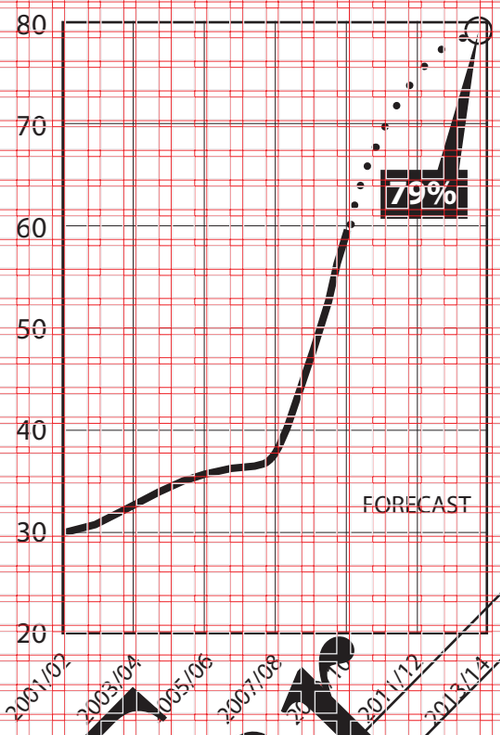
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Figure 3: UK Public Sector Net Debt (the National Debt) as a percentage of GDP: 2002–2014



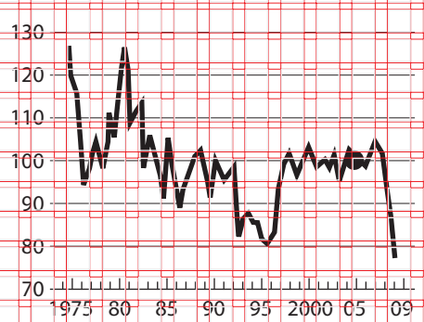
Source: *The Independent*, 23 April 2009, Ros O'Grady 'Six months for balancing the books: this is worse than we ever imagined'.

Figure 4: Public Sector Net Debt as a percentage of GDP in Selected countries, 2008 forecasts

Country	% of GDP
Italy	105
Canada	58
Germany	77
France	67
Japan	201
UK	44
USA	65

Source: http://www.imf.org/external/pubs/weo

Figure 5: Sterling's (£) trade-weighted index; 2005 = 100



Source: *The Economist*, 25 April 2009 'Hubris and nemesis'.

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Extract 1 Fiscal deficits

The UK Budget is traditionally thought of as an exercise in showing how the nation's books can be balanced. In this case, it is more a case of demonstrating to the world how difficult, if not impossible, it will be to pull public finances back into balance. The fiscal deficit for 2008–09 was £90bn. It is predicted that in 2009–10 it will soar to £175bn or 12.4% of GDP, one of the highest in the western world. Nor will it decline very rapidly. It will still be £173bn in 2010–11 and £97bn in 2012–13.

The annual growth in public spending will be limited to just 0.7% in real terms for the five years after 2010. Given the inevitable rise in the bill for unemployment benefits plus an additional £2bn for training, announced in the 2009 budget, and the rise in the cost of servicing a national debt, such a small increase in public spending can only mean deep cuts in other government departments. Other countries have tackled similar problems in the past. For example, Canada had a budget out of control in the 1990s. It faced the need to cut public expenditure by around 20% in real terms. It now has one of the best records in coming through the global recession. At the same time, it has kept its position near the top of the Human Development Index ranking.

Sources: adapted from *The Independent*, 23 April 2009 Sean O'Grady 'So much for balancing the books: this is worse than we ever imagined' and *The Independent*, 6 May 2009 'The huge experiment that failed' by Hamish McRae.

Extract 2 The UK economy and recession

Since the financial crisis broke in 2007, the UK economy has looked weak. It was at the Northern Rock bank, after all, that depositors lined up in the streets to withdraw their money – the first run on a bank since 1866. The UK appeared vulnerable for three reasons. First, the economy was exposed to the credit crisis through its own big banks and London's importance as an international financial centre. Second, during the housing boom, UK households had run up the biggest debt, relative to disposable income, in the G7 (the world's richest countries). Thirdly, the rise in UK house prices had been among the most extreme internationally.

Although the UK economy looked set to suffer a severe recession, other big economies, notably Japan and Germany, were falling further: their export driven economies were particularly exposed to the global downturn that followed the financial panic resulting from the collapse of Lehman Brothers in late 2008. The UK has been less affected because manufacturing makes up only 13% of the economy, compared with around 23% for Germany and Japan.

Further falls in sterling caused by a general loss of confidence in the UK is now helping to stabilise the economy. However, the collapse of foreign markets has limited the impact of the 27% decline in sterling's trade-weighted index, measured against other leading currencies, between July 2007 and March 2009. UK exports fell in volume by almost 14% in the year to February 2009. But other countries have suffered far more: in Japan the volume of exports fell by 45% over the same period. As important, the falling pound is helping to guard the UK against deflation which could be lethal in an economy in which household debt and public sector debt is very high.

The economy is also getting a lot of help from a looser monetary policy. First, the Bank of England cut the interest rate progressively from 5% in early October 2008 to 0.5% in March 2009. Second, it used quantitative easing – buying assets (mainly gilt-edged securities) – to boost the money supply and encourage lending. By contrast, the UK is getting a smaller discretionary fiscal stimulus than other countries to fight the recession. However, automatic stabilisers are also supporting the economy.

Source: *The Economist*, 25 April 2009 'Hubris and nemesis'.

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(a) With reference to Figure 1, how might the expected change in the UK's fiscal deficit **between 2007–08 and 2009–10** be explained?

(5)

(b) With reference to the information provided, explain the problems resulting from the deterioration in the public finances for the UK **or** any country of your choice.

(8)

(c) Evaluate the reasons why the UK economy was in a weak state following the financial crisis in autumn 2007.

(10)

*(d) Evaluate the likely effectiveness of monetary policy in the management of the economy in the light of the information provided.

(12)

*(e) Assess the likely economic implications of 'the 27% decline in sterling's trade-weighted index... between July 2007 and March 2009' (*Extract 2, lines 17–18*).

(15)

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(a) With reference to Figure 1, how might the expected change in the UK's fiscal deficit **between 2007–08 and 2009–10** be explained?

(5)

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(b) With reference to the information provided, explain the problems resulting from the deterioration in the public finances for the UK **or** any country of your choice.

(8)

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(c) Evaluate the reasons why the UK economy was in a weak state following the financial crisis in autumn 2007.

(10)

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*(d) Evaluate the likely effectiveness of monetary policy in the management of the economy in the light of the information provided.

(12)

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*(e) Assess the likely economic implications of 'the 27% decline in sterling's trade-weighted index... between July 2007 and March 2009' (*Extract 2, lines 17–18*).

(15)

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(Total for Question 5 = 50 marks)

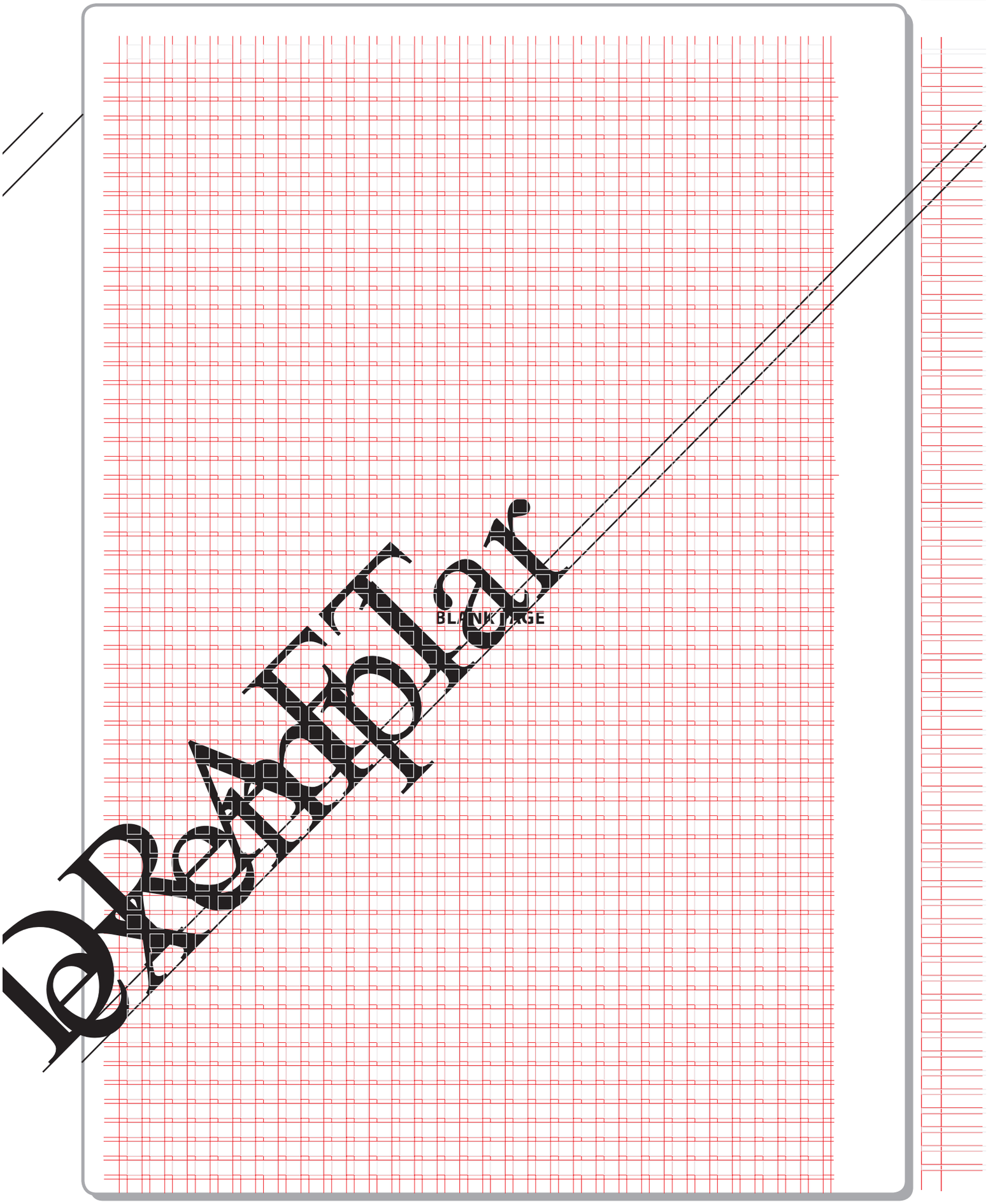
TOTAL FOR SECTION B: 50 MARKS

TOTAL FOR PAPER: 100 MARKS

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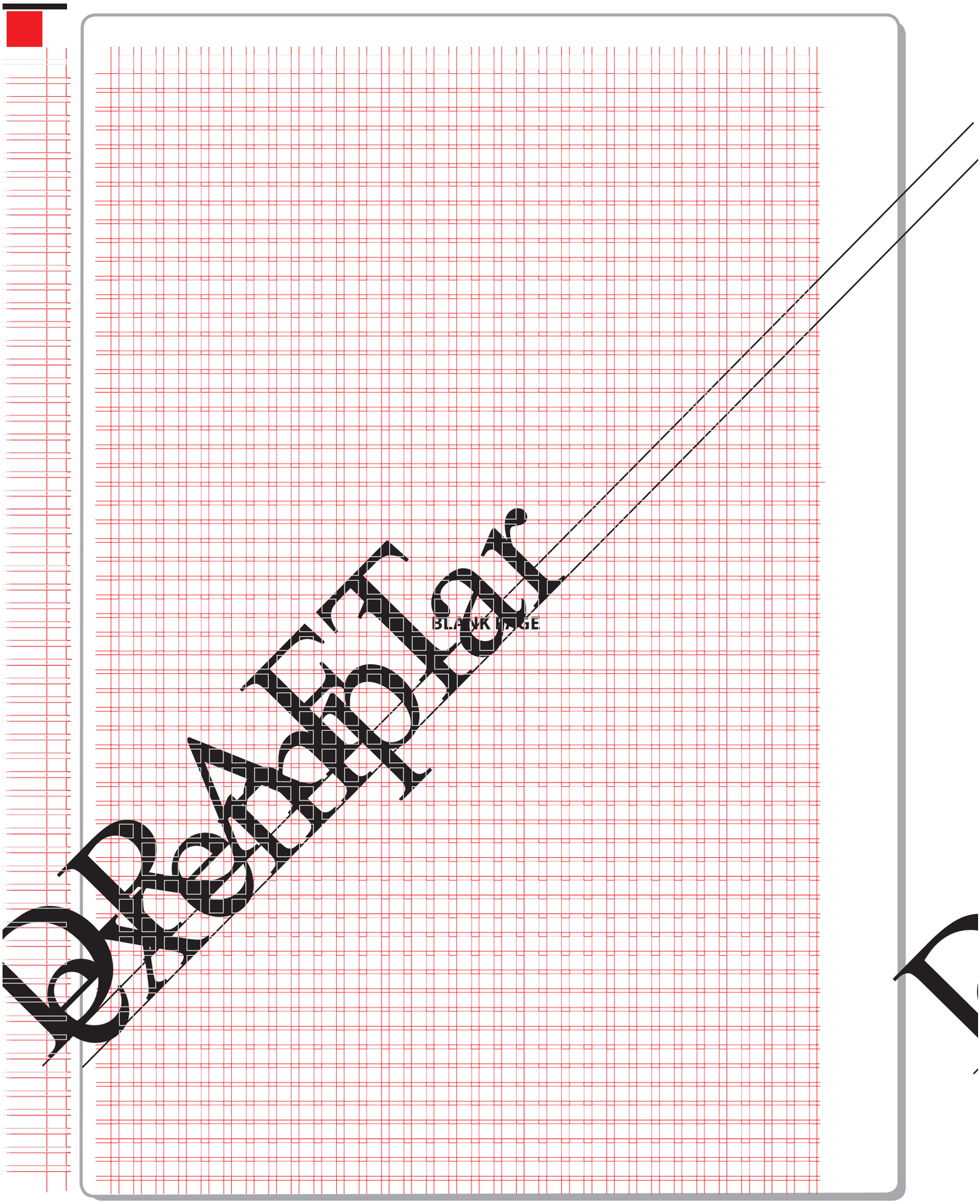
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Mark Scheme (Standardisation)
June 2010

GCE

GCE Economics (6EC04/01)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

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N.B. Quality of written communication (QWC) is assessed in both parts of the essays and should be assessed on the candidate's ability:

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately

Question Number	Answer	Mark
1(a)	Causes could include: • Education • Skills and training • Experience/age • Type of employment • Ownership of assets • Inheritance • Pension rights Evaluation: • Prioritisation of factors • Significance of each factor • Level and quality of education e.g. degree, subject, class • Pension rights e.g. final salary schemes • Conclusion (Synoptic element: reference to use of Economist's tool-kit in analysis and evaluation and in approach to question)	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	consideration of one factor with one evaluative point or 2 points with no evaluation
Level 3	11-14	consideration of 2 factors with one evaluative point or 3 points with no evaluation
Level 4	15-16	consideration of 3 factors with one evaluative point
Level 5	17-20	consideration of 3 factors with at least two evaluative points

Question Number	Answer	Mark
1(b)	Effects include: • Disincentive to work: could be analysed using income and substitution effects • Tax revenues- use of Laffer curve analysis • Tax evasion (illegal) • Tax avoidance (legal) e.g. working fewer hours taking income in form of share option (CGT only 18%) • Tax exiles – move to Switzerland • Distribution of income – more even: analysis of progressive taxation • Impact on AD and associated analysis Evaluation could include: • Extent of disincentive effects of 50% tax rate • Ease of avoiding 50% tax rate • Number of people affected by new tax rate • Extent of tax evasion • Significance of impact on different sectors of the economy e.g. on financial services • Impact on income distribution might be offset be other factors e.g. increasing unemployment (Synoptic elements: reference to concepts introduced in unit 2 e.g. fiscal policy; use of Economist's tool-kit in analysis and evaluation and in approach to question)	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	2 factors with one evaluative point or 3 factors with no evaluation
Level 3	16-21	3 factors with one evaluative point or 4 factors with no evaluation
Level 4	22-25	4 factors with two evaluative points
Level 5	26-30	4 factors with three evaluative points

Question Number	Answer	Mark
2(a)	Issues could include: • Price fluctuations – analysis of price inelasticity of demand and supply and impact of shifts in S & D • Value added of primary products is very low • Producer revenue fluctuations – implications for planning investment and output • Fluctuations in foreign currency earnings – constraint on importing capital goods • Income inelasticity of demand for primary products – Prebisch-Singer hypothesis: falling terms of trade • In the case of soft commodities – problem of extreme weather events • Protectionism by developed countries • Impact on political stability Evaluative points could include: • LEDCs may have comparative advantage in primary products • Demand may be income elastic e.g. for gold (Ghana); diamonds (Botswana); oil (Nigeria); • Examples of countries which have grown and developed on basis on primary products • Consideration of other constraints and growth and development • Prioritisation of factors discussed. (Synoptic element: reference to price determination and elasticities (unit 1) and to use of Economist's tool-kit in analysis and evaluation and in approach to question)	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	consideration of one factor with one evaluative point or 2 points with no evaluation
Level 3	11-14	consideration of 2 factors with one evaluative point or 3 points with no evaluation
Level 4	15-16	consideration of 3 factors with one evaluative point
Level 5	17-20	consideration of 3 factors with at least two evaluative points

Question Number	Answer	Mark
2(b)	Strategies could include: • Industrialisation – Lewis model • Development of tourism • Outward-looking/market led policies e.g. trade liberalisation; allowing currency to depreciate; opening up of capital markets; removal of domestic subsidies (this could count as 2 strategies) • Increase savings rate (Harrod-Domar model) • Reduce red tape, making it easier for new firms to be established • Increase property rights (Hernando de Soto) • Aid from developed countries • Debt cancellation • FDI Evaluation could include: • Industrialisation and tourism might result in increased inequality • External costs of industrialisation and/or tourism • Opportunity cost of industrialization e.g. availability of land to grow food • Discussion of problems associated with market-led strategies e.g. domestic producers may be unable to compete; higher prices for basic necessities • Higher savings ratio is not a necessary condition for growth and development. Savings gap could be filled by FDI or aid • Strategies may be ineffective for geo-political reasons e.g. nearness to markets; political instability • Aid might be ineffective e.g. because of corruption (Synoptic element: reference to macroeconomic variables (unit 2) and to use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	2 factors with one evaluative point or 3 factors with no evaluation
Level 3	16-21	3 factors with one evaluative point or 4 factors with no evaluation
Level 4	22-25	4 factors with two evaluative points
Level 5	26-30	4 factors with three evaluative points

Question Number	Answer	Mark
3(a)	Factors include: • Increase in the value of the country's currency • Decline in productivity relative to other countries • Increase in rate of inflation relative to other countries • Decline in non-price competitiveness • Increase in real unit labour costs • Increase in regulations Evaluation points include: • Relative significance of factors selected • Whether or not these are short or long term factors • Competitiveness might not fall following a rise in exchange rate if exporters cut profit margins (Synoptic element: reference to productivity, inflation and exchange rates (unit 2) and use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(20)**

Level	Mark	Descriptor
Level 1	1-7	Identification of points which are largely irrelevant
Level 2	8-10	consideration of one factor with one evaluative point or 2 points with no evaluation
Level 3	11-14	consideration of 2 factors with one evaluative point or 3 points with no evaluation
Level 4	15-16	consideration of 3 factors with one evaluative point
Level 5	17-20	consideration of 3 factors with at least two evaluative points

Question Number	Answer	Mark
3(b)	Measures used by businesses could include: • Research and development resulting in improved designs or new products • Investment in new technology • Investment in capital equipment • Pricing strategies (e.g. limit pricing) • Improved reliability of products • Better customer service Measures used by governments could include: Range of supply side policies including… • Privatisation • Education and training • Investment tax relief • Improvements in infrastructure • Cutting unemployment benefits • Removal of regulations e.g. health and safety, environmental, employment protection • Encourage immigration. If appropriate examples are given, candidates could also discuss: Devaluation of currency; Increase in trade barriers Subsidies Evaluation could include: • Costs to businesses of expenditure on new capital equipment • Costs to government: difficult to finance at time when fiscal deficit is rising rapidly • Time frame: some measures could take a considerable time to have an impact • Increased inequality e.g. if unemployment benefits are cut • Danger of increased exploitation of workers and of the environment if regulations are relaxed • These policies could be offset by other factors e.g. appreciation of the currency; rising wage costs *Maximum 21 if only government or business strategies are discussed* (Synoptic element: pricing policies (unit 3) supply side policies (unit 2) and use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(30)**

Level	Mark	Descriptor
Level 1	1-11	Identification of points which are largely irrelevant
Level 2	12-15	2 factors with one evaluative point or 3 factors with no evaluation
Level 3	16-21	3 factors with one evaluative point or 4 factors with no evaluation
Level 4	22-25	4 factors with two evaluative points
Level 5	26-30	4 factors with three evaluative points

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Question Number	Answer	Mark
4(a)	Features include: • Decline in world trade • Fall in capital movements • Decrease in FDI • Decrease in tourism 3 marks for knowledge, 2 for application/ one data reference e.g. to % fall in world trade or to % fall in FDI	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge of 2 characteristics (up to 2 marks for one characteristic)
Level 2	4-5	Up to 3 marks for knowledge of 2 characteristics and 2 marks for application/data reference

Question Number	Answer	Mark
4(b)	Reasons include: • Greater dependence on exports e.g. Japan, Germany • Differences in policy response e.g. cutting interest rates, fiscal stimulus, quantitative easing • Differences in likely fall in house prices • Differences in importance of different sectors e.g. financial services industry/manufacturing/tourism • Differences in consumer/business confidence	**(8)**

Level	Mark	Descriptor
Level 1	1	1 mark for brief identification of one issue
Level 2	2-5	Up to 3 marks for identification of 2 issues; 2 for application (2 data references i.e. to 2 different countries/regions)
Level 3	6-8	3 marks for identification of 2 issues; 2 for application (2 data references i.e. to 2 different countries/regions) and 3 for analysis of one or two issues

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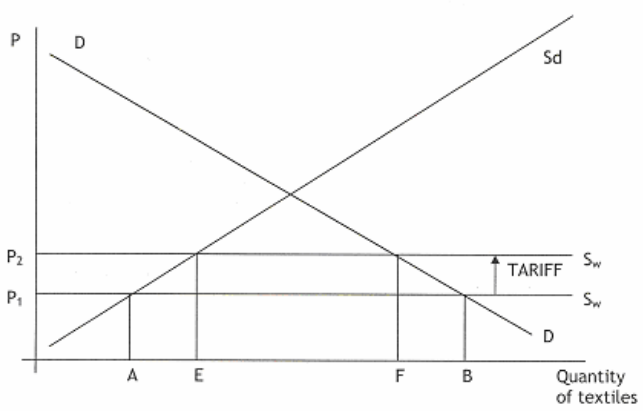
Question Number	Answer	Mark
4(c)	Consideration of: • Income elasticity of demand for tourism (D likely to be income elastic) • Therefore, significant fall in number of tourists • Employment implications • Fall in GDP • Fall in foreign currency earnings from tourism • Deterioration in current account balance • Loss of tax revenues: deterioration in fiscal balance • Effects on airlines, hotels Evaluation might include: • Differential effects on different countries • Size of tourism as a proportion of GDP • Impact on current account depends also on number of people travelling abroad from domestic economy • Depends on length of recession	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 effect; 2 for application (e.g.reference to likely fall of one third in number of visitors to the Caribbean; 1 example of a specific country from own knowledge)
Level 2	4-6	1 mark for identification of 1 effect; 2 for application (e.g.reference to likely fall of one third in number of visitors to the Caribbean; 1 example of a specific country from own knowledge); 3 for analysis of 1 or more issues.
Level 3	7-10	1 mark for identification of 1 effect; 2 for application (e.g.reference to likely fall of one third in number of visitors to the Caribbean; 1 example of a specific country from own knowledge); 3 for analysis of 1 or more issues; 4 marks for any 2 evaluative points (2 + 2; 1 + 3; or 3 + 1)

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Question Number	Answer	Mark
4(d)	Key issues: • Recession deeper than many had predicted and affecting most countries, leading to huge decline in demand for exports and imports • Greater integration of world economy • Trade finance has dried up following the banking crisis • Global supply chains • Recession leading to an increase in protectionism • Firms had large inventories (stocks) Evaluation might include: • Prioritization • Downturn must be seen in perspective: it followed years of growth in world trade • Detailed consideration of implications of offshoring and outsourcing (Synoptic element: analysis of recession from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	**(12)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (1 example of a specific country/region from own knowledge or data ref of % decline in world trade lines 13-14)
Level 2	4-7	1 mark for identification; 2 for application; 4 for analysis e.g. of impact of depth of recession
Level 3	8-12	1 mark for identification; 2 for application; 4 for analysis of at least 2 reasons e.g. of impact of depth of recession; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)

Question Number	Answer	Mark
4(e)	This could be approached in a variety of ways: • Distortion of comparative advantage: leading to fall in specialization and decrease in world output; fall in living standards; rising unemployment (Counts as 2 points) • Decline in world trade • Possible inflationary consequences • Retaliation • Diagram to show effect of a tariff on price: (from P1 to P2) and an increase in domestic production (from A to E). Imports decline from AB to EF.  Discussion of: • Effects on consumers e.g. higher prices; loss of consumer surplus. • Effects on producers e.g. higher domestic output within the EU. • Welfare losses. • Tax revenue to the government. • Implications for the balance of trade. Evaluative comments might include: • Differential effects of tariffs on developed and developing countries • Impact depends on extent of trade as a % of GDP e.g. major impact on Japan, lesser impact on India (up to 2 application marks for data references) • Protectionism might be rational response by politicians facing an election – to protect employment (at least in the short run) • Re: tariffs: Significance of PED/PES for impact on the amount imported impact depends on the level of tariffs. • Short run/long run effects. • Retaliation. (Synoptic element: supply and demand analysis including elasticities from unit 1. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	

	Quality of written communication (QWC) is assessed on the candidate's ability: • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 effects on world economy; 2 for application (reference to specific countries/data or for tariff diagram)
Level 2	5-9	2 marks for identification of 2 effects; 2 for application(reference to specific countries/data or for tariff diagram) ; 5 for analysis of effects on world economy (maximum 3 marks for micro analysis of tariff diagram)
Level 3	10-15	2 marks for identification of 2 effects; 2 for application(reference to specific countries/data or for tariff diagram) ;5 for analysis of effects on world economy (maximum 3 marks for micro analysis of tariff diagram); 6 marks for up to 3 evaluative points.

Question Number	Answer	Mark
5(a)	• Recession • leading to increased public spending on benefits and fall in tax revenues • Part nationalisation of banks • Effect of fiscal stimulus measures Reference to data – deficit rose from just over 2.5% (allow some latitude here) to 12.4%. If one data ref then only 1 mark	**(5)**

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for 2 factors
Level 2	4-5	Up to 3 marks for 2 factors and 2 marks for application (data reference to increase in fiscal deficit)

Question Number	Answer	Mark
5(b)	Problems could include discussion of impact on: • Cost of servicing the National debt • Need to make public expenditure cuts in the future and/or tax increases e.g. VAT • Possible difficulty in selling gilt-edged securities • Danger of inflationary consequences later • Crowding out • Loss of AAA credit rating	**(8)**

Level	Mark	Descriptor
Level 1	1	1 mark for brief identification of one issue
Level 2	2-5	3 marks for identification of 2 issues; 2 for application (2 data references to fiscal deficit or National Debt or examples)
Level 3	6-8	3 marks for identification of 2 issues; 2 for application (2 data references to fiscal deficit or National Debt or examples) and 3 for analysis of one or two issues

Question Number	Answer	Mark
5(c)	Reasons include: • Financial services form a significant part of UK economy – implications for GDP, employment, tax revenues and balance of payments • Unwillingness of banks to lend • British household debt was very high. Consumers likely to try to repay debt and reduce expenditure • The British house price bubble was bigger than in other countries. Therefore, danger that Britain would face a large fall in house prices – negative wealth effect • UK had been running a fiscal deficit since 2001/02 • Dependence of trade with EU & US *Evaluative points could include:* • *Decline in financial services might enable a rebalancing of economy* • *Short run and long run effects – it will take a long time for consumers to repay debts* • *House price falls likely to cause negative equity, reduction in labour mobility;* • *Prioritisation of factors* (Synoptic element: concept of wealth effect and economic growth from unit 2. Also, the use of the Economist's tool-kit in analysis and evaluation and in approach to question)	**(10)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification of 1 reason; 2 for application (text references or examples or UK references)
Level 2	4-6	1 mark for identification of 1 reason; 2 for application(text references or examples or UK references) ; 3 for analysis of 2 issues
Level 3	7-10	1 mark for identification of 1 reason; 2 for application (text references or examples or UK references); 3 for analysis of 2 issues; 4 marks for any two evaluative points (2 + 2; 1 + 3; or 3 + 1)

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Question Number	Answer	Mark
5(d)	• Understanding of monetary policy • Theoretical impact of cut in interest rates – transmission mechanism • Impossibility of further reductions in interest rates • Or impact of quantitative easing *Evaluative points include:* • *Interest rate cuts unlikely to be successful in stimulating the economy because of sharp decline in business and consumer confidence* • *Also: unwillingness of banks to lend to each or to consumers and businesses* • *Quantitative easing: an untried policy in the UK; difficult to assess long term effects; danger of inflation* • *Disparity between Bank of England base rate and commercial interest rates* (Synoptic element: Monetary policy (unit 2); use of the Economist's tool-kit in analysis and evaluation and in approach to question)) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** • **To use grammar, spelling and punctuation appropriately**	**(12)**

Level	Mark	Descriptor
Level 1	1-3	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble)
Level 2	4-7	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble); 4 for analysis e.g. transmission mechanism following cut in interest rates or impact of quantitative easing
Level 3	8-12	1 mark for definition of monetary policy; 2 for application (1 data reference e.g.to interest rate change from 5% to 0.5%; QE of £200bn ; huge household debts; bursting of housing bubble); 4 for analysis e.g. transmission mechanism following cut in interest rates or impact of quantitative easing; 5 marks for any 2 evaluative points (2 + 3; or 3 + 2)

Question Number	Answer	Mark
5(e)	Understanding of trade weighted index: value of sterling in relation to a weighted basket of other currencies. Implications include: • Increased price competitiveness of UK goods (fall in export prices, rise in import prices) • Improvement in current account of balance of payments • Will enable UK to benefit from upturn in world economy so moving out of recession quickly • Will help to prevent deflation because import prices are rising *Evaluative points could include:* • *Collapse in export market because of world recession so no immediate improvement in current account (J curve effect)* • *Current account will not improve if Marshall-Lerner condition is not met* • *Inflation could become a problem given the size of the fall in the value of sterling* • *UK exporters may not be able to respond to increased demand* • *Deflation could still result if world recession* (Synoptic element: Elasticities (unit 1); Balance of payments (unit 2); use of the Economist's tool-kit in analysis and evaluation and in approach to question)) **Quality of written communication (QWC) is assessed on the candidate's ability:** • **To present an argument and conclude on the basis of that argument** • **To organise information clearly and coherently** • **To use economics vocabulary appropriately** **To use grammar, spelling and punctuation appropriately**	**(15)**

Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 effects or for understanding of trade weighted index; 2 for application (reference to specific countries/data e.g. exports from UK fell less than from Japan (1), with actual falls(1)
Level 2	5-9	2 marks for identification of 2 effects or for understanding of trade weighted index ; 2 for application (reference to specific countries/data e.g. exports from UK fell less than from Japan (1), with actual falls(1)); 5 for analysis of effects
Level 3	10-15	2 marks for identification of 2 effects or for understanding of trade weighted index ; 2 for application(reference to specific countries/data) ; 5 for analysis of effects; 6 marks for up to 3 evaluative points

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2010

Level	Performance Criteria for Mark base 20	
Level 1	1-7	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	8-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Consideration of 1 factor with 1 evaluative point or 2 points with no evaluation*
Level 3	11-14 11-12 13-14	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Consideration of 2 factors with 1 evaluative point or 3 points with no evaluation* Award in this range for 2 points and 1 evaluative comment (or 3 points with no evaluation) which are *not* well developed/reasoned Award in this range for 2 points and 1 evaluative comment (or 3 points with no evaluation) which are well developed and reasoned
Level 4	15-16	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Consideration of 3 factors with 1 evaluative point*
Level 5	17-20	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Consideration of 3 factors with 2 evaluative points*

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GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04 June 2010

Level	Performance Criteria for Mark base 30	
Level 1	1-11	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting, applying, evaluating and presenting material which are irrelevant and unclear • None of the assessment objectives are covered satisfactorily *Identification of points which are largely irrelevant*
Level 2	12-15	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Evidence presented has a basic relevance *Consideration of 2 factors with 1 evaluative point or 3 points with no evaluation*
Level 3	16-21 16-18 19-21	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions, presenting evidence with some relevance and coherence *Consideration of 3 factors with 1 evaluative point or 4 points with no evaluation* Award in this range for 3 points and 1 evaluative comment (or 4 points with no evaluative comment) which are *not* well developed/reasoned Award in this range for 3 points and 1 evaluative comment (or 4 points with no evaluative comment) which are well developed/reasoned
Level 4	22-25	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions which are presented in a relevant and coherent way *Consideration of 4 factors with 2 evaluative points*
Level 5	26-30	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated • Excellence is displayed across all assessment objectives *Consideration of 4 factors with 3 evaluative points*

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