

PEARSON EDEXCEL A-LEVEL ECONOMICS B • 9EB0

ECONOMICS



EXAM QUESTION PACK

3.4 IMPACT OF GLOBALISATION ON LOCAL AND NATIONAL ECONOMIES

SCORE

/690

PERCENTAGE

%

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Questions

Q1.

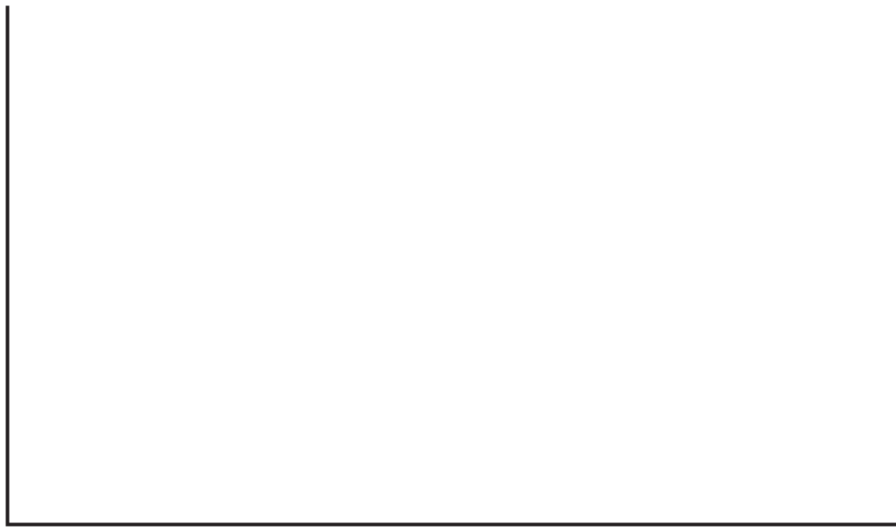
Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

The International Monetary Fund has called on the G20 group of large industrialised countries to boost government spending on infrastructure.

(Source: <https://www.theguardian.com/business/2016/jul/23/imf-calls-for-more-government-spending-as-rate-cuts-lose-their-impact>)

(a) Draw an aggregate demand and aggregate supply diagram to show the likely impact of an increase in government spending on infrastructure on a country's price level and real output.

(4)



(b) Which **one** of the following would be an example of government spending on infrastructure?

(1)

An increase in:

- ☐ **A** construction work on new railway lines
- ☐ **B** interest payments on the national debt
- ☐ **C** salaries for teachers
- ☐ **D** unemployment benefit payments

(Total for question = 5 marks)

Q2.

The table shows the selected economic data in 2014 for Vietnam and India.

	Gross National Income per capita (2011 PPPs)	Human Development Index (HDI) value
Vietnam	5 092	0.666
India	5 497	0.609

(Source: www.hdr.undp.org/en/composite/HDI)

(a) Which **one** of the following statements can be deduced from the data in the table?

(1)

- ☐ **A** Average incomes are higher in India than in Vietnam.
- ☐ **B** Levels of absolute poverty are higher in Vietnam.
- ☐ **C** Life expectancy is higher in India than in Vietnam.
- ☐ **D** Provision of healthcare and education is less effective in Vietnam than in India.

(b) With reference to the data provided, explain **two** limitations of using the HDI to compare levels of development between countries and over time.

(4)

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(Total for question = 5 marks)

Q3.

Chile

Figure 1: Copper prices, US dollars per tonne, 2007-2015



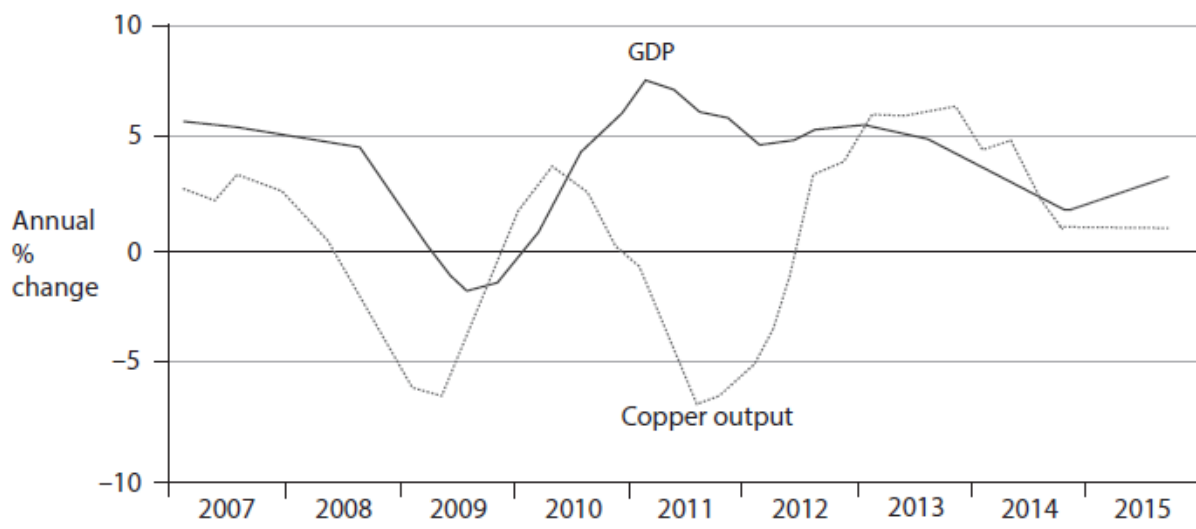
(Source: adapted from <http://www.indexmundi.com/commodities/?commodity=copper&months=120>)

Figure 2: US dollar per 100 Chile pesos exchange rate, 2007-2015



(Source: <https://www.google.co.uk/finance?q=CLPUSD&ei=OGEvVun-AoulU6awjugF>)

Figure 3: Chile: copper output and real GDP growth, 2007-2015



(Source: adapted from FT.com sources below)

Extract A

Chile's economic outlook brightens

Chile has been hit hard by a worldwide fall in commodity prices since 2011. Copper accounts for 20% of Chile's GDP and 60% of its exports; one third of the world's copper is produced by Chile. China purchased 40% of the world's copper, so a slowdown in China combined with increased global over-supply has meant copper prices have collapsed (see Figure 1). Chilean government income from copper exports had reached \$11.5 billion a year before copper prices fell, but now tax revenues from this source have fallen drastically. Growing numbers of copper mines struggle to break even at current prices.	5
Chile's GDP is now growing, helped by a weak currency that has boosted export industries outside the mining sector, such as its successful wine and salmon industries. There are strengths in tourism and high-tech products. Public services are good in Chile, and poverty rates have been falling fast. On top of this, a large and diversified financial sector with high domestic savings provides a useful safety net, given high levels of corporate debt and the government's need to finance a fiscal deficit of 3% of GDP.	10 15
Chile's economy is often regarded as the best run in the region. This is attributed to the credibility of its financial institutions, relatively low levels of national debt (about 15% of GDP) and its free-trade model, which is unrestricted by government interventionism that has distorted the economies of countries such as Argentina and Venezuela. "Chile is an example of how credible institutions can smooth the economic cycle and make adjustments less traumatic," said Mr Valdés, the minister of finance in Chile, pointing to its widely respected and independent central bank and a well-established fiscal rule that give officials the freedom to implement counter-cyclical policies.	20
However, there are worries that without enough spare capacity in the economy, expansionary fiscal and monetary policies could end up increasing inflation rather than economic growth. Meanwhile monetary policy is restricted by inflation that has reached 5%, well outside the central bank's 2–4% target range, fuelled by a weaker exchange rate. Crucially, investment remains low because of uncertainty over the outcome of the Prime Minister's reforms, which are aimed at reducing inequality. A recent rise in corporation tax from 20% to 25% and labour market reforms that strengthen the power of trade unions may have a negative effect on business confidence.	25 30
Despite a "mildly contractionary" budget, Valdés insisted that the government would continue with costly reforms. Increased taxes on those on higher incomes are considered by the government to be necessary to sustain economic development in Chile. "We do want to change society, while recognising all the good things that have been done in the past 25 years," said Mr Valdés, referring to an average growth rate of 5.3% over the past three decades, but under 2% in 2015. There is broad consensus that investment in education is the key to unlocking Chile's growth potential.	35

(Sources: adapted from <http://www.ft.com/cms/s/0/89926ce8-df96-11e4-a6c400144feab7de.html#axzz3pCnzT3PC> FT 20 April 2015 and <http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC> FT 19 October 2015 and <http://www.ft.com/cms/s/0/d60ac2b2-7453-11e5-a129-3fcc4f641d98.html?siteedition=uk#axzz3pCnzT3PC> FT 19 October 2015 all by Benedict Mander)

Extract B

Chile's copper mining on a downward track

There was a time when investing in Chilean mining meant guaranteed success. After 1990, when military rule was replaced by an elected government, market reforms and restored relations with the US and UK meant foreign companies were keen to exploit vast copper reserves. The existence of large copper reserves in a stable country with a business-friendly government is rare, making Chile much more attractive to investors than countries such as Zambia.	5
By mid-2015, however, the copper price hit a six-year low. Chilean mines are becoming less productive. After 20 years of heavy digging, the ore is lower grade, and much further down. The deeper pits take longer to mine, and use more fuel. Wages are high, and trade unions are powerful. A mining truck driver earns \$70 000 a year, \$10 000 more than the US equivalent. Many mining projects that were planned are being postponed, and investors are looking to Peru; even the US copper mining industry is becoming more competitive.	10
Energy supply is also a worry as Chile produces virtually no fossil fuels and relies on imported coal and liquid natural gas to power its mines. Energy costs account for 18% of the cost of copper production.	15
Water supply is also becoming a major problem. Farmers and communities accuse mining companies of causing water shortages to keep their operations running. A prolonged drought has not helped. Mining firms are turning to desalination plants or using untreated seawater. However pumping water 200 kilometres from the Pacific Ocean to the copper mines is costly.	20
Chile's environmentalist movement has forced the government to tighten regulations. In 2001, it took 236 days to get an environmental impact assessment of a new mine approved. By 2013, this had increased to 506 days.	25
(Source: adapted from http://www.ft.com/cms/s/0/ea060ef4-6ae2-11e5-8171-ba1968cf791a.html#axzz3p20lf45k Gideon Long September 27, 2015)	

(a) With reference to Figure 2, explain **one** likely reason for the change in the Chile peso exchange rate between 2013 and 2015.

(5)

(b) Examine the likely impact of externalities of copper mining on firms and communities within Chile.

(8)

(c) Apart from externalities, discuss the problems that Chile faces as a result of dependency on copper mining.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of policies that could be used to stimulate economic growth and development in Chile.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic impact on Chile's economy of changes in the level of investment.

(25)

Q4.

The East African Community (EAC)

	Burundi	Kenya	Rwanda	Tanzania	Uganda
GDP (US\$ bn)	2.47	37.23	7.10	28.25	19.80
Population (mn)	16.14	62.78	18.21	58.43	48.89
GDP per capita (US\$)	153	593	390	483.48	405
GDP per capita PPP (US\$)	483	1 517	1 167	1 380	1 165
HDI	0.355	0.519	0.434	0.476	0.456
IHDI	no data	0.344	0.287	0.346	0.303

(Sources: www.tradingeconomics.com, United Nations)

Figure 1

Economic indicators for the five EAC member countries, 2012

(a) With reference to Figure 1, calculate the ratio of Burundi's GDP per capita to Kenya's GDP per capita in 2012.

(5)

Extract A

Burundi's economic growth

Burundi has maintained a stable macroeconomic environment and over recent years improved its performance in health, education and gender equality. However, in spite of this recent progress, Burundi's economic growth has been modest compared to neighbouring countries in the EAC.

Burundi is a small, land-locked country and is one of the most aid-dependent countries in the world. The country is vulnerable to external shocks, such as volatile food and energy prices, declining aid flows, and the adverse impact of climate change. 5

These factors are made worse by the high proportion of current expenditure in the government budget, and a high level of tax exemptions – counting for as much as 3% of GDP. 10

Coffee and tea make up almost 70% of Burundi's total export earnings. This lack of export diversity makes it difficult to widen the tax revenue base and finance public investments.

(Source: adapted from 'Burundi: more fiscal resilience will improve government effectiveness', All Africa, 19 December 2013, <http://allafrica.com/stories/201312190925.html>)

Extract B

Trade in East Africa

The EAC was established as a free trade area in 2000 by Kenya, Tanzania and Uganda, with Burundi and Rwanda joining in 2007. Its objectives are the promotion of free trade and the free movement of capital and labour among its members. In 2013, an agreement was signed outlining plans for launching a monetary union by 2024.

Between 2000 and 2011, lower tariffs within the EAC boosted regional trade, offering the five member countries a route to faster growth. During 2000–10, intra-regional exports increased from US\$700 million to US\$2 billion. Rwanda's exports have grown the most during this period, from US\$1.6 million to US\$156 million, but are still a fraction of those of Kenya, the region's largest economy. Kenya's exports to the other EAC members were about US\$1.2 billion in 2010. In contrast, export growth in Burundi – the poorest member – has remained constant and imports have declined, mainly because of civil war and inferior infrastructure, such as airports, roads, and docks.

(Source: adapted from 'Trade in East Africa', Finance & Development, IMF, December 2011, Vol. 48, No. 4, <http://www.imf.org/external/pubs/ft/fandd/2011/12/data.htm>)

(b) With reference to Extract A and Extract B, examine **two** factors that constrain economic growth in Burundi.

(8)

(c) With reference to Figure 1, discuss the use of GDP data as a means of comparing living standards among the five EAC member countries.

(12)

(d) Assess the benefits Kenya has gained from its membership of the EAC since 2000.

(10)

(e) Discuss the likely costs and benefits of monetary union to the five members of the EAC.

(15)

(Total for question = 50 marks)

Q5.

(a) With reference to Extract C, explain what can be inferred about the price elasticity of demand for coffee beans.

(5)

(b) With reference to Figure 4, examine the likely impact of the 19% increase in the price of coffee beans between January and February 2014, on the price of a cup of coffee bought from a

coffee shop.

(8)

(c) Discuss the different degrees of contestability in the farming of coffee beans **and** in the UK coffee shop market.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of fluctuating coffee bean prices on coffee-producing countries.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the depreciation of the *real* on Brazil's economy.

(25)

(Total for question = 50 marks)

Q6.

(a) With reference to Figure 5 and Extract C, explain **one** likely reason for the fall in the exchange rate of the Turkish lira.

(5)

(b) Discuss the costs to the Argentine economy of an inflation rate "estimated by some economists to be over 25%". (Extract D, line 9)

(12)

(c) With reference to Extract E, examine the impact of restrictions on beef exports on how Argentine farmers decide to use their land.

(8)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the likely

microeconomic and macroeconomic effects of the imposition of 'price controls' (Extract E, line 8) in Argentina.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the 23% devaluation of the Argentine peso.

(25)

(Total for question = 50 marks)

Q7.

From 2000 to 2013, Zambia's Human Development Index (HDI) increased from 0.423 to 0.561.

Evaluate interventionist strategies that a government can use to promote economic development in its country. Refer to a developing economy of your choice in your answer.

(Total for question = 25 marks)

Q8.

Since the global financial crisis of 2008 there have been over 5 700 increases in tariffs, quotas and administrative controls on international trade.

Evaluate the likely effects of an increase in protectionism on the economy of a developing country of your choice.

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.....

[illegible]

(Total for question = 25 marks)

Q9.

Global oil prices fell from a 2008 peak of \$147 a barrel to \$27 in 2016.

Evaluate the likely macroeconomic consequences of a significant fall in global oil prices.

[illegible]

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(Total for question = 25 marks)

Q10.

Turkey - an emerging economy

Figure 1: Turkey's central bank lending rate, percent, 2013-2018

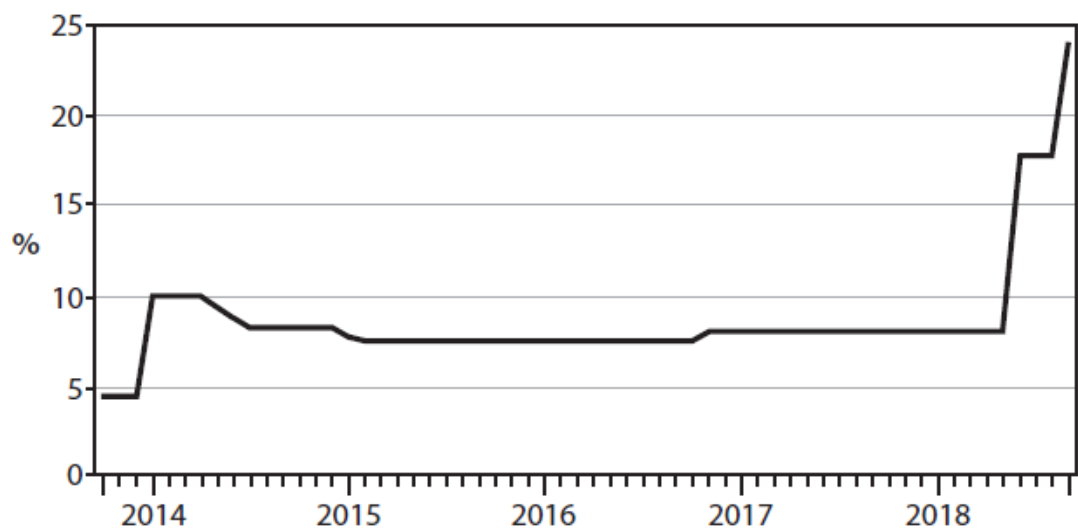
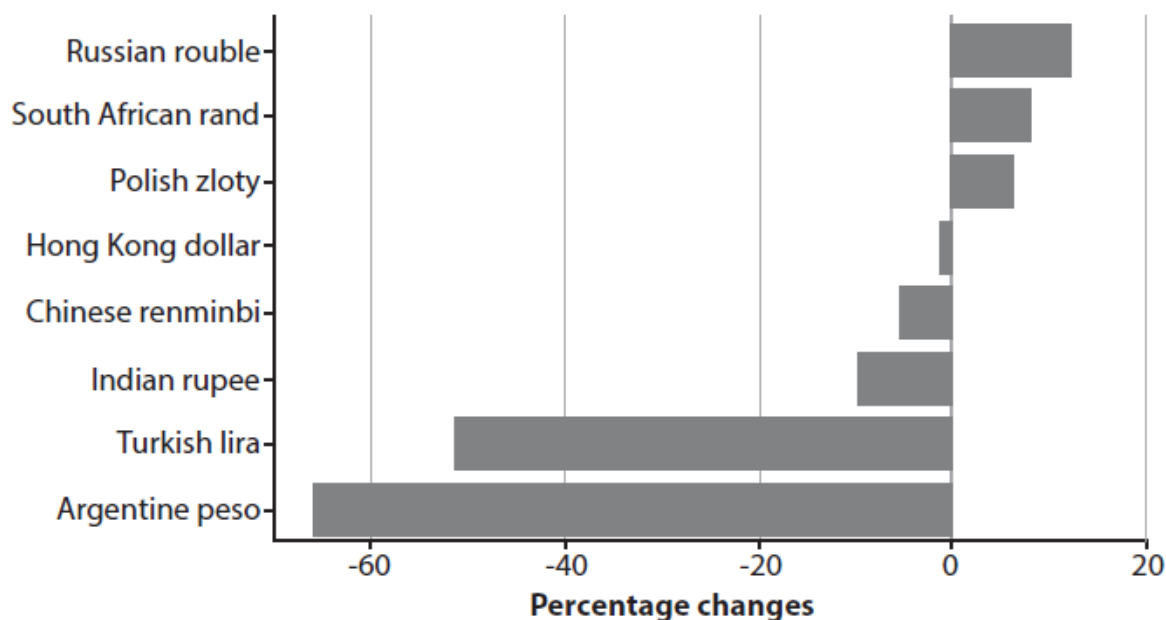


Figure 2: Selected emerging economy exchange rates, percentage change against the US dollar: January 2018 compared to January 2016.



(Source adapted from: FT.com)

Extract A

Can Turkey's central bank avoid another rate rise?

At an annual rate of 25%, Turkey's inflation is alarming. However, it may have peaked. This may be a turning point for the economically struggling country, whose currency (the Turkish lira) has lost nearly a third of its value against the US dollar in 2018. The central bank may be able to avoid tightening monetary policy further, as a severe economic adjustment is already well under way. Turkey is highly indebted in foreign currency. The Turkish government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks. The financial market faces difficulties in trying to restore foreign investors' confidence.

5

Consumer prices increased by 2.7% in October 2018, a much lower rate than the 6.3% recorded in September 2018. The lira has stabilised, having risen 16% since the central bank raised interest rates by 6.25 percentage points. However, the government wants lower borrowing costs to fuel credit growth and economic expansion. Timothy Ash at a London investment bank says at this point it's "illogical" to raise interest rates again in Turkey. That's because Turkey's economy is already experiencing a severe slowdown.

10

15

In the long term Turkey's economic growth is expected to be above that of other emerging markets such as Brazil, Russia and China. Turkey's private sector is resilient. Between 2018–50 we expect Turkey to grow by an annual average of 3.1%. Brazil is expected to grow by an annual average of 2.1%, Russia by 1.6% and China by 2.8%. GDP growth will nevertheless be well below that recorded in 2004–07 and 2010–15. Average growth in GDP per head will be substantially lower, mainly reflecting the expected rise in the total population.

20

(Source adapted from: <https://ftalphaville.ft.com/2018/11/06/1541508141000/Can-Turkey-s-central-bank-avoid-another-rate-hike-/>. 6 Nov 2018 Colby Smith and one sentence The president wants lower borrowing costs to fuel credit growth and economic expansion from <https://www.theguardian.com/world/2018/aug/07/turkey-urged-to-announce-emergency-interest-rate-hike> Larry Elliott 7/8/18 and <http://country.eiu.com/article.aspx?articleid=157174199&Country=Turkey&topic=Economy&subtopic=Long-term+outlook&subsubtopic=Summary>)

Extract B

Turkey aims to bin the plastic bag

You get a free plastic bag whenever you go to a shop, even if it is just to buy a loaf of bread or a chocolate bar. In Turkey, plastic bags are everywhere, with millions being thrown away, and their use is causing a growing environmental problem.

In Istanbul, the country's biggest city with about 12 million people, around 10 000 tonnes of waste are being collected every day. Plastic bags and other plastic waste make up 950 tonnes, or almost 10%, of the total waste. 5

The Turkish government said it was looking at ways to discourage the consumption of single-use plastic bags. One possible step currently under review is a ban of the black bags that are said to contain carcinogens. Another is that the state may raise taxes on plastic products, which could lead to supermarkets charging consumers for the bags. In Corlu, a town north-west of Istanbul, a local environmental group distributed 20 000 canvas bags to shoppers in one month. In some parts of Turkey, plastic bags are completely banned, with heavy fines for both firms and consumers who use them. 10

(Source adapted from: tseibert@thenational.ae
<https://www.thenational.ae/world/europe/turkey-aims-to-bin-the-plastic-bag-1.530059> accessed 11/11/18)

Extract C

Istanbul's third airport set to be the busiest in the world

Istanbul's third airport is being constructed over an area of 76.5 million square metres, to the north of Istanbul. When complete, the new airport will have six runways and have an annual passenger capacity of up to 200 million people, making it potentially the world's busiest airport. "This airport is going to be the most important hub between Asia and Europe," said one business leader. 5

The airport design includes high vaulted ceilings and spacious, modern and efficient design – and its tulip-shaped air traffic control tower won the 2016 International Architecture Award. It uses mobile applications and artificial intelligence for customers, is energy efficient and has a high-tech security system. The site employs 36 000 people and is estimated to cost the equivalent of £10 billion. However, the rush to meet the deadline set by the Turkish government is a major cause of accidents on the construction site, according to the construction workers' union. 10

(Source adapted from: <https://www.lonelyplanet.com/news/2018/08/08/istanbuls-huge-new-airport/> and <https://www.voanews.com/a/istanbul-to-unveil-new-airport-seeks-to-be-world-s-biggest/4632308.html>)

(a) Explain how the Turkish central bank intervenes in the currency market to prevent 'excessive appreciation or depreciation of the Turkish lira' (Extract A, lines 7–8).

(5)

(b) Examine **two** reasons why the Turkish government may want to avoid a significant fall in the exchange rate of the Turkish lira.

(8)

(c) Discuss the likely success of policies to reduce the consumption of single-use plastic bags in cities such as Istanbul.

(12)

EITHER

(d) Evaluate the likely microeconomic and macroeconomic effects of a rise in interest rates in Turkey.

(25)

OR

(e) Evaluate the microeconomic and macroeconomic impact of large infrastructure projects such as the building of a third airport in Istanbul.

(25)

(Total for question = 50 marks)

Q11.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

Read Figures 1, 2, and 3 and extracts A and B before answering this question.

Trade and aid in Rwanda

Figure 1: Aid funding received by Rwanda (per capita, US dollars), 2008 to 2018



(Source adapted from: data.worldbank.org)

Figure 2: Population of Rwanda (millions), 2008 to 2018

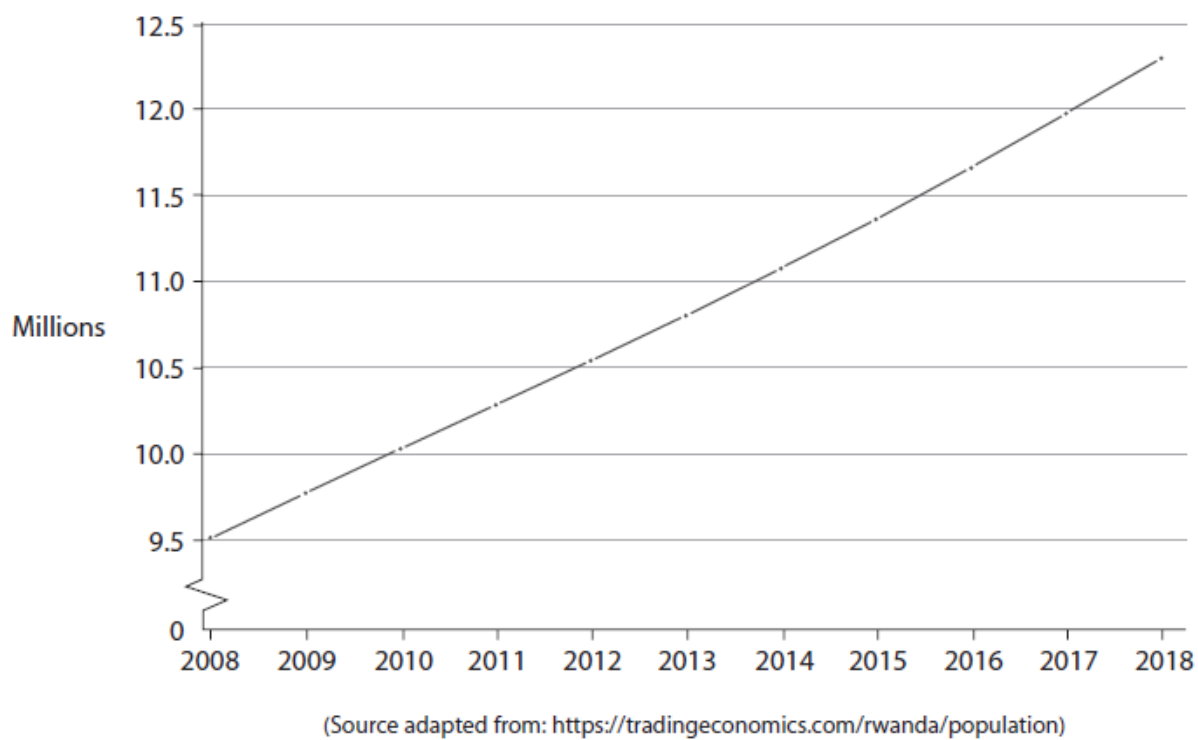
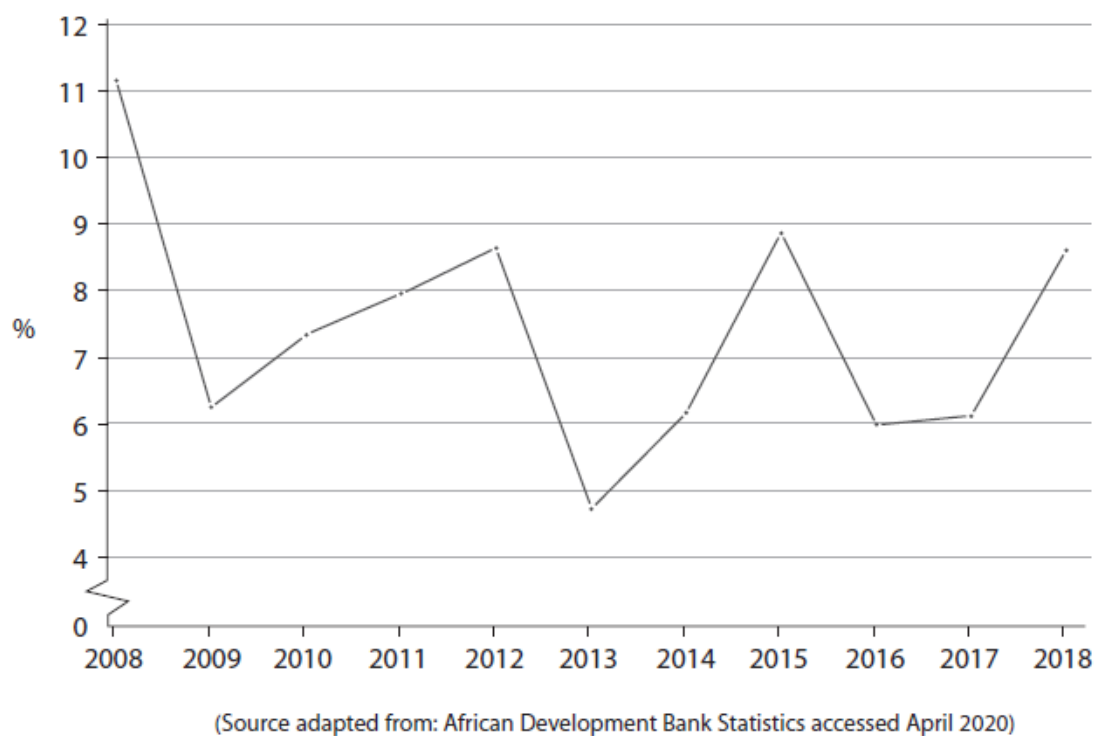


Figure 3: Rwanda real GDP annual percentage growth rate, 2008 to 2018



Extract A

Rwandan tariffs on imports of used clothing

In a market in Kigali, Rwanda's capital, an auction is under way. Sellers offer crumpled T-shirts and faded jeans; traders argue over the best picks. Everything is second-hand. A Tommy Hilfiger shirt sells for 5 000 Rwandan francs (\$5.82); a plain one for a tenth of that. Afterwards, a trader sorts through the purchases he will resell in his home village. The logos hint at their previous lives: Kent State University, a rotary club in Pennsylvania, Number One Dad. 5

These auctions were once twice as busy, but in 2016 Rwanda's government increased import tariffs on a kilo of used clothes from \$0.20 to \$2.50. Now many traders struggle to make a profit. The traders are not the only ones who are unhappy. Exporters in the US claim the tariffs are costing jobs there. In March, the US President warned that he would suspend Rwanda's tariff-free access to US markets for its clothing exports after 60 days if it did not remove the tariff. 10

Globally, about \$4 billion of used clothes crossed borders in 2016. The share from China and South Korea is growing, but 70% still come from Europe and North America. Many go to Asia and eastern Europe, but Africa remains the largest market. The trade enables poor people to afford clothes and creates retail jobs. However, governments worry that the trade undercuts their own clothing manufacturers. 15

Second-hand imports of clothing now dominate African markets. Researchers at the Overseas Development Institute, a British think-tank, estimate that Tanzania imports 540 million used items of clothing and 180 million new ones each year, while producing fewer than 20 million itself. African manufacturing is weak for many reasons, from ineffective privatisations to collapsing infrastructure. But second-hand clothing imports are a major factor: it is estimated that they accounted for half of the fall in employment in the African clothing industry between 1981 and 2000. 20 25

For example, a clothing factory in Kigali is operating at only 40% of capacity and employs 600 workers, down from 1 100 in the 1990s. It is hard to compete, says Ritesh Patel, its manager, when a used imported T-shirt sells for the price of a bottle of water. Instead, the company specialises in uniforms for police, soldiers and security guards, which cannot be bought second-hand. 30

The threatened suspension of tariff-free access to the US market would hurt Rwanda, but not very much. Last year Rwanda sold just \$1.5 million of clothing to the US. Nor, with about 12 million people, is Rwanda a big market for US exports.

(Source adapted from: <https://www.economist.com/finance-and-economics/2018/05/31/rwanda-refuses-to-remove-tariffs-on-imports-of-used-clothing>)

Extract B

Development in Rwanda

Rwanda's strong economic growth has been accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on policies to encourage industrialisation and poverty reduction initiatives have contributed to significant improvements in access to services and human development indicators. Absolute poverty declined from 59% to 39% of the population between 2001 and 2014 but was almost stagnant between 2014 and 2017. The official inequality measure, the Gini index, declined from 0.52 in 2006 to 0.43 in 2017. 5

(Source adapted from: <https://www.worldbank.org/en/country/rwanda/overview>)

(a) Using the data in Figures 1 and 2, calculate the change in the level of total aid funding to Rwanda between 2011 and 2012.

(5)

(b) With reference to the information provided, examine **two** likely benefits for the Rwandan economy of the growth in the country's population.

(8)

(c) With reference to the information provided, assess the likely impact on the Rwandan economy of the change in aid received between 2017 and 2018.

(10)

(d) Discuss the likely impact on Rwandan consumers and clothing manufacturers of the increase in the tariff on imports of second-hand clothes. Use an appropriate diagram to support your answer.

(12)

(e) Discuss policies, other than import tariffs, that the Rwandan government could use to develop its manufacturing industries.

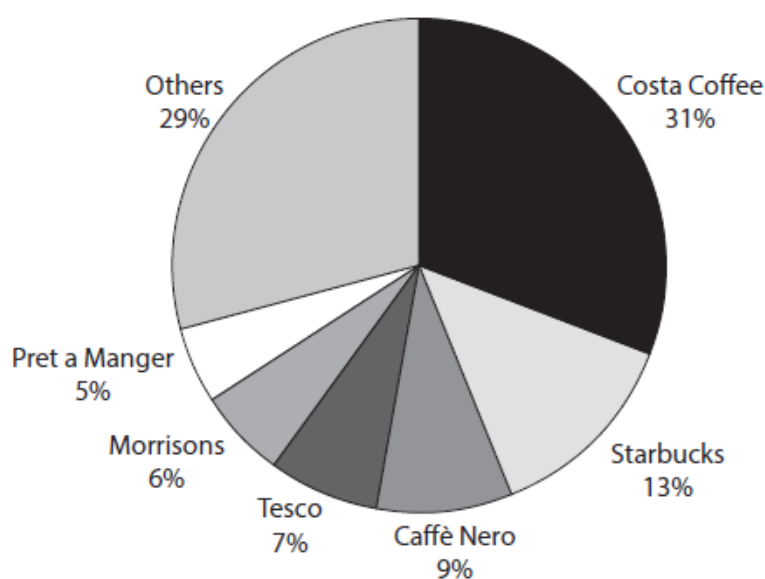
(15)

(Total for question = 50 marks)

Q12.

Branded coffee shops

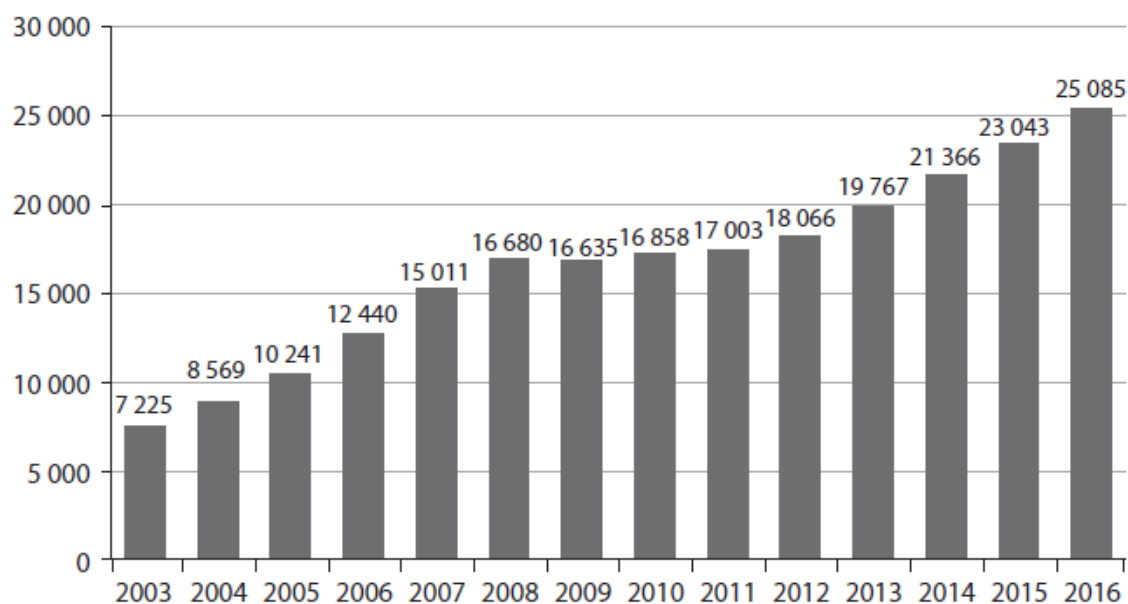
Figure 1: Market share of UK branded coffee shops, 2015, percentages



(Source: <http://metro.co.uk/2015/12/14/the-uks-most-popular-coffee-shop-has-been-revealed-5564569/>)

Figure 2: Number of Starbucks coffee shops worldwide, 2003–2016

Number of
coffee shops



(Source: <https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/>)

Figure 3: Price comparison in selected London coffee retailers, February 2017

Coffee style	Starbucks	Costa Coffee	Caffè Nero	Greggs	McDonald's
Espresso Double	£2.00	£2.00	£1.70	£1.65	£0.99
Latte Medium	£2.60	£2.50	£2.50	£1.80	£1.79
Latte Large	£2.80	£2.70	£2.80	£2.10	£2.09

(Source: data collected from coffee shops in Holborn, London on 25 February 2017)

Extract A

Starbucks in Britain - a loss-making business?

Coffee shops are among the most profitable parts of the food and drink industry, and few are doing quite as well as Starbucks, a US-based transnational company. Starbucks may be complaining of adverse global market conditions but that did not stop the world's biggest coffee chain from reporting record annual profits in 2016. It made a profit of almost US\$4.2 billion for the year, up 16% on 2015. That was mainly the result of a strong performance in its biggest market, America, where revenue rose 11%. The fastest growth was in the China and Asia Pacific region, with revenue up 23%. Howard Schultz, the CEO of Starbucks, said its Chinese coffee shops were the most efficient and profitable. While Starbucks still makes most of its profit in the US, Mr Schultz has said expansion in China will secure its future for "decades to come" and announced plans to more than double the number of shops in China to 5 000 by 2021.	5
However its British subsidiary, at first glance, appears to be doing less well. It has announced its first ever profit in Britain in 2015 – of just £1 million – despite opening its first coffee shop in the UK in 1998. It now has 849 UK outlets. The main reason why Starbucks has reported persistent losses in the UK is not due to a lack of demand for its coffee, but to minimise its tax bill. It is claimed that some of Starbucks' revenue earned in the UK is transferred to its Dutch subsidiary, which is charged lower rates of tax.	10
Starbucks is not finding life as easy in Britain as in the USA. It faces competition from home-grown chains such as Costa and Caffè Nero. Accusations of tax avoidance have also damaged Starbucks' sales to the benefit of its competitors. A survey found that a third less people rated Starbucks as their preferred coffee shop than they did before the tax-avoidance allegations were first published.	15
These issues have forced Starbucks to change its strategy. It has slowed down its expansion plans in the UK and has closed 67 underperforming coffee shops over the past year. It has also tried to repair its reputation by transferring its European headquarters from Amsterdam to London.	20
	25

(Sources: adapted from *The Economist* 14 February 2015 <http://www.economist.com/news/business-and-finance/21643271-tax-and-starbucks-company-report-2016> and http://s21.q4cdn.com/369030626/files/doc_financials/2015/Starbucks-Fiscal-2015_Financial-Highlights.pdf)

Extract B

Tax on disposable coffee cups?

Two and a half billion disposable cups are thrown away every year in the UK, that is, seven million every day. Only one in 400 is recycled. The UK Environment Minister has suggested that a coffee cup tax could work in a similar manner to the plastic bag charge. The 5 pence a bag charge has led to an 85% reduction in the number of bags being given out since October 2015. It is estimated that introducing a tax on disposable coffee cups would cut usage by two billion every year. One environment spokesperson, Kate Parminter, said: "We've seen how dramatically a small charge has affected public behaviour when it comes to the plastic bags and it is clearly time to extend it to coffee cups. Most people purchase a tea or coffee and throw away the cup without even thinking about it, but a charge would increase our awareness of the environmental impact."	5
In response, another MP welcomed her comments but said he did not believe a tax was the solution. He said: "My initial reaction is charging 5p or 10p for the cup will not work. It will not encourage people to take their own cups in if a coffee goes up from £2.60 to £2.65. I suspect a more technological answer is what we need – either the composition of the disposable cups being changed so they're more easily recyclable, or changing the technology in the recycling."	10
Disposable coffee cups contain a plastic coating inside the cups which prevent them from becoming soggy, making them difficult to recycle. There are just two specialist facilities in the UK that have the required equipment to separate plastic from paper for recycling. Almost no recycled paper is used in the production of disposable cups, meaning that some 43 000 trees must be cut down annually to keep up with the demand. CO ₂ emissions of around 83 000 tonnes are generated every year for their production.	15
	20
	25
(Sources: adapted from http://www.independent.co.uk/news/uk/politics/disposable-coffee-cups-could-be-taxed-like-plastic-bags-environment-minister-says-a6938126.html 05/09/16 and https://www.cchdaily.co.uk/lib-dems-call-5p-plastic-bag-tax-coffee-cups)	

Extract C

German city of Freiburg takes action on cutting the use of disposable coffee cups

The 'Freiburg cup', made from dishwasher-proof plastic, can be reused hundreds of times. Cups are issued with a one-euro deposit, and can be returned to any of the participating coffee shops in the German city. The cups, which are provided to coffee shops by local councils, are washed in the cafés and bakeries that have signed up to the scheme before being reused. 56 coffee retailers have signed up, and 10 000 cups are being used.	5
One of the main obstacles facing a wider-reaching scheme, however, is the number of café chains in Germany that are unwilling to use unbranded multi-use cups, particularly Starbucks and McDonald's. Starbucks already offers a discounted coffee for customers with a multi-use cup, but only if it is bearing the unmistakable Starbucks logo.	10
(Source: adapted from http://www.dw.com/en/germanys-love-for-coffee-to-go-leaves-environmental-groups-demanding-action/a-36689719)	

- (a) With reference to Figure 1, briefly explain the market structure that best describes the UK branded coffee shop market. (5)
- (b) With reference to Figure 3 and other information provided, discuss the price and non-price strategies that Starbucks may use to increase profitability. (12)
- (c) Examine the advantages of using an indirect tax as a means of reducing the use of disposable coffee cups. (8)

EITHER

(d) Evaluate the microeconomic and macroeconomic factors that may influence Starbucks' decision whether to expand in a particular country.

(25)

OR

(e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of increased UK demand for coffee at branded coffee shops.

(25)

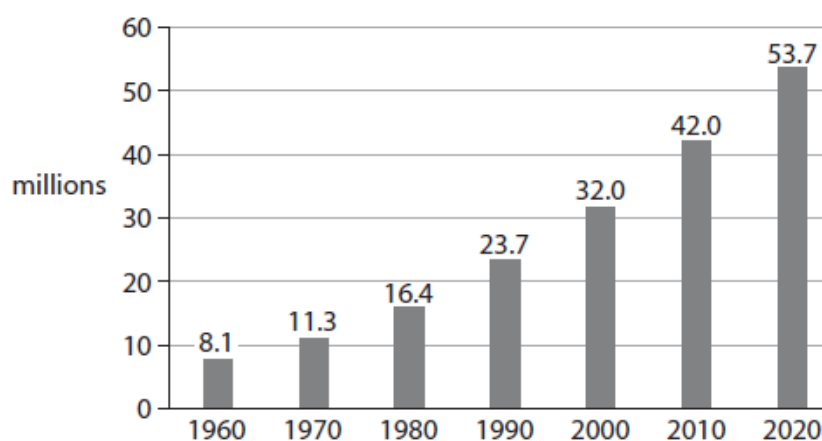
(Total for question = 50 marks)

Q13.

Read Figure 2 and the following extracts (D to G) before answering this question.

Sub-Saharan Africa - growth and development

Figure 2: Kenya population, millions, 1960 to 2020



(Source: adapted from Population, total - Kenya | Data (worldbank.org))

Extract D

Growth and development in Africa: 'Africa has a massive opportunity as a low-cost provider of services'

The outlook for Africa's economies is not as simple as the Lewis model of growth and development implies: do more manufacturing or stay poor. Many countries are expanding into areas that economists are starting to call 'industries without smoking chimneys'. Some, such as flower-exports, may not be classified as manufactured goods in export statistics. But the process of producing flowers looks a lot like factory work and demands many of the same management skills. These industries also deliver many of the benefits of normal manufacturing, including many well-paid jobs, and greater opportunities.

(Source: adapted from <https://www.economist.com/special-report/2020/03/26/many-of-africas-economies-are-doing-well>)

Extract E

The demography of Kenya – 'Demography will shape Africa's future'

Falling birth rates, when accompanied by rising literacy, can help kick-start growth. In Kenya 39% of the population is below the age of 15, falling from 43% in 2009. The labour force (15–64 years) is 57% and is the fastest growing population group. 6% of the population is over the age of 60. The number of children per family has fallen sharply, from 8.1 children in 1978 to 4.6 children in 2008, and it is projected to possibly reach 2.4 children by 2050.

In the 1970s little more than half of children in sub-Saharan Africa were enrolled in primary school. That share has shot up to almost 100%. The statistic is slightly misleading, since the percentage of children regularly attending schools is nearer 60%.

Why does Kenya's population continue to rise rapidly, while family size declines? There are two reasons. First, due to high fertility in previous decades, there are many more families in Kenya today. So even though families are smaller, the total number of children continues to grow. Second, Kenyans are living longer, with better healthcare – for example, polio was eradicated in 2014. Life expectancy is projected to increase from 54 years today to 68 years by 2050.

28% of Kenya is urbanised, and is becoming rapidly more so. By the 2030s it is expected that 36% of Kenyans will live in towns or cities rather than the poorer rural areas. Rich countries are urban countries. No country has ever reached high income levels with low urbanisation. Large urban centres have two distinct economic advantages. First, as more people interact, there is more scope for innovation. Young people need jobs, but they also create jobs. Kenya has an educated workforce and a dynamic service industry, which typically has lower barriers of entry than agriculture or manufacturing, and provides opportunities for young entrepreneurs. Second, larger groups of population living in close proximity allow for economies of scale.

In light of these facts, Kenya's future pattern of population growth can be a force of good. A large urbanising and well-educated population tends to generate a strong middle class and vibrant private sector. Economic development may be easier to achieve and sustain – though it is not guaranteed.

(Source: adapted from <https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050> and https://kenya.unfpa.org/sites/default/files/pub-pdf/state_of_kenya_population_report_2020.pdf and <https://www.worldbank.org/en/news/opinion/2010/04/28/demographic-transition-growth-kenya>)

Extract F

Kenya has an absolute advantage in cut flowers

In the UK, 80% of cut flowers come via the Netherlands, although a significant proportion come from Kenya. Some Kenyan flowers come straight to the UK on direct flights from Nairobi, where entire terminals at certain airports are dedicated to flights exporting flowers.

5

Kenya flower production has three major advantages over the Netherlands: areas of high altitude with cool nights, which many flowers benefit from, proximity to the equator for maximum hours of sunlight, and cheaper labour. This means an end to seasonal production and the beginning of a 365-day-a-year absolute advantage. The Netherlands has cost advantages in machinery and transport equipment, not flowers.

10

Cut flowers are now Kenya's second largest export after tea, contributing around 1% of the country's GDP. They are also one of the country's largest sources of employment, with over 100 000 people working directly in the flower industry and an estimated two million indirectly.

(Source: adapted from: <https://www.economist.com/middle-east-and-africa/2021/02/11/kenyas-floral-exports-are-blooming-once-more>)

Extract G

Changes in interest rates in sub-Saharan Africa

When Robert Matsiko was a young man his grain-milling business in eastern Africa was destroyed by fire. Now, after building it back up from the ashes, he is being hurt by high interest rates. To buy a new machine he must borrow from a bank at an annual rate of 22%. 'You fear to do that,' Mr Matsiko says. Many other entrepreneurs feel the same, which stops their businesses from growing, although very small firms can get help from microfinance schemes.

5

Kenya's central bank rate has fallen from over 20% to 7% in the last decade, but the rates charged to small businesses and individuals are much higher than the central bank interest rate. In sub-Saharan Africa, the gap between saving and borrowing rates is higher than anywhere else. The average bank lends at 6.8% above the central bank interest rate. Mobile banking, credit-information sharing and innovation have helped to bring borrowing costs down. But until birth rates fall, interest rates will stay relatively high, because families with many children cannot afford to save.

10

(Source: adapted from <https://www.economist.com/finance-and-economics/2020/05/21/why-interest-rates-are-so-high-in-africa>)

(a) Explain what is meant by the Lewis model. Refer to Extract D in your answer.

(5)

(b) Examine **two** demographic factors influencing development in Kenya.

(8)

(c) Using the example of cut flowers (Extract F), discuss how the concept of absolute advantage may lead to growth in Kenya. Use numerical or diagrammatic analysis in your answer.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic effects of decreasing interest rates in Kenya, or another developing country of your choice.

OR

(e) Evaluate the microeconomic and macroeconomic strategies that could be used to promote development in Kenya, or another developing country of your choice.

(25)

(Total for question = 50 marks)

Q14.

Indonesia

Figure 4: World coal prices, 2006-2016, US dollars per tonne

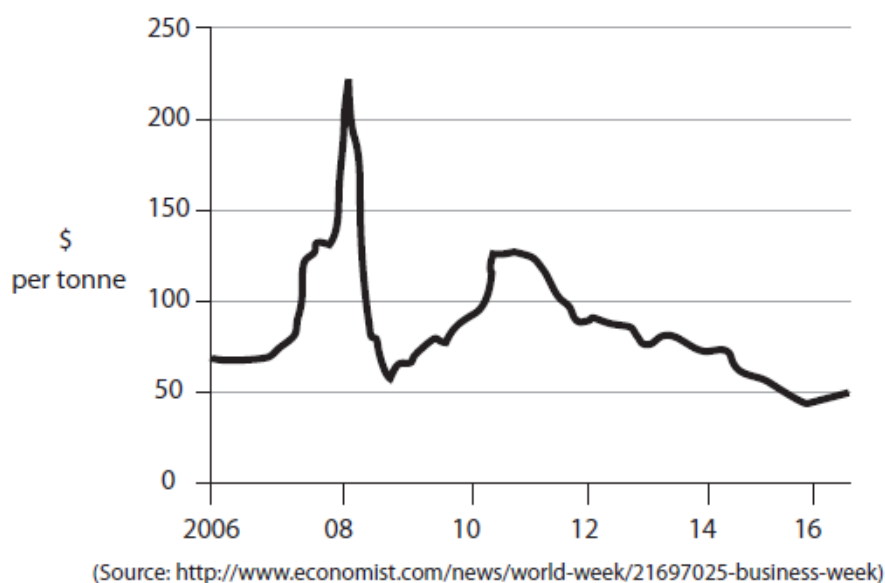
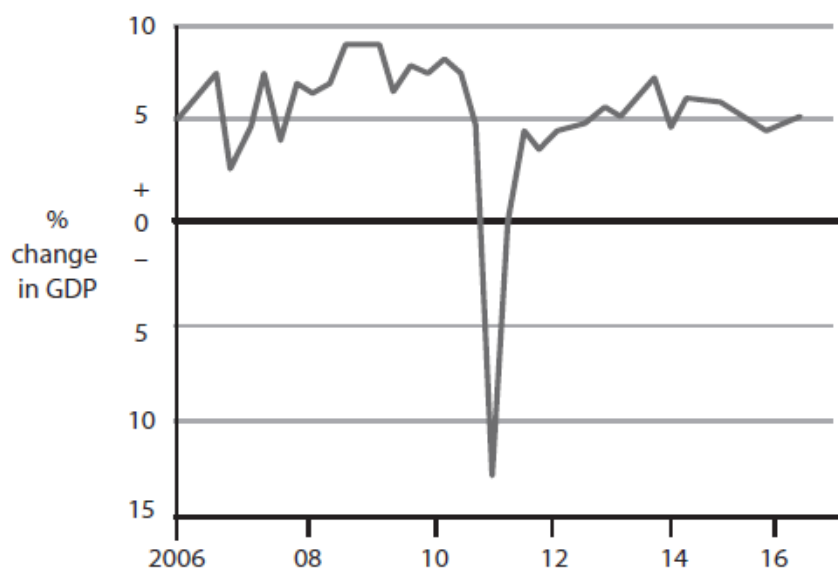


Figure 5: Indonesia's real GDP, annual percentage change



(Source: <http://www.economist.com/news/world-week/21697025-business-week>)

Extract D

Indonesia's economic outlook

The Indonesian economy is expected to grow by an average of 4.8% a year between 2017 and 2021. Joko Widodo, president of Indonesia since 2014, is increasingly confident in his role and now has enough political support to pass some of his desired supply-side reforms. His government has been aggressively trying to improve the business and investment environment by easing regulations and offering tax incentives, for example to firms investing in special economic zones.

5

Indonesia receives US\$2.3 billion a year in overseas development aid, which is mainly spent on education and healthcare. There is also ongoing aid from international institutions and non-government organisations paying for restructuring after the 2004 Indian Ocean earthquake and tsunami, which led to the loss of over 170 000 lives and much damage to economic livelihood. Aid agencies have supported the Indonesian government in providing healthcare free at the point of access for 88 million of the poorest people, free schooling for 12 years for each child, and tertiary education for students accepted into university. There is a scheme to provide each of Indonesia's 15.5 million poorest households with a cash transfer of 200 000 rupiah (US\$14.37) a month. The World Bank has approved US\$800 million in infrastructure loans to Indonesia, with another US\$950 million as conditional loans. The Asian Development Bank has committed itself to lending US\$2 billion. In December Japan's development agency lent Indonesia US\$535 million to construct two power stations.

10

15

20

(Sources: adapted from <http://country.eiu.com/Indonesia> and <http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last>)

Extract E

Indonesia's economic policies as commodity prices collapse

Indonesia is the world's fourth largest exporter of coal and the raw material accounts for 11% of its exports. Its other main exports are crude oil, palm oil, rubber and tin. Its main commodity exports tripled in value between 2000 and 2010, and as exports boomed, so did the economy. But the value of commodity exports has fallen by more than half from its peak. Coal now sells for just US\$50 per tonne, against US\$125 in 2011. 5

In the decade to 2014, Indonesia's real GDP grew by an annual average of 6%, but the collapse in commodity prices has slowed the economy. In 2015 growth was 4.8%, the slowest rate since 2009. But compared with many other commodity exporters, Indonesia is getting off lightly. 10

The value of the rupiah, Indonesia's currency, against the US dollar has fallen by 30% since 2013, but has since stabilised. Other emerging market currencies have depreciated even more steeply over that period. Despite the weak exchange rate, Indonesia's inflation rate has mostly remained within the central bank's target range of 3-5%. The main impact of the rupiah's fall has been to curb imports, helping limit Indonesia's current account deficit to around 2% of GDP despite weaker export earnings. A cautious fiscal policy during the boom years has allowed for a modest fiscal expansion to offset the effects of weak exports and investment. The national debt is just 26% of GDP. 15

Mr Widodo knows that Indonesia cannot raise its long-term growth rate if the economy remains reliant on coal. It needs a broader range of manufacturing and service industries. If new enterprise is to flourish, Indonesia must support local entrepreneurship. The labour market is inflexible. To start a business takes an average of 47 days, compared with four in Malaysia and two in Singapore. The President's supply-side policies are improving the business climate. The average number of days needed to approve a new power plant has declined from 900 to 200. The government recently revised its "negative investment list" of sectors in which foreign ownership is banned or restricted, fully opening up the rubber, film and restaurant sectors, among others. In 2015 he launched a series of measures to try to reduce government failure, including easing some regulations, streamlining licensing procedures for firms on industrial estates and providing tax incentives to invest in special economic zones. 20 25 30

The government has used savings from cutting fuel subsidies, worth over 4% of GDP, to fund extra capital spending. But the budget deficit still widened to 2.8% of GDP, very close to the legal limit of 3%. If public expenditure is to increase further, the government will need to raise more revenue. That will not be easy. Most workers and employers pay little or no tax. Only 27 million of Indonesia's 255 million people are registered taxpayers, and in 2014 just 900 000 of them paid what they owed, leaving it with a tax revenue to GDP ratio of around 10%. Big companies say that they are being squeezed harder by the tax authorities because they are an easier target. 35

Infrastructure spending will help bring foreign investment and good jobs to Indonesia as well as encouraging exports. Indonesia's infrastructure problem can be summed up as too few roads and congested ports. In the short term, infrastructure spending puts people to work and boosts demand for raw materials. In the longer term this spending offers the chance to make up for decades of neglect and underinvestment. Indonesia has plans for 65 dams, 16 of which are already under construction. In 2015 work started on the Keureuto Dam, designed to boost agricultural productivity in Aceh. Recently fields were flooded for the massive Jatigede Dam in West Java, after 20 years of delays. Once complete, the dam will irrigate 90 000 hectares of rice paddy, increasing efficiency by giving farmers two harvests a year instead of one. 40 45

(Sources: adapted from <http://www.economist.com/news/special-report/21693405-secure-growth-it-needs-indonesia-must-resist-its-protectionist-urges-roll-out> and <http://www.economist.com/news/special-report/21693404-after-decades-underinvestment-infrastructure-spending-picking-up-last>)

(a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to

support your answer.

(8)

(c) Discuss the benefits of aid to Indonesia.

(12)

EITHER

(d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects on Indonesia of the volatility of prices of commodities such as coal.

(25)

OR

(e) Evaluate the likely microeconomic and macroeconomic effects of the supply-side policies recently introduced in Indonesia.

(25)

(Total for question = 50 marks)

Q15.

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	21.75%	18.0%
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

5

10

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique’s default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries’ low tax base. “The real thing to look for is debt to revenue, or debt-service as a percentage of government spending,” said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

15

20

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 <https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399>)

Extract E

Mozambique's economic stability is being put to the test

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line. 5

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1. 10 15

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability. 20 25

(Source: adapted from <http://www.africaneconomicoutlook.org/en/country-notes/mozambique> and <https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test> 6 October 2017 Dr Alex Vines OBE)

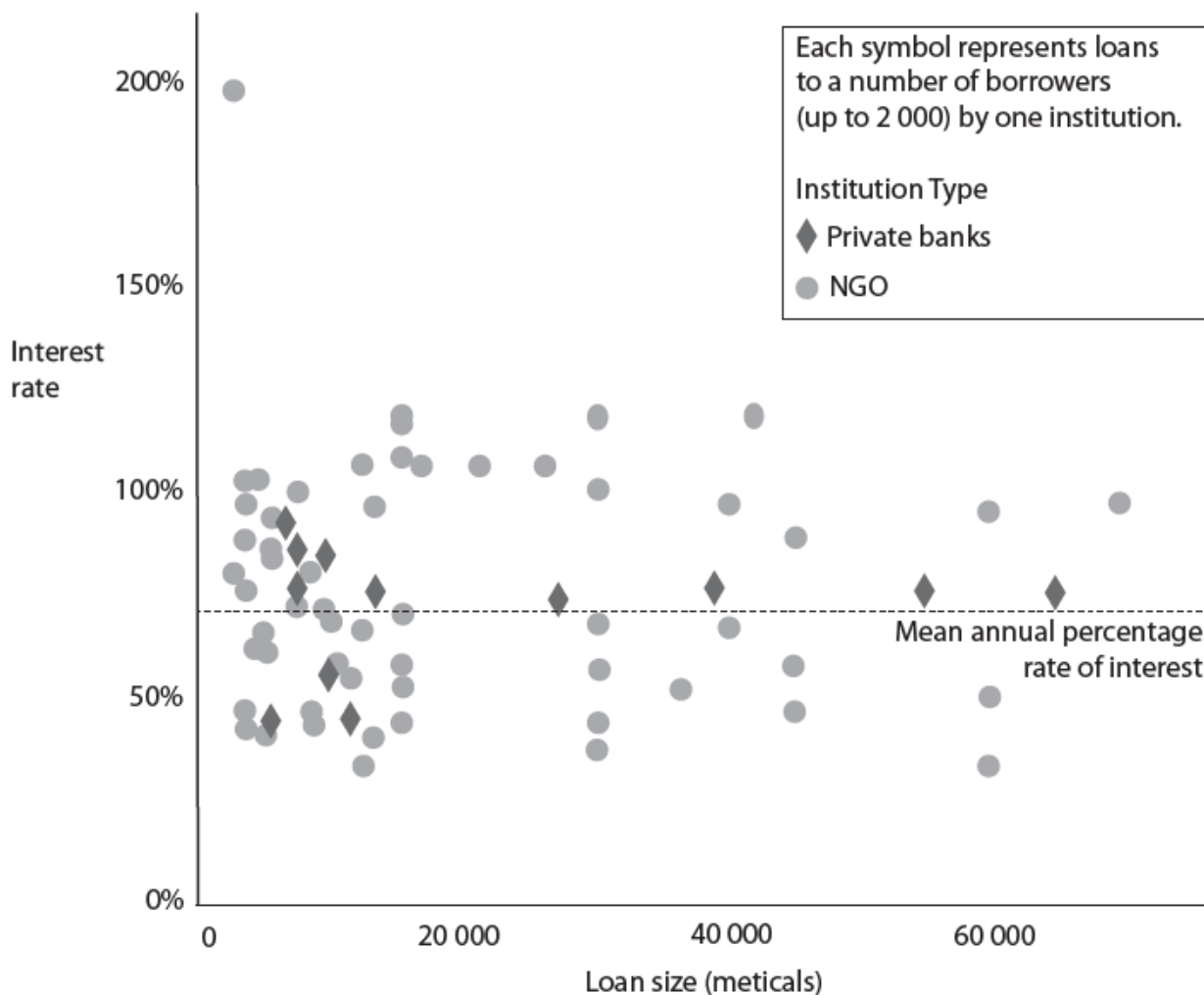
Extract F

Microfinance in Mozambique

Microfinance in Mozambique started in the late 1980s through projects initiated by international relief organisations. The sector has expanded to include many private banks and non-government organisations (NGOs), see Figure 3. This has resulted in wider use (over 100 000 borrowers) and many new business start-ups which could not have gained finance from any other source. Evidence suggests that there is unfulfilled demand for microfinance and a large potential for expansion. 5

(Source: adapted from <http://www.mftransparency.org/microfinance-pricing/mozambique/>)

Figure 3: The cost of microfinance loans in Mozambique, 2015



(Source: <http://www.mftransparency.org/microfinance-pricing/mozambique/>)

(a) With reference to Extract D line 21, explain why 'opportunity cost' is a problem for governments of developing countries when servicing debt.

(5)

(b) Examine **two** reasons, apart from access to finance, why 90% of the manufacturing sector in Mozambique 'is made up of small enterprises' (Extract E, line 9).

(8)

(c) Discuss whether borrowers benefit from microfinance. Make reference to Mozambique in your answer.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic factors, apart from access to credit and banking, influencing growth and development in Mozambique.

(25)

OR

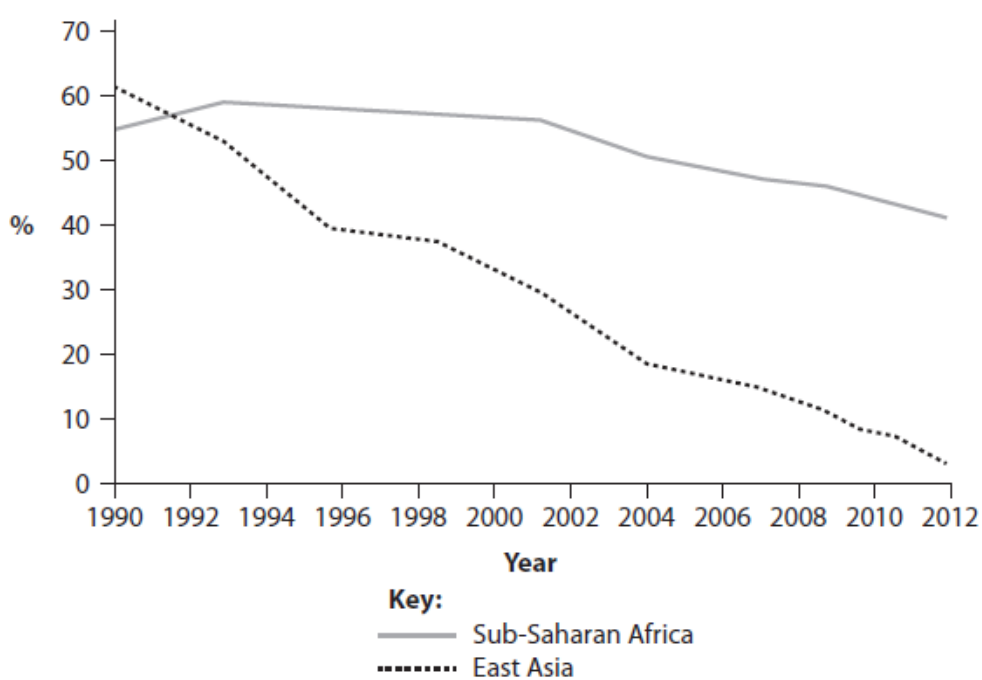
(e) Evaluate the likely microeconomic and macroeconomic effects of relatively high inflation rates in many African countries.

(Total for question = 50 marks)

Q16.

Globalisation and Inequality

Figure 1: Proportion of population in absolute poverty (US\$1.90-a-day 2011 PPP)



(Source: <https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf>)

Lessons from globalisation

Extract A

The past 25 years have seen a freeing up of trade. Capital has been free to move around the world. Formerly closed economies in Asia have been opened up and tariffs cut. In emerging economies, a billion people have been taken out of absolute poverty, but relative poverty remains a problem.	5
In many advanced economies globalisation has come to mean, according to the Governor of the Bank of England, “low wages, insecure employment, stateless corporations and striking inequalities”. His solution to these problems is threefold: an acceptance by economists that not everybody has gained from trade and technology; a better mix of monetary policy, fiscal policy and structural reform to boost growth; and more inclusive growth. In essence, this is the same conclusion that was reached in the past when there was a fear that market forces had to be moderated to prevent capitalism from destroying itself.	10
The good news is that this moderation of capitalism included real policy changes: an extension of the right to vote, the growth of trade unions, the creation of welfare states, a move to more progressive tax policies, nationalisation of key sectors of the economy, and more activist demand management.	15
The bad news is that this process took about 100 years and was not completed until the end of the Second World War. What’s more, protectionism seems to be on the increase as countries seek to protect themselves from inequalities caused by rapid globalisation.	20
(Source: adapted from https://www.theguardian.com/business/2016/dec/05/mark-carney-globalisation-bank-of-england-capitalism)	

Extract B

Tackling inequality

Despite decades of substantial progress in boosting prosperity and reducing absolute poverty, the world continues to suffer from substantial inequalities. For example, the poorest children are four times less likely than the richest children to be enrolled in primary education across developing countries. Among the estimated 780 million illiterate adults worldwide, nearly two-thirds are women. Poor people face higher risks of malnutrition and death in childhood and lower chances of receiving key healthcare. Such inequalities result in high financial costs, limit economic growth, and generate social and political burdens and barriers.	5
These consequences highlight the importance of directing attention to the problem of inequality. There are other reasons to tackle inequality. Most economies are struggling to recover from the global financial crisis that started in 2008 and the subsequent slowdown in global growth. The goal of eliminating absolute poverty by 2030 might not be achieved without accelerated economic growth or reductions in inequalities within countries, especially in those with large numbers of poor. Generally speaking, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth therefore requires a more equal income distribution.	10
Some level of inequality is desirable to maintain an appropriate incentive structure in the economy or simply because inequality also reflects different levels of talent and effort among individuals. However, the substantial inequality observed in the world today offers great scope for reducing the gap between rich and poor. Policies to redistribute income from higher-income and wealthy households to those on lower incomes can be achieved without compromising growth, if done effectively. A trade-off between efficiency and fairness is not inevitable.	20
	25
(Source: adapted from https://openknowledge.worldbank.org/bitstream/handle/10986/25078/9781464809583.pdf)	

(a) With reference to the information provided, explain the distinction between absolute poverty and relative poverty.

(5)

(b) With reference to the information provided and your own knowledge, examine **two** factors that might explain the differing rates of decline in absolute poverty in East Asia and Sub-Saharan Africa.

(8)

(c) With reference to Extract A, discuss **two** macroeconomic policies, apart from protectionism, that a government could use to reduce the negative effects of globalisation.

(12)

(d) Assess the view that 'some level of inequality is desirable to maintain an appropriate incentive structure in the economy' (Extract B, lines 19 and 20).

(10)

(e) Discuss the role of the financial sector in the growth and development of developing countries.

(15)

(Total for question = 50 marks)

Q17.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

Trade and Development Issues in Africa

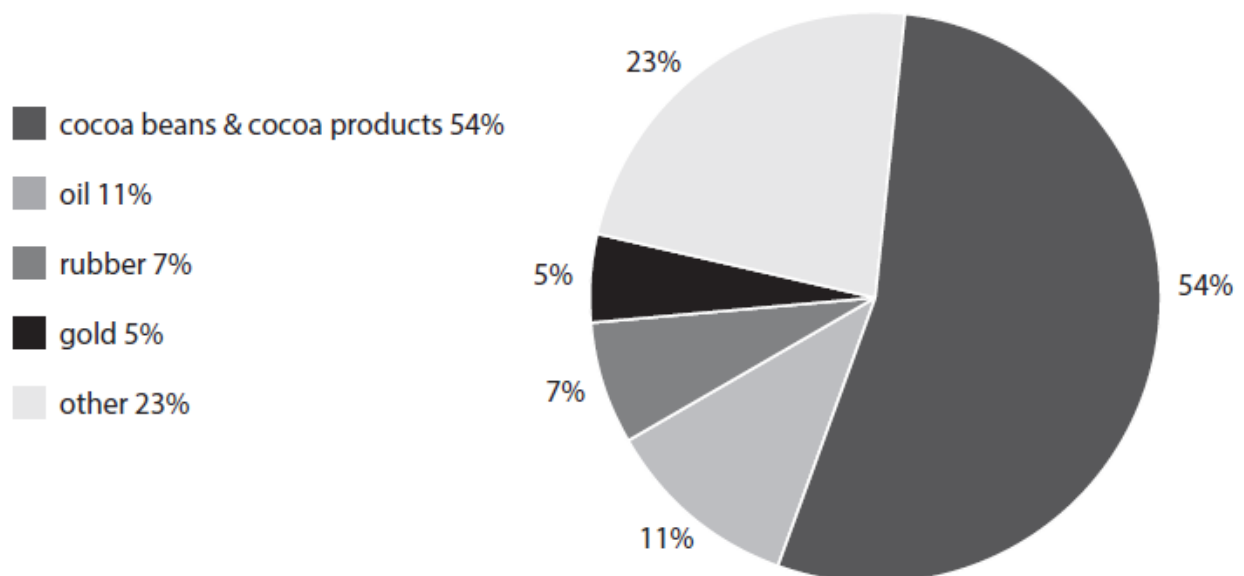
Figure 1: The Fairtrade scheme in the cocoa industry. How the additional revenue is spent by cocoa farmers.



Improving business administration and infrastructure	44%
Investing in farm equipment, training and funding	45%
Supporting social services for the community	10%
Other	1%

(Source: https://www.fairtrade.org.uk/~media/FairtradeUK/What%20is%20Fairtrade/Documents/Policy%20and%20Research%20documents/Monitoring%20reports/Fairtrade%20Monitoring%20Report_9thEdition%202016.pdf)

Figure 2: Ivory Coast exports - relative share of main products (%), 2016



(Source: https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/civ/all/show/2016/)

Extract A

Cheap cocoa is costing farmers dear

The median annual income of cocoa farmers in the west African country, Ivory Coast, is just US\$2 600. Research suggests that an annual income of US\$6 133 is needed for this country's farmers to have a decent, living income. This situation is even worse for farmers who are not part of a Fairtrade scheme.

5

World cocoa prices fell by more than a third in 2017. Cocoa farmers have to accept all the risk from price volatility, putting a significant strain on their fragile incomes. On the other hand, cocoa processors and chocolate manufacturers are able to adapt or even make high profit and consumers continue to enjoy their chocolate.

This is still happening despite considerable investment in agriculture to build a sustainable cocoa sector. The focus has been on raising productivity and diversifying crops. The average cocoa farm in the Ivory Coast produces only around half of the output that could be achieved with training and resources such as fertilisers, equipment and replanting. If farmers diversify into other crops, livestock or non-farm activities, they lower the risk they face of fluctuating world cocoa prices.

10

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Even tripling farm output would not provide the average cocoa farmer with a living income. Diversification alone will not always make farms more profitable. If we want farmers to earn a living income, we must also be willing to pay farmers more.

(Source adapted from: <https://www.fairtrade.org.uk/Media-Centre/Blog/2018/October/Cheap-cocoa-is-costing-farmers-dear>)

Extract B

Sub-Saharan Africa is becoming more integrated

After two years of negotiations, representatives of a large number of African countries signed the African Continental Free Trade Agreement (AfCFTA) in Kigali on March 21, 2018. This created a trading bloc of 1.2 billion people with a combined gross domestic product of more than US\$2 trillion. The agreement committed countries to removing tariffs on 90% of goods and to liberalise services.

5

This can be seen as a sign of rapid and steady regional integration. Sub-Saharan Africa in particular is much more integrated today than in the past. The level of integration in sub-Saharan Africa is now similar to that in the world's other developing and emerging market economies.

10

However, the two largest African economies, Nigeria and South Africa, refused to sign the agreement. Nigeria's manufacturers and trade unions are concerned about the potential negative impacts of becoming more open to imports from other African countries with lower labour costs.

Greater interdependence can expose small economies to their partners' recessions. After nearly 20 years of strong economic activity, sub-Saharan Africa experienced the downside of integration in 2015. The collapse in commodity prices and the slowdown in economic activity in Nigeria and South Africa contributed to sub-Saharan African growth slowing sharply. Since 2017 growth has begun to recover. The recovery is mixed, though, and it is unclear to what extent the slow recovery of the larger economies is still affecting the rest of sub-Saharan Africa.

15

20

(Source adapted from: <https://www.imf.org/> and <https://www.pulse.ng/>)

(a) With reference to Figure 1 and Extract A, explain the likely impact of a Fairtrade scheme on agricultural communities.

(5)

(b) Examine two ways, apart from Fairtrade schemes, in which cocoa farmers could boost their

incomes despite the falling price of cocoa.

(8)

(c) Discuss the problems for the Ivory Coast of dependency on cocoa for a large proportion of their exports.

Refer to Figure 2 in your answer.

(12)

(d) Nigeria is considering joining the African Continental Free Trade Agreement. Assess policies the Nigerian government could use in response to the concerns of the country's 'manufacturers and trade unions' (Extract B paragraph 3) if they join this trading bloc.

(10)

(e) Discuss the likely benefits of increased economic integration for sub-Saharan African countries.

(15)

(Total for question = 50 marks)

Q18.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

Answer the question with a cross in the box you think is correct ☐. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☐.

In 2018, the International Monetary Fund (IMF) lent Argentina \$57 billion as part of a bailout package to help prevent the country's government defaulting on its debts. This financial crisis also caused significant capital flight out of Argentina's economy.

(Source adapted from: <https://www.ft.com/content/737b48bc-c1c9-11e8-95b1-d36dfef1b89a>)

(a) Explain the role of the IMF in providing financial assistance to countries such as Argentina.

(4)

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(b) Which **one** of the following is most likely to happen to Argentina's currency value as a result of capital flight, assuming it is operating with a floating exchange rate system?

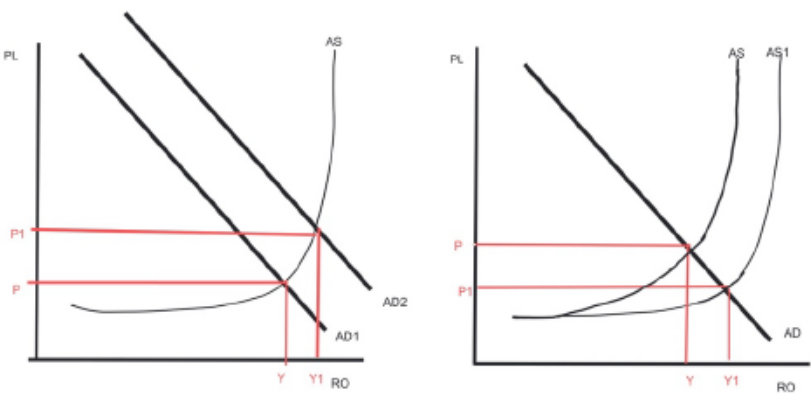
(1)

- ☐ **A** Appreciation
- ☐ **B** Depreciation
- ☐ **C** Devaluation
- ☐ **D** Revaluation

(Total for question = 5 marks)

Mark Scheme

Q1.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2 Knowledge/understanding: Accurate diagram with correct labels on axes (1) and lines (1)  Application: Correct shift of line(s) (1) showing change in price level and/or real output (1) For example: N.B. Other AS curves are acceptable. Allow outward shift of both AD and AS.	(4)

Question Number	Answer	Mark
(b)	The only correct answer is A <i>B is not correct because it is not infrastructure</i> <i>C is not correct because it is spending on salaries, not infrastructure</i> <i>D is not correct because it is spending on welfare, not infrastructure</i>	(1)

Q2.

Question Number	Answer	Mark
(a)	A	(1)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 1, Analysis 1 Knowledge/understanding: 1+ 1 for limitations: • ignores qualitative factors, such democracy, quality of education or human rights for example (1) • ignores other measures ranging from gender equity, proportion of workforce in agriculture to environmental biodiversity (1) • ignores income distribution (1) • PPP values change very quickly and are likely to be inaccurate or misleading (1) Analysis: 1 mark for linked development. Application: 1 mark for reference to the data e.g. Vietnam's HDI 0.666.	(4)

Q3.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge: 1 mark for identification of a possible reason and 1 mark for its relevance to a fall in the value of the currency. Possible reasons: • Fall in demand for peso (1) with reason (1) • Increase in supply of peso (1) with reason (1) • Current account balance: ◦ Fall in the value of X (1) because export prices have fallen (1) ◦ Rise in the value of M (1) because of economic growth (1) • Decrease in interest rates (1) in Chile relative to other countries (1) • Fall in FDI (1) with reason e.g. reduced foreign investment in Chilean mining (1) • Change in hot money flows (1) with reason e.g. speculative selling of peso (1) • Rise in value of other countries' exchange rates (1) with a change in relative rates (1) • Relatively high inflation in Chile (1) compared to other countries with which it trades (1)	

	Application: 2 marks for data references e.g. • Copper prices have fallen, Fig. 1 (1) e.g. to \$5000 (1) • The Chilean peso has decreased in value (1) • Calculation based on data (award a range of answers because the data is given for the whole year) e.g. 0.2 to $0.14 = 30\%$ fall (or similar) (1 + 1) • Inflation 5% in Chile (1)/above 2-4% target (1)/ e.g. because of higher unit labour costs (implied by high truck drivers' wages, Extract B) (1) • Fall in FDI as mining dries up, therefore reduced demand for peso • Application of an exchange rate diagram e.g. with peso on vertical axis with shift (1) Analysis: • 1 mark for explanation of the process linking to the cause to the identified change e.g. fall in copper prices means that the value of exports fall because demand is price inelastic (1) or imports rise in value because of economic growth sucking in imports (1) diagram showing shifts in demand or supply of pesos linked to correct explanation (1) NB only award 1 mark in total for use of a diagram	(5)
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Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 NB an answer might provide positive externalities as KAA and negative externalities as evaluation NB do not award effects on copper mining firms, unless an indirect effect. NB an answer which does not relate both to firms and communities is limited to 5/6 KAA marks. NB do not award externalities themselves, e.g. pollution, the environment. Award the <i>impact</i>. Knowledge and Analysis Knowledge/ implicit understanding of externalities (1) e.g. knowledge that externalities are an effect on third parties, or outside (or not accounted for by) the market mechanism, or the difference between private and social costs or benefits Firms (in businesses other than mining) Points showing the impact on firms might include: • farms lacking water because mining companies are using it (1+1) • high demand for energy means that other firms will face high energy costs (1+1) • high exchange rate can cause problems for other exporting firms (1+1)	

	Communities Points showing the impact on communities might include: • problems of water access for households (1+1), • large-scale transport causes noise, air pollution (1+1), • people have to move away to find work (social dislocation) (1+1) • impact on employment and incomes as mining declines (1+1) • impact on firms that supply the mining sector (1+1) Some impacts could be seen as firms and communities, e.g. impact on wider economy of higher wages as firms have to compete with unionised highly paid copper miners for employment. Application: • Externality diagram illustrating negative or positive impact using marginal analysis (up to 2 marks: 1 mark for correct MSC and MPC drawn, 1 mark for correct equilibrium shown/deadweight loss) • Water has to be pumped 200km (Extract B paragraph 4) which uses fossil fuels/is noisy/ugly/affects tourist areas • Mines are deeper and use more fuel (carbon emissions have impact on climate and therefore on welfare of many) • Desalination plants might affect other firms or consumers (this might be negative or positive)	
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	Evaluation (2 marks for any relevant point, two points 1 +1): • Positive externalities, e.g. ◦ impact of local multiplier on economy, improved infrastructure affects other industries ◦ Improved wages and working conditions for workers (in businesses other than mining) ◦ The copper mining has already helped to fund improvements in welfare, such as the financial system and pensions ◦ Benefits of higher value of currency, e.g. terms of trade improvement • Difficult to know how large the externalities are or who is bearing the cost • The benefits might outweigh the costs, e.g. reduction in poverty, improved fiscal powers, strength of financial markets, improved local infrastructure • Other standard evaluation points, e.g. Extract B a drought has made the problem more severe, time to acquire environmental impact assessments (Extract B paragraph 5) might not be a reliable indicator	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 • Link between falling copper prices and falling incomes and government revenue e.g. dramatic loss of government revenue from peak of \$11.5 billion • Exposure to risk e.g. high proportion of GDP and exports dependent on copper so this could cause risk of falling incomes • Price volatility e.g. might cause reduced FDI/investment • Impact of declining terms of trade might be used • Successful exports of copper might force up the exchange rate, other 'Dutch disease' issues e.g. impact on non-copper sector • Falling demand for copper might cause peso to fall in value, causing declining terms of trade/cost push inflation • May use diagram to illustrate effects of low PES, PED • Award use of concepts or theories such as Prebisch-Singer, with link to terms of trade and changing world incomes. • Firms may close down e.g. Extract A lines 8-9: award a microeconomics diagram showing shutdown point NB Do not award any parts of answers which are related to externalities A KAA point referring to changes in tax revenues can only be awarded Level 3 if a specific link is made to the source of the tax revenue e.g. – corporation tax or profits of a state-owned enterprise For a Level 3 answer there must be reference to dependency rather than just falls in copper prices, and the wider economy rather than just copper mining firms	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 • Advantages of copper dependency for Chile's economy: ◦ Copper dependency is an advantage when copper prices are high e.g. they have been high for a prolonged period, with many advantages ◦ Use of data to support this, e.g. \$11.5 bn a year tax revenue, or percentage changes in prices Figure 1 ◦ Low national debt, falling levels of poverty, inward direct investment • Other industries thriving e.g. salmon industry • Chile's economy 'best run in the region' and has financial strength to overcome copper price changes, relative to other countries who are dependent on primary products e.g. Venezuela • The fall in the exchange rate corrects the problem of over dependency • Copper prices are far less volatile than 2007-2011	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for effects of policies: Microeconomic effects may include: • fiscal, e.g. 'mildly expansionary policies' such as cutting income tax will increase real wages • monetary e.g. cutting interest rates can reduce the costs of borrowing for individuals and firms. • supply side policies, e.g. privatisation, free trade can make markets more competitive • growth and development strategies e.g. education, debt relief etc. can further alleviate poverty • price controls Macroeconomic effects may include: • Cutting interest rate might cause the peso to further decrease in value, which would cause inflation / increase the value of exports leading to current account improving • Privatisation or other supply side policies can increase international competitiveness NB for a Level 4 response there must be reference to both economic growth (e.g. rising incomes) and economic development (e.g. longer life expectancy through improved living standards) and a focus on effects for Level 3 and above. 9 marks for evaluation – might include: • Expansionary fiscal policies might involve an improvement in the redistribution of income • Objectives might conflict, e.g. cutting interest rates can cause inflation or widen inequality, or increased government spending to produce growth might cause inflation (e.g. Phillips Curve) • Policies might conflict, e.g. increasing length of time to gain a permit to reduce externalities can cause a negative supply side impact e.g. by raising production costs for firms.	(25)

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 This mark scheme is based on an increase in I, but answer can be given from the point of view of a decrease Up to 16 marks for effects: Microeconomic effects may include: • Effects on workers – higher incomes, more jobs • Effect on firms, e.g. increase in productivity, or for firms that produce capital goods, a change in demand • Increase in demand as consumer and business confidence improves • Improved quality of life as a result of research into and development of products Macroeconomic effects may include: • Shift (increase) in AD, with multiplier effects, increasing real GDP • Shift (increase) in AS increasing capacity e.g. through investment in education (Extract A paragraph 5) (LRAS shift only, may be implicit) • Inflation, if linked to expansionary macroeconomics policies • Balance of payments – e.g. effects of inward FDI: short term improvement on financial account, long term impact on current account Award Keynesian and Classical approaches with equal weight. The opposing viewpoints may be used as evaluation. NB a Level 4 answer refer to <i>changes in investment</i> rather than levels. This may be implicit e.g. through a fall in AD NB do not award for impact other than on Chile. Do not award for causes rather than effects.	

	Up to 9 marks for evaluation points include: • Investment in capital might decrease employment • Investment in human capital e.g. education in Extract A, is hard to measure in terms of effectiveness • Data points to both increases and decreases in investment. Other forms of injection into the circular flow might be more sustainable, e.g. G • Depends if the investment is internal or FDI as to the effects on the balance of payments • Depends on whether there is a demand deficiency (Keynesian viewpoint) or failings in the supply side	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Q4.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding: 1 mark for: - GDP per capita = $\text{GDP} \div \text{population}$/GDP per person (1). Application: 2 marks for: - GDP per capita for Burundi = $2.47 \text{ bn} / 16.14 \text{ mn} = \\$153$ (1) - GDP per capita for Kenya = $37.23 \text{ bn} / 62.78 \text{ mn} = \\$593$ (1) Analysis: 2 marks for: - Ratio of Burundi's GDP per capita: Kenya's GDP per capita = $153:593$ (1) = $1:3.9$ (1) [Accept 1:3.8 to 1:4]	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/understanding: 2 marks for identification of two factors (1+1) Analysis: 2 marks for linked explanation of how these factors constrain growth (1+1), e.g. - land-locked (1) therefore high transport costs so limited opportunities for international trade (1) - low tax revenue (1) meaning government has insufficient funds for investment in education (1) - primary product dependency (1) price volatility leading to uncertain levels of income/investment (1) - civil war (1) destruction of infrastructure which discourages investment (1). Application: 2 marks for reference to the data (1+1), e.g. - coffee and tea make up almost 70% of Burundi's export earnings - high level of tax exemptions – 3% of GDP. Evaluation: 2 marks for two evaluative comments, e.g. - civil war as a temporary factor (1) - government might get money through aid (1) OR 2 marks for identification and linked development, e.g. - growth of emerging economies (1) has led to increase in primary product prices (1) - FDI by China (1) has led to improved infrastructure (1).	(8)

Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 GDP is the best way to compare living standards: • it is an internationally comparable measure • it is a fairly simple measure, meaning a low opportunity cost to the governments of these developing countries • it requires less data than some more sophisticated measures, reducing the chance of data inaccuracy • there is GDP data for all five countries, whereas there is no IHDI data for Burundi • can be refined into per capita / PPP measures to make more representative • the rank orders of the five countries are the same using GDP as using GDP per capita and HDI	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 • it does not include much of what is important in determining standard of living, e.g. education, healthcare • it does not show how income is distributed among the population • it does not take account of any unpaid/illegal/'cash in hand' work, particularly a problem in developing countries like these, with a large subsistence agriculture sector • GDP doesn't take into account different costs of living (without a PPP adjustment) – compare Rwanda and Uganda	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	Knowledge 2, Application 2, Analysis 2 Possible benefits include: • increased regional trade has led to faster economic growth • firms can take advantage of increased economies of scale • trade creation • free movement of labour may fill labour shortages in individual countries • increased investment, either domestic or foreign • negotiating together may give the countries more power at, e.g., WTO talks.	(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no links between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
(d) continued	Evaluation 4 Possible costs include: • trade diversion • loss of revenue from import tariffs from fellow members. General evaluative points: • Kenya is the largest economy in the EAC, so has the smallest additional economies of scale to gain • 'Kenya's exports to the other EAC members were about US\$1.2 billion in 2010' (Extract 2), so benefits appear to be significant • Kenya probably gains less benefit from the smaller countries being co-members of the EAC, e.g. Burundi.	(4)

Level	Mark	Descriptor
	0	No evaluative comments
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Candidates may analyse the costs in their answer, and the benefits as evaluation (or vice versa), or may analyse the costs and benefits in their answer, and consider the significance of their arguments as evaluation. Possible costs include: • loss of control over monetary policy (given current differences in economic development, perhaps unlikely that one common policy would be optimal for all) • loss of control over exchange rate policy • resulting inability to respond differently to asymmetric shocks • changeover costs/menu costs • consumer confusion • may be inflationary if all producers round up their new prices/loss of consumer surplus. Possible benefits include: • reduction in transaction costs • elimination of exchange rate risk (leading to more trade and investment) • reduction in region-wide price differentials / may reduce inflation/increase consumer surplus • a larger and more diverse economic area may be less vulnerable to exogenous shocks and speculative currency attacks.	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 (Costs and benefits are outlined under Knowledge, Application and Analysis.) General evaluative points: - the countries have benefited to different extents: Kenya and Rwanda seem to have done well, while Burundi has not seen as much of a benefit - the euro area is a significant trade partner more so than the other EAC countries (in 2008) - increasing economic openness should reduce the potential for asymmetric shocks as time progresses - low levels of intra-EAC trade mean that the benefits from reduced transaction costs will be very small.	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q5.

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis: 1 mark for identification of price inelastic demand and 1 mark for definition of price inelastic demand (a change in price leads to a less than proportionate change in quantity demanded). A further mark for explanation of either of the following: • Price and total revenue moving in the same direction – indication that demand is price inelastic • Demand price inelastic because there are no good substitutes. Application: 2 references from Extract 3: (2 marks) • 'Some analysts say that trend (higher prices) should still help lift revenue, even if Brazil produces less' (1) • 'Last year, coffee export revenue fell 19% even though the volume sold rose 10.2% from a year earlier'. (1)	(5)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge and analysis: 1 mark for coffee beans as a cost of production; 1 for affect on supply curve. A further 2 marks for further development/explanation • Supply and demand diagram illustrating a leftward shift in the supply curve and rise in the price of a cup of coffee Or verbal explanation Application: up to 2 marks for 2 references to Figure 4: e.g. • Coffee represents 3.6% of the cost of a cup of coffee. (1) • Other costs e.g. rent, packaging, wages and profit represent £ 2.12 out of £2.20 of the price of a cup of coffee. (1) Evaluation: (2 marks for any valid point): • Coffee beans only a small proportion of price of a cup of coffee • Competition might mean that coffee shops/chains absorb increased costs by reducing profit margins • Consideration of interdependence under oligopoly.	(8)

Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 • Understanding of contestability - low barriers to exit (sunk costs) and entry • Examples of exit barriers and entry barriers in the context of coffee bean farmers and coffee shops • Coffee beans - large number of coffee farmers suggesting low barriers to exit and entry. High threat of potential competition suggesting that the market is contestable • Coffee shop market - dominated by three large chains suggesting low contestability • Sunk costs for coffee shops include - heavy advertising; strong global brand names. These limit the threat of potential competition so making the market less contestable.	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3 - 5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6 - 8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 • Coffee bean producers - contestability limited because coffee beans can only be grown in certain climates; long growing period • Coffee shops - fairly contestable because; many small independent coffee shops; low start-up costs; few sunk costs: shops and equipment can be leased or rented; skills required relatively low.	(4)

Level	Marks	Descriptor
0	0	No evaluative comments
1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects: • fluctuating revenues for farmers • uncertainty - difficult for producers to plan investment and output • implications for how the farmer uses his land. Macroeconomic effects: • fluctuating export revenues • fluctuations in the country's balance of payments on current account • could be reflected in fluctuations in the country's GDP • implications for the country's economic development • resources might not be allocated efficiently.	

	Possible evaluation points include: - uncertainty can be reduced by forward purchases of coffee beans at set prices - much depends on whether there is a long run upward or downward trend in prices of coffee prices - impact on individual coffee producing countries will depend on the significance of coffee to the country's economy - degree of price fluctuation depends on price elasticities of demand and supply - price fluctuations might act as an incentive for countries to diversify and/or develop manufacturing and tertiary industries - possibility of government intervention to stabilise farmers' incomes e.g. through the introduction of a buffer stock scheme.	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects: • understanding of the impact of depreciation of the <i>real</i>: • Brazilian exports will be cheaper abroad, leading to higher demand while imports into Brazil will be more expensive resulting in a decrease in demand • primary producers: export revenues may fall since demand for many primary products is price inelastic • increase in costs for firms reliant on imported raw materials • increase in competitiveness for Brazilian exporters of manufactured goods. Macroeconomic effects: Brazil's currency depreciated by 20% in 2013 • this should increase the competitiveness of its goods and services and lead to an improvement in the current account of the balance of payments • this could lead to an increase in employment • cost push inflation • there is an increase in the real burden of foreign debt.	

	Possible evaluation points include: • 20% depreciation is significant but much depends on whether this is sustained in the medium term • impact on individual Brazilian producers depends on their reliance on imports and/or exports • inflation is a problem so any competitive advantage may be lost quickly. (Depreciation raises the cost of imported raw materials and goods) • impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • Also: short run and long run effect on the current account may be analysed using the J curve effect.	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q6.

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and Analysis • Definition of exchange rate: price of one currency in terms of another (1) • Possible reasons: – Reduction in QE by USA (K): likely to cause a rise in interest rates in developed economies and less demand for the currencies of emerging economies (A) – Slow-down in the Turkish economy (K): likely to cause a fall in confidence and a decrease in foreign direct investment and less demand for the currencies of emerging economies (A) Application: Reference from Figure 1: (2) 14% fall in value of the Turkish lira over the whole period	(5)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 4 • understanding of <i>inflation</i>: general increase in the average price level Costs of inflation include: • arbitrary redistribution of income from lenders to borrowers • loss of international competitiveness of Argentine goods • uncertainty causing a fall in investment • industrial unrest: reference to impact of strike by the police • menu costs and shoe leather costs • danger of hyperinflation if the current inflation is not brought under control.	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(b) continued	Evaluation 4 • current inflation rate may be a short-term phenomenon only • impact of competitiveness depends on inflation rates of countries that Argentina trades with • Argentine government is taking measures e.g. price controls to reduce the rate of inflation • impact on living standards depends on what is happening to wages	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number		Mark
(c)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge and Analysis - Restrictions on beef exports caused a fall in demand and in the price of beef (K). In turn, this made it less profitable to produce beef. (A) (2) - Soya production becoming more profitable because of growing demand from China (K). Therefore, farmers reallocating resources from beef production to soya production. (A) (2) Application 10 million fall in the stock of cattle (over 10 years) to 48 million in 2011. - Exports accounted for 20% of beef production in 2007, but have fallen to just 7% in 2013 (2) Evaluation 2 marks for any valid point: - Some farmers may find it difficult to switch production from beef to soya because of the costs involved and/or unsuitability of the land - Farmers might think that government restrictions on beef exports may be short-term so they will not switch from beef to soya.	(8)

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8 Evaluation 9 Microeconomic effects: • supply and demand diagram illustrating the impact of maximum prices: contraction in supply and extension of domestic demand • shortages of products subject to price controls • need for rationing • greater price stability for producers • implications for resource allocation: producers will switch resources to the production of products not covered by price controls. Macroeconomic effects: • falling export revenues from beef sales • negative impact on Argentina's balance of trade • could cause fall in the rate of economic growth • negative implications for Argentina's economic development • fall in the rate of inflation • price controls might act as an incentive for producers to diversify and/or develop manufacturing and tertiary industries.	

	Possible evaluation points include: • impact of price controls depends on how rigorously they are enforced • producers may not reallocate resources to products not subject to price controls if they believe that they will only exist for a short time • impact on the balance of trade may be minimal, e.g. because of the increase in exports of soya • impact on the rate of inflation may be limited to the short-term: once price controls are removed the rate of inflation might increase significantly	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects: • primary producers: export revenues may fall since demand for many primary products is price inelastic • increase in costs for firms reliant on imported raw materials • increase in competitiveness for Argentine exporters of manufactured goods. Macroeconomic effects: • increase in the competitiveness of Argentine's goods and services may lead to an improvement in the current account of the balance of payments • increase in the rate of economic growth • leading to an increase in employment • cost push inflation resulting from increased costs of imported goods • increase in the real burden of foreign debt.	

	Possible evaluation points include: • impact on individual Argentine producers depends on their reliance on imports and/or exports • demand for some products, e.g. soya may not be adversely affected because demand is increasing rapidly in China • inflation is very high so any competitive advantage may be lost quickly. Impact on current account will depend on whether the Marshall-Lerner condition is fulfilled • short-run and long-run effect on the current account may be analysed using the J curve effect • the current account will only improve if the Marshall-Lerner condition is fulfilled, i.e. if the sum of the price elasticity of demands for imports and exports is greater than 1	(25)
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Knowledge, application and analysis		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on a small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning. Evaluation recognises different viewpoints and can be critical of the evidence provided.

Q7.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Understanding of economic development. Understanding of interventionist strategies. Possible strategies may include: • Investment in education and training to develop human capital • Investment in healthcare to develop human capital • Protectionism to promote economic growth (one dimension of development), allow diversification away from primary product production, earn tariff revenue, prevent dumping/protect domestic standards • Managed exchange rates to promote international competitiveness which leads to economic growth (one dimension of development), allow diversification away from primary product production • Infrastructure development • Promoting joint ventures with global companies to benefit from R&D, training, higher quality products, employment opportunities • Efforts to reduce corruption and increase good governance • Policies to redistribute income, leading to less income inequality, e.g. increased use of progressive taxation and transfer payments • Buffer stock schemes to give producers guaranteed minimum prices incentivising them to invest, and to give consumer guaranteed maximum prices allowing them to afford goods	

	Possible evaluation points include: • How to finance strategies/opportunity cost of government spending • Some strategies will only be effective in the long run • Some strategies may only be effective for a limited amount of time (e.g. protectionism) • Evaluative discussion of the different dimensions of economic development • Policies to redistribute income may lead to capital flight, or otherwise slow the rate of economic growth • Difficulties associated with buffer stock schemes • remove buffer stock point • Possible trade-offs between growth and environmental impact. NB For a Level 4 response, candidates must refer to a developing country in their answer.	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q8.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8 Evaluation 9 NB Candidates may refer to countries imposing protectionist policies themselves or facing protectionist policies from other countries Effects might include: • Falling output and living standards (analysis based on the law of comparative advantage and empirical evidence of countries following protectionist policies) • Prices increase for consumers and welfare (analysis based on tariff diagram) • Levels of unemployment • Economies of scale for firms • Analysis based on AD/AS – e.g. on inflation • Retaliation by other countries	

	Evaluation points • Depends on the type of protectionism. Quotas might be compared/contrasted with tariffs, for example • Depends on whether the country is in a trade bloc or is exporting to trade blocs. Award other consideration of changes in the patterns of trade • Short run/long run effects, e.g. dumping might have short term benefits and long term costs • Extent of the country's dependency on world trade • Extent of increase in protectionism for the particular country • After the recession the protectionism might start to fall again, or comparison with the 1930s protectionism after the Great Depression • Fear of WTO might mean that protectionism is more insidious. Answers might consider relative success of WTO because rulings are more closely adhered to even if there are more incidences of protectionism, numerically • Justification for protectionism, e.g. inability to change exchange rates, retaliation • Questioning the figure (from Global Trade Alert) – it includes forms other than traditional protectionism, e.g. subsidies to domestic researchers NB For a Level 4 response, candidates must refer to developing economy in their answer.	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q9.

Question Number	Indicative content	Mark
	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Understanding that oil has a macroeconomic consequence through the effect on the net trade component of AD and/or shifting the costs of production for all firms as SRAS or LRAS shift. Possible macroeconomic consequences may include: • An increase in overall economic activity (real GDP) as the cost of production decreases for businesses, especially for those that are heavily dependent on oil inputs. Application, e.g. a 10% fall in oil prices boosts growth by 0.1 to 0.5 percentage points. • Some sectors such as agriculture, air transport, services involving other travel and oil-intensive manufacturing sectors will benefit as the price of their key input falls. • Benefits for consumers, e.g. real household incomes after essential costs also rise as oil prices fall, which may increase consumer spending, but this is not automatically awarded as a factor increasing AD. The connection involves two possible mechanisms: overall consumer prices fall as cost savings are passed on to households which spend more in domestic markets, and real wages increase as demand for labour rises in fast-expanding sectors. • Oil importing countries e.g. S Korea can stop subsidising energy, enjoy reduced external debt • As a result of growing economic activity, government tax revenues may rise as the tax take from corporate and personal income taxes increase • The fall in the oil price should also have a small impact in narrowing the UK trade deficit. • Application, e.g. prices have fallen by over 75% in 18 months	

	Possible evaluation points include: • Problems for oil producers, with macro effects on employment, tax revenue etc. • The problems in the financial sector – stock markets respond by seeing most prices collapse, especially fuel producers, and stock markets might collapse • Increased external debt for oil exporting countries (and gas, as gas prices are also falling) e.g. Russia, Venezuela • Negative effect on consumer confidence, political instability with impact on markets • Reduced research into new exploration of oil • Reduced investment into new technologies to replace oil (\$380 billion) • Externalities might increase or decrease (depending on effect on carbon fuels, fracking firms etc) • Depends on how long the oil prices stays low, and who much further it went/will go • Risks from 'sectoral stagnation' in developed economies or continued problems in the Eurozone e.g. the oil and gas extraction sector is negatively affected by the reduction in the oil price • Government experiences declining tax revenues from the oil and gas sector. NB For a Level 4 response there must be a logical connection for a change in aggregate demand – do not automatically award an increase/decrease in AD.	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q10.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge: 2 marks for identification of how intervention might work e.g. • Raising/lowering interest rates (1) which affects exchange rates/hot money flows (1) • Buying/selling foreign currencies (1) which affects their exchange rate (1) • Buying/selling domestic currencies (1) which affects their exchange rate (1) • Quantitative easing/changing the money supply might be used (1) • Sets a ceiling and floor (1) Application: 2 marks for data references e.g. • Use of Figure 1 to show interest rate changes: e.g. central bank rose rates to 6.25 percentage points in 2018 (1) which caused the lira to appreciate 11% (1) lira has lost a third of its value against the dollar in 2018 (1) • Use of text to give example of Turkish government buying and selling: e.g. the country is highly indebted on foreign currency (1) • This might be shown by an exchange rate diagram (1)	

	Analysis: 1 mark for explanation e.g. • Process by which the intervention affects exchange rate/interest rate e.g. the government buys US dollars to decrease the price of Turkish lira (1) by increasing the supply of lira on the forex market (1) or raises interest rate to increase the price of Turkish lira (1) NB a diagram can be seen as application or analysis, if used in a valid context.	(5)
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Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/ implicit understanding: 2 marks (1+1) for each reason and explanation e.g. a lower exchange rate can: • Reduces financial risks • To bring stability/security in the economy • Harms borrowers who have borrowed in foreign currency • Causes inflation as import costs rise • Worsens the terms of trade • Worsens living standards • Short term J-curve effects on current account of the Balance of Payments Application: (2 marks: 1+1 or 2) • Turkish inflation 25% • Lira has lost a third of its value of US dollar 2018 (1) • Turkey is highly indebted in foreign currency (1) • Government takes measures against excessive appreciation or depreciation of the Turkish lira to reduce financial stability risks (1) • The financial market faces difficulties in trying to restore <i>foreign investors'</i> confidence (1)	

	Analysis: 2 marks (1+1) for linked development of each point e.g. • A weaker currency can lead to cost push inflation as import prices rise • A weaker currency worsens the terms of trade as export prices fall relative to import prices • There will be less investment if there is a loss of foreign investors' confidence/AD shift Evaluation (2 marks: two points 1+1 or 2). Points might include: • Inflation is very high (25%) so this should be main reason not to allow a fall in the exchange rate • Inflation is showing signs of reversing so a fall in the exchange rate may be less problematic • Problems caused by inflation might be outweighed by the other benefits such as export-led growth/improved competitiveness • Benefits of weak exchange rate, e.g. exports cheap, • Other benefits of weak currency e.g. stimulus of economy, increased competitiveness, higher employment and FDI	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 Knowledge/implicit understanding: Policies identified might include: • Indirect tax/charges • Ban or other regulation • Free bags/nets or other state provision • Fines • Behavioural economics policy Application: • Tax or charge on each item. Might be illustrated through a specific tax diagram or similar. • Ban in some parts of Turkey for specific types (carcinogenic black bags). Might be supported by a limit on supply diagram. • Fines for consumers and retailers in some parts of Turkey • Free bags/nets or other state provision in e.g. 20 000 in Corlu near Istanbul • 950 tonnes of plastic waste Analysis: • Explanation of process linking the intervention to the reduction in use of bags. • This might be shown through a diagram(s).	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 - Charges work in other countries, e.g. UK - Emerging economies/countries might have more problems facing the cost of interventions e.g. inequality issue, poverty - The problem is much wider than plastic/single use bags, and the interventions will only affect a few on-street purchases - Likely to succeed because it taps into the social conscience of consumers and even a small charge may have a dramatic impact as in the UK - The tax/charge makes up a small proportion of income so many have minimal impact. PED is very inelastic/close to zero - Unintended consequences: e.g. multiple-use/ bags for life often contain more plastic and unless used many times can be more environmentally damaging - First paragraph suggests they are everywhere so given habitual behaviour people may continue to use them despite charges/ tax - opportunity cost of giving away 20 000 bags in a month – is this socially efficient?	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for effects of increased interest rates. Microeconomic effects may include: • Fixed costs to firms will rise. May cause shut down/loss of competitiveness • Fall in consumer demand as consumption expenditure falls - likely reduction in AR for normal goods • Other costs to consumers/firms/a government e.g. increased burden of debt and loan repayments/servicing costs • Fall in investment by firms - reducing dynamic efficiency in the economy as less funds for R&D • Impact on Turkish housing market Macroeconomic effects may include: • Link between higher interest rates and lower investment and lower consumption- reducing AD: inward shift of AD (or slowing outward shift) with multiplier effects with macroeconomic impacts e.g. unemployment • Rise in the value of the lira – worsening of current account of the Balance of Payments – possibly with effects on other countries • Redistribution of income e.g. from borrowers to savers/lenders, from asset holders to renters • Cost of financing public deficit/debt (may refer to opportunity cost) may mean less government spending elsewhere, e.g. limited ability to spend on education NB for a Level 4 response there must be micro and macro effect (s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics.	

	9 marks for evaluation – points might include: • Interest rate might not be the most significant cost for firms • Contractionary monetary policies already very tight. Depends on the interest rates in other markets • Inflation has peaked and there are signs that it will fall so the rise in interest rates is not necessary • Trade-off between objectives or prioritisation e.g. lower inflation at the cost of higher unemployment might be shown with critical use of a Phillips Curve • Depends on interest rates in other markets- do we mean lending rates in other countries. • Turkey's private sector is resilient - they may refer to this explaining that shut down is less likely • Impact on housing market will depend on whether people own homes and are mortgaged or whether they rent, or whether mortgage is fixed or variable rate • Magnitude the interest rate change - Figure 1 suggests large increases and therefore significant impact/large changes are unable to have much further effect	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 16 marks for KAA, for effects of increased infrastructure spending Microeconomic effects may include: • Wages higher • Improved infrastructure affects firms e.g. businesses' fixed or variable costs fall as transport costs fall • Investment seen to boost business confidence, lead to further investment and spending within firms • External benefits/external costs associated with the project - especially given the size, number of runways and amount of traffic outlined in Extract C. • External economies of scale • Accept answers based on impact on costs and/or revenues if the building occurs in the private sector, with appropriate diagram Macroeconomic effects may include: • Redistribution of incomes • Outward shift of AD/injection (I or G) into circular flow (or further outward shift in AD) with multiplier effects, with macroeconomic impacts e.g. employment and incomes rising • AS shift right with a movement in capacity of the productive economy shown (Keynesian or Classical AS) • Fiscal loosening – effects of increased budget deficit if funded without increase in tax • Effects of a rise in tax, if linked to government decision to raise tax to fund the projects	

	NB for a Level 4 response there must be micro and macro effect (s). Some factors could be seen as micro or macroeconomics, such as a rise in tax, increased FDI, redistribution and confidence. Up to 9 marks for evaluation. Points might include: • Opportunity cost of spending on infrastructure e.g. schools, or higher taxes, • Crowding out – financial or resource • Might be a white elephant project • Depends on relations with EU/other countries as to whether the airport will reach full capacity • Depends on the size of the multiplier effect • Depends on the state of the financial sector • True costs not accounted for - externalities ignored • Large projects require a lot of coordination and getting behind schedule putting lives at risk. • Difficulty in placing value on external benefits and costs associated with the project	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q11.

Question Number	Answer	Mark
(a)	Knowledge 1, Application 2, Analysis 2 Calculate 2011 total: $10.29\text{m} \times \$123 = \$1\,265.67 \text{ million (2)}$ Calculate 2012 total: $10.55\text{m} \times \$83 = \$875.65 \text{ million (2)}$ Change = $\\$1\,265.67 \text{ million} - \\$875.65 \text{ million}$ $= -\$390.02 \text{ million} / 390.02 \text{ million}$ Award full 5 marks for correct answer Award 4/5 marks for \$390.02 N.B. When interpreting graph: For 2011 allow range of values: 10.25m - 10.35m For 2012 allow range of values: 10.5m – 10.6m	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/Understanding: Likely benefits identified (1+1), e.g. • Increase in size of workforce (1) • Increase in consumption (1) • Increase in government tax revenue (1) • Increase in economic output of the country (1) Analysis: Linked development of each factor (1+1), e.g. • Increase in AS as country now has a larger workforce so can produce more (1) • More consumers creates more demand for Rwandan firms, increasing AD and economic growth (1) • More government spending on education/infrastructure to further improve AS (1)	

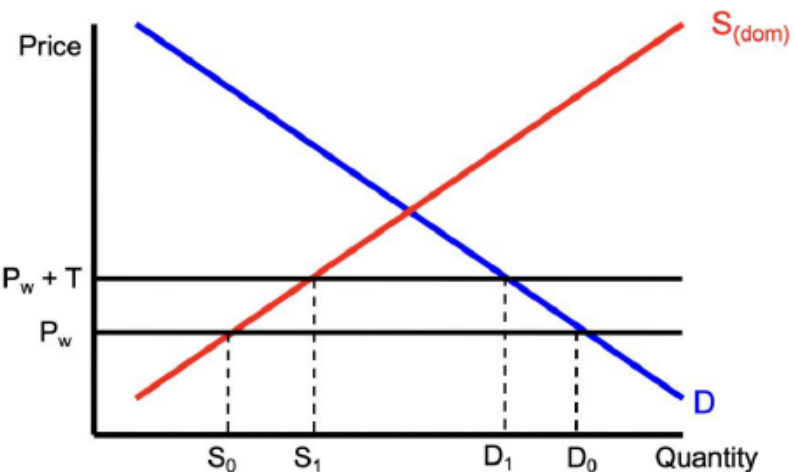
	Application: 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g. • Population grew from 10.8m in 2013 (1) to 11.4m in 2015 (1) • Population grew by 5.6% from 2013 to 2015 (2) • Rwanda's GDP grew by almost 9% in 2015 (1) • Absolute poverty declined by 20 percentage points from 2001 to 2014 (1) Evaluation: 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1), e.g. • Larger population may increase unemployment if number of jobs do not also increase (1) • Government expenditure on providing education, health, etc. may increase (1), cancelling out benefits from extra tax revenue (1) Impact on AD/AS may be shown diagrammatically	(8)
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Question Number	Indicative Content	Mark
(c)	Knowledge 2, Application 2, Analysis 2, • Aid has fallen from around \$103 per capita to around \$91 • Less funding for supply-side policies such as improvements to education, which may impact Rwanda's 'near-universal primary school enrolment' and healthcare- perhaps slowing the fall in child mortality, which has dropped by two-thirds • Less injections into Rwanda's circular flow of income/less aggregate demand in Rwanda • Fall in standard of living in Rwanda • Less investment/capital accumulation (Harrod-Domar model) • Reduction in support to lift people out of absolute poverty- perhaps absolute poverty won't fall further than the 39% it was in 2017 • Less funding for schemes to reduce inequality • Increase in Rwanda's budget deficit/national debt as government attempt to make up for shortfall in aid funding	(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3-4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5-6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
(c) continued	Evaluation 4 • Private investment may have increased over time • Government may now be more capable of funding education/healthcare schemes • Significance of fall in aid funding • Aid money increased the following year • Absolute poverty decline 59% to 39% 2001 to 2014 (or other references to extract B) suggesting there is less need for aid	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative Content	Mark
(d)	Knowledge 2, Application 2, Analysis 4 Likely impacts might include e.g.: • Increase in price of imported textiles • Lower standard of living • Loss of consumer surplus- e.g. higher prices of clothing for consumers • Increased producer surplus • Rwandan firms (e.g. factory in Kigali from extract A) able to sell at higher prices, therefore increased profits • tariff revenue can be used to subsidise clothing retailers/ provide consumers with healthcare and education • Risk of retaliation from other countries such as USA NB To access Level 3 there must be an accurate diagram, for example: 	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
(d) continued	Evaluation 4 • Depends on elasticity of demand for imports • Significance of increase in tariff • Increase in employment in domestic textile industry would benefit consumers • Domestic producers may still be unable to compete with significantly cheaper used clothing imports	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 Policies the Rwandan government could use include: • Subsidising textile manufacturers to purchase new machinery to increase efficiency • Improve infrastructure, e.g. roads & ports, to make it easier/cheaper for Rwandan firms to export their clothing • Increased education spending to improve efficiency of workforce • Investment in cheaper renewable electricity for factories to reduce their costs • Deregulation to increase efficiency • Reduce corporation tax to encourage firms to invest more • Incentives to encourage FDI into Rwandan manufacturing industry NB: Do not award discussion of import tariffs	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • Opportunity cost of government spending- money could have bigger impact on Rwandan economy if invested in other industries or used to improve public services • Rwanda should focus on industries where it has a comparative advantage, not textiles • Time lag for policies to have any significant impact • Risk of corruption, e.g. funding for construction projects may not be spent where it was intended • Highly educated workforce may emigrate to more developed countries that offer higher wages	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5-6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q12.

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/understanding and analysis: Oligopoly (1) OR Legal monopoly (1) OR Monopoly only if monopoly POWER is implied e.g. using CR calculation (1) OR Duopoly only if duopoly POWER is implied e.g. using CR calculation (1) AND Understanding of market structure identified, e.g. a market <i>dominated by</i> a few firms, or <i>interdependent</i> (1) Explanation of the process linking to the market structure to the action of firms e.g. high concentration means that firms may exhibit collusion, price rigidity, use of non-price competition, profits are not competed away (1)	

	Application (1+1): 2 marks for data references from Figure 1 and other sources (at least 1 mark must be related to Figure 1) e.g. Others 29% - Concentration ratio calculation e.g. 2 firm CR is 44% 3 firm CR is 53% 4 firm CR is 60% 5 firm CR is 66% 6 firm CR is 71% (2) - Costa (31%) is >25% market share (2) - Strong brand names, brand logos e.g. Caffè Nero and Costa (1) have been dominating the UK market Fig. 1/Extract A (1) - Market power is likely to be high (1) with reason e.g. consumer loyalty (1) shown in Figure 3 as price differences tolerates/illustrate market power (1) coffee has price inelastic demand (1) so people are prepared to pay more (1)	(5)
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Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 4 Pricing strategies - must be linked to <i>profit</i>, and may include: • Price leadership/price matching – some brands seem very similar in pricing e.g. use kinked demand theory • Predatory pricing • Limit pricing (with view to higher future profits) • Price wars (with view to higher future profits) • Collusion/collaboration - reward the use of game theory/pay off matrix to support this • Undercutting close rival e.g. Costa (with view to higher profits) • Also award, if linked to profit: sales max, exploiting economies of scale, cost cutting, or competitive pricing linked to elastic demand, price rises and/or price discrimination	

	Non-pricing strategies – linked to <i>profit</i>, might include: • Loyalty schemes, e.g. Starbucks only allow its own cup for reuse in store, • Paying for central and expensive locations for stores • Opening up new stores near to competitors to undermine the competition, e.g. at a London location there are many competitors • Closing down non-profitable stores as rationalisation policy • Strengthening the brand by advertising • improving reputation for recycling washable cups/fair trade coffee, sharing with other brands not just Starbucks coffee cups which can be washed in store and re-used • Extension of product range • Focus on quality NB Award collusion and BOGOF-style approaches as either pricing or non-pricing strategies. NB For a Level 3 answer, there must be both price and non-price strategies, and reference to the context of <i>profitability</i> of Starbucks.	(8)
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(b) continued	Evaluation 4 • Weighing up of reasons for using price or non-price competition, e.g. • Not likely to use price competition - e.g. better to collude and keep higher joint profits. • Non-price competition can have very uncertain results/be expensive • Effects in the short run and long run might vary e.g. rising costs lead to falling profits, but long run demand rises leading to better results • Relative effectiveness of measures e.g. limit pricing may be static in long run and predatory pricing changes when other firms leave • Some of these strategies are illegal and could lead to fines, which might reduce overall profitability • Unstable nature of game theory equilibria • The effectiveness of the competition authorities might be considered e.g. regulatory capture • Depends on the strength of brand loyalty • Limitations of loyalty schemes, e.g. cost, consumer behaviour.	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number		Mark
(c)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge (1+1) e.g. • Fall in consumption of non-renewable products (1) • Rise in tax revenues (1) • Reduction in external costs/greater environmental awareness (1) • Soft touch regulation/allows consumer choice (1) Application (2 or 1+1) e.g. • Use of reusable cups as a means of reducing demand for disposable cups (i.e. a substitute, Extract C) (1) • Extract B – 5p charge is a small proportion of £2.60 (1) • 85% reduction in plastic bags (1) • This might be illustrated through the use of a correct supply curve shift, e.g. a fall in consumption or production of cups on x axis (1) Analysis (1+1) e.g. • Indirect taxes may raise prices (1) • Increases in costs of production (1) • Link between unit tax, tax revenue and reduction in demand for cups (1) • A supply and demand diagram showing an indirect tax (supply shift upwards/leftwards) or an externalities diagram might be used (1) • tax revenue could be used to subsidise other products, e.g. recyclable cups (1)	

	Evaluation (2 marks for any relevant point or 1+1). Points might include: • It depends if the tax is passed on to the consumer • Other policies may be considered e.g. new recycling specialist facilities, regulation • PED might be used, e.g. a 5p tax on the price of a £2.60 coffee might have very little effect on demand, or, a cup of coffee may be a small percentage of consumer income, depends on the availability of substitutes • Regressive nature of the tax – has a greater effect on lower incomes • Other approaches considered, e.g. subsidising reusable cups as in Ext B changing the technology in the recycling NB award two advantages. A diagram can be credited as analysis or application (1+1) up to 2 marks in total.	(8)
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Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic influences may include: • Level of demand or expected demand, prospect for profit • Cost of labour, minimum wage, spare capacity in the labour market • Rent/land prices • Contestability of market/barriers to entry e.g. how long and it takes and ease of setting up business • Legal system and other legislative issues • Property rights • Extent of regulation • Existing PED • Brand loyalty • Sunk costs Macroeconomic influences may include: • Levels of competitiveness e.g. price and non-price, which might relate to competitiveness ranking, e.g. infrastructure, human capital, institutions • Macroeconomic environment, e.g. inflation • Membership of EU or other trade bloc issues • Value of currency • Level of corporation tax. • Transfer pricing possibility, as outlined in Extract A, as impact on profitability (not costs) • Level/rate of national income/economic growth and spare capacity/unemployment • Growth of household incomes in different countries, e.g. Chinese coffee shops are the most profitable, growing quickly in number • Strength and stability of local economy • Political and social stability	

	NB competitiveness, corporation tax, incomes, unemployment and contestability can be seen as a micro or macro approach. • Possible evaluation points include: • Factors might balance each other out • Changes in tax rates, e.g. government cutting corporation tax significantly • Starbucks is starting to report UK profits – perhaps it has had too much negative publicity from the low profit tax paid, Extract A reduction by a third in sales at Starbucks. Also it is moving headquarters from Netherlands to UK • Different influences affect different firms	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects may include: • Effects on consumers – e.g. higher prices (or lower prices if increased competition), more consumer spending on high street. Might include PED, YED (this might be developed as evaluation) • Effect on workers – higher incomes, more jobs • Effect on firms, e.g. increase in profits, revenue/decrease for independent non-branded coffee shops; cost of employing specific skilled workers e.g. baristas or other factors of production • Increase negative externalities e.g. more coffee cups • External economies of scale e.g. ancillary services such as cup manufacturers Macroeconomic effects may include: • Increased employment in service industry • Balance of payments e.g. outflow of profits to Starbucks • Effects on primary product producers • AD increase, negative/positive multiplier effects (local businesses might lose out to branded supermarket coffee outlets), inflation/growth • Tax implications e.g. transfer pricing • Income inequality • Environmental impacts	
	NB environmental impacts, labour markets, taxation or incomes can be seen as a micro or macro approach. Evaluation points may include: • Extent of negative externalities depends on whether new processing plants for cups are set up/how alternatives are produced. • Depends on the extent of the increase in demand, PED, YED, XED – and if other areas are seeing declines. • Depends on the size of the multiplier • Depends on the level of spare capacity (LRAS for example) • Depends on growth levels, point at which AD and AS meet (if Keynesian approach) • Depends on the performance of other firms • Depends on the extent to which local shops are displaced • Depends on the extent to which substitution can occur – e.g. people drink coffee instead of going to pubs • Depends on degree of profit repatriation, remittances, transfer pricing • Depends on whether coffee shops extends consumption spending or replaces demand for something else which might have different benefits/costs	(25)

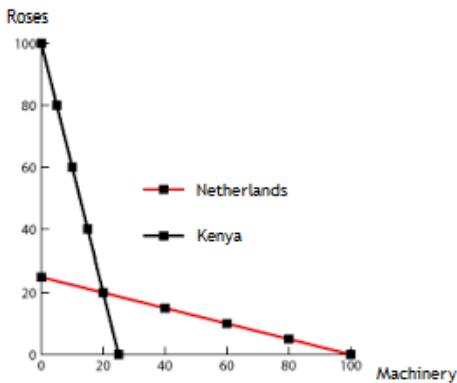
Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

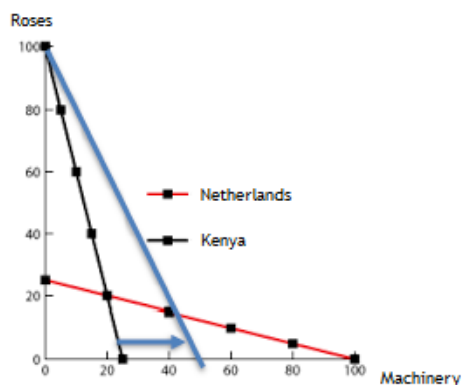
Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis: up to 3 marks. Points might include: • Lewis model suggests that countries dependent on agriculture would see productivity gains and growth if they moved to industrialisation • unproductive agriculture moves to more productive and profitable manufacturing • reference to law of diminishing returns, e.g. farming has a very low marginal productivity • surplus labour moving to industrial production has very low opportunity cost • productivity gains in industrialisation means that the sector can grow (linear growth model) • dual economy of rural agriculture and urban manufacturing/reference to migration/mobility of labour • model of structural change e.g. increasing the industrial sector rather than agriculture • growth in industry and manufacturing can be achieved without reducing agricultural • everyone becomes better off than they were • movement away from subsistence sector (non-market transactions/informal sector/hidden economy) Application (2 marks for 1 point, or 1 + 1) e.g. • flower farming is more productive than traditional farming, and involves higher skills and technology than other agriculture • industrialisation can still involve agriculture • 'do more manufacturing or stay poor' • 'industries without smoking chimneys' • Kenya and processing of flowers • well paid jobs with greater opportunities	(5)

Question Number	Indicative content	Mark
(b)	Knowledge 2, Application 2, Analysis 2 Evaluation 2 Knowledge/implicit understanding of two factors, which could either improve or worsen development (1 + 1) e.g. • health care issues e.g. child mortality rates/changes in number of children • falling birth rate • fertility changes/other reproductive issues • increased life expectancy • higher school enrolment/literacy rates/other education • urbanisation • falling dependency ratio • larger population • larger workforce • declining family size Application: (1 +1 or 2): e.g. • Figure 2 shows 53.7 million population in 2020 • Kenya's population has doubled over the last 25 years, to about 40 million people (Fig 2) • due to high fertility in previous decades, there are many more families in Kenya today (Ext E) • life expectancy is projected to increase from 54 years today to 68 years by 2050 (Ext E) • only 6% over age 60 (Ext E) Analysis (1+1) Development of points made, must make reference to development not just growth (might be implicit) e.g. • higher literacy rates/life expectancy may mean higher productivity, greater employment opportunities • there are more people of working age relative to people who depend on them, so living standards will improve • smaller families will make it easier to borrow so there will be more investment to increase opportunity for firms to set up • falling birth rates mean savings are higher so there will be more opportunities to improve living standards	(8)

	Evaluation (2 marks for any relevant point, or two points 1 +1): e.g. • the population is rising very rapidly • changes will be seen over time • higher working population now is a benefit, but there might be a demographic time bomb when this generation is over 60 • comments about the relative significance of the factors/combination of factors	
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 Knowledge and analysis - more flowers with a lower average cost than another country Application - heating costs make Dutch flowers more expensive to produce despite lower transport costs to the UK - high altitude with cool nights - proximity to equator and sunlight hours - cheaper labour - end to seasonal production 365-day a year absolute advantage - application marks may be awarded on the diagram/table - Creates additional employment (100,000 directly and two million indirectly) Analysis Example of analysis:  Diagram showing outward shift in Kenya's PPF e.g.	(8)



Numerical analysis e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	25
Netherlands	25	100

Output, after specialisation:	Flowers	Machinery
Kenya	200	0
Netherlands	0	200

Leads to growth: this might be shown by an outward shift of the PPF, or use of output table, e.g.

Output, per unit of resources:	Flowers	Machinery
Kenya	100	100
Netherlands	100	100

NB for a Level 3 response there must be at least one valid diagram or numerical example clearly linked to costs absolute or comparative advantage (i.e. relative costs/opportunity costs)

Other analysis:

- countries can focus all of their production in one product and swap/trade it for a greater quantity of the other good.
- Kenya may benefit from economies of scale as they produce more
- enables larger exports and GDP
- example of before and after output and then gains from trade e.g. pre-trade 125F and 125M, after trade (full specialisation) 200F and 200M, so gains from trade = 75F and 75M

- terms of trade lie between opportunity cost ratios
- calculation of a suitable terms of trade e.g. $F=2M$, meaning Kenya can swap 200F for 400M

NB allow reference to comparative advantage also countries could have both absolute and comparative advantage. Allow diagrams/tables showing both concepts.

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 • limitations of the model e.g. immobility of factors/trade barriers, transport costs, more products/trade conflicts or dependence between countries in the world/can average costs be easily compared/are there constant returns to scale? • if energy costs change then the absolute advantage might be eroded • monopsony buyers e.g. supermarkets make a huge advantage and erode any benefits for Kenya • global health crisis has reduced international flights so costs have risen/no spare capacity on flights • other factors that could have a more significant impact on growth e.g. interest rates • only 1% of GDP so may not be that significant • short run/long run considerations e.g. in changing from one type of production to another	(4)

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects of decreasing interest rates • lower costs to businesses, so fixed costs fall and increase competitiveness. May be shown using a cost/revenue diagram • greater credit for businesses to expand/invest in R&D and gain dynamic efficiency • higher consumer demand as consumption increases; greater consumer surplus • impact on Kenya's housing market • Mr Matsiko in Ext G pays 22% not 7%, and there is a large information gap for lenders (asymmetry of information in credit markets) • labour market effects (derived demand) • lower prices for consumers • less available credit (so less investment, dynamic efficiency etc) Macroeconomic effects may include: • lower saving (unlikely in the context) but easier to borrow, so consumption and investment increases; hence AD rises with multiplier effects. May be shown using AD/AS analysis or diagram • lower exchange rates – improvement in current account position of BOP, with effects on competitiveness and trade • lower cost of financing public deficit/debt may mean greater government spending elsewhere • redistribution of income, e.g. from savers/lenders to borrowers • impact on LRAS/PPF over time if investment continues to grow NB for a Level 4 response, there must be micro and macro effect(s). Income distribution, investment changes and competitiveness, for example, can be used as either micro or macroeconomics. NB if there is no reference to a developing country then award a maximum of Level 3 KAA. NB Effects in KAA could be used as evaluation and vice-versa. Counter-effects may be used as evaluation.	(25)

	9 marks for evaluation – points might include: • interest rate is not the only cost for firms e.g. depends on how much the interest rate costs are as a percentage of costs overall • impact on real output depends on level of spare capacity/elasticity of LRAS/other components of AD • the central bank rate is not the rate that individuals can access • degree to which the factors might be a success • depends on other countries' interest rates are (relative competitiveness issue) • fixed interest rates and other short term/long term issues • interest rates are low in Kenya compared to other sub-Saharan countries • impact on borrowers will depend on whether people have assets or collateral • magnitude/pattern of the interest rate change	
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5 - 8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9 - 12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 - 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic strategies may include: • state provision or tax relief to encourage increased job opportunities • other attempts to encourage private production e.g. flower firms benefit from airport improvements • methods to improve value of workers' output e.g. vocational training at school, or improving student attendance • disease prevention and cures e.g. polio vaccine • infrastructure • skills • technology • government intervention e.g. minimum wage or subsidies Macroeconomic strategies may include: • trade liberalisation e.g. promote international trade, e.g. absolute advantage means there are gains from international trade but currently 90% flowers are from the Netherlands • privatisation – the flower industry is private • information and health assistance to lower birth rate • development of human capital, e.g. better healthcare in other areas, spending on education and skills • increased FDI by shoring up capital markets • aid • debt relief • microfinance Accept standard government/international institution/NGO policies to promote macroeconomic stability or growth if linked to development e.g. fiscal policy aimed at reducing inequality	(25)

	NB for a Level 4 answer there must be reference to Kenyan data or another developing country NB many strategies such as vaccines, tourism, education/skills, privatisation, microfinance, supply side policies or infrastructure could be counted as macro or micro NB Counter-effects can be counted as strategies or evaluation 9 marks for evaluation – points might include: • There is a limit to what strategies can influence, e.g. health and education, if for example children are needed as a social insurance policy • Global health crisis has affected poor countries more profoundly • Comparison or contrast with another developing country or a more economically developed country e.g. as an example of how population growth can be limited	
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13 – 16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4 – 6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7 – 9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q14.

Question Number		Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis: • Terms of trade definition or formula e.g. index of export prices / index of import prices x 100 (1) • Import prices have risen (1) (e.g. because exchange rate fell) relative to export prices (1) • Import prices stay constant (1) relative to main export prices falling (1) • Fewer imports can be bought for the same amount of exports (2) Application 2 marks for e.g. • It is likely to have worsened (1) • Coal is the main export (1), 11% of revenues (1) • Export prices/commodity prices have fallen Figures 4 & 5 e.g. coal prices have fallen Fig 4 (1+1) • Export price of coal has fallen from US\$125 to US\$50 per tonne (1+1) • The exchange rate (rupiah) has fallen (1) 30% (1) NB award application if the answer says that the terms of trade falls, goes down, or that it is a negative change	(5)

Question Number		Mark
(b)	Knowledge 2, Application 2, Analysis 2 Evaluation 2 Diagram (2) Reserve 2 marks for costs and revenue diagram. This can be awarded as 2 application marks or 1AN + 1AP. Knowledge and analysis (1+1): e.g. - Increasing efficiency resulting from investment lowers costs for firms (K) which means AC falls – might also show fall in MC (A) - Profit increases (K) with new area shown on diagram linking the new MC=MR with the AR and new AC (A) Application (2 or 1+1): answer relates to the output of farmers increasing relative to input, e.g. Productivity of each farm increases (1) as rice output doubles (1); Plans for 65 dams, 16 already under construction (1) Or: 'two harvests a year' (1) means more output from same fixed land/factor (1)	

Diagram e.g. shows a decrease in AC (if fixed costs) or decrease in AC and MC (if variable costs) e.g. as shown below. The diagram must be consistent with the description, although shift/non shift in MC might be implicit. 1 mark for correct shift in cost (relevant to answer given) and 1 mark for new correct profit area shown. Diagram may show a fall in costs and/or an increase in revenue if linked to double the number of harvests, or a decrease in revenue if linked to falling worldwide prices, more firms entering the market. Diagram may be perfect competition.	
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	Evaluation (2 marks for any relevant point, or two points 1+1) • The investment is taking many years and may not be completed • Governments might increase tax on farmers to compensate for increased costs of dam investment • The farmers might face other increased costs as output rises e.g. law of diminishing returns • There may be more efficient and effective ways of increasing output, e.g. better technology, fertiliser • Increased world supply could lower the price per unit, and with low PED the revenue and therefore profit could fall.	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 • Specific impact on Indonesia: ◦ Recovery from the Tsunami / financial crisis (Extract D); ◦ impact of reconstruction investment; ◦ impact on the likely poverty trap that many Indonesians will find themselves in; ◦ the impact of the cash transfer; ◦ the long term problems of conditional loans; ◦ the long term impact of constructing two new power stations (via Japan's development agency) ◦ lack of tax revenue due to inefficient tax collection and low tax base (10%) Ext E. • Aid is the transfer of resources on concessional terms – allow wide variety of aid e.g. from international institutions such as the IMF/World Bank, from NGOs, concessional loans (interest paid is below market rates, or with softer repayment conditions than in free market) • Aid is being used to pay for education and health, transfers of cash, \$2.3 billion a year • Consideration of macro effects, e.g. multiplier effects, shifts in AD, equality • Consideration of development theory, e.g. Harrod-Domar, plugging the savings gap / foreign exchange gap	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 • Aid can lead to moral hazard, over-dependence, corruption, poor governance e.g. Ext E tax incentives offered by Mr Widodo might widen inequality • Dependency theory might be used to show the problems of aid • Alternative to aid e.g. debt relief, microfinance, investment by TNCs, loan from the World Bank • Conditions attached to aid may have negative consequences, e.g. not clear that the loans offered in Extract D are concessionary, or interest rates may still have a high opportunity cost • Aid may be more effective if used in conjunction with supply side measures • The concessionary loans need to be paid back, Extract E. These can increase a country's indebtedness and exposure to risk, and could affect government finance, where tax collection is inefficient and tax base (10%) is small.	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects might include: • Producer revenue from exports is volatile from primary products. Firms might close down when prices fall. • Other primary product dependency arguments – a diagram showing low PED and PES might be used. • Labour market – impact on wages and employment • Diagram showing effects on revenue, consumer/producer surplus, price, profits might be used • Local firms might go out of business Macroeconomic effects might include: • Balance of payments problems – Prebisch-Singer (declining terms of trade) might be used for products such as coal in reference to falling prices (NB this only addresses part of the volatility issue) • Government finances – the government might rely on export taxes • Primary product dependency/over-dependence on one sector can cause problems if natural disaster or changes in worldwide demand, e.g. China slowdown • Dutch Disease impact on exchange rate – e.g. higher value of rupiah when coal prices rise • Increased use of protectionism • Inflation (Extract E) • Limits investment (might link to Harrod Domar model) • Limits government and private expenditure on health and education	

	NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics, if developed appropriately. NB for a Level 4 answer there must be reference to the context of <i>Indonesia</i> and <i>volatility</i>. Evaluation points might include: • Degree to which GDP is dependent on commodity exports. Data suggests Indonesia GDP has not suffered as much as other countries from the fall in commodity/coal prices (Extract E) and Figures 4 and 5 • Depends on the PED and/or YED of importing countries for the specific commodities • Fiscal expansion (Extract E) has offset the effects of falling prices • There may be no alternative to primary product dependency/Lewis model is flawed • Comparative advantage argument • The reduction in prices might be short term/there are benefits to rising prices/depends if it is just one commodity which distorts the exchange rate for other commodities ('Dutch disease') • Buffer stock schemes • Financial markets can help limit effects, e.g. through futures contracts • Improved infrastructure can help farmers be more aware of price trends and take products to markets at high prices	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic effects might include: • on firms e.g. from quicker planning approvals, tax incentives locating to special economic zones, better roads and ports • improved quality of labour force e.g. from education and health reforms (Extract D) • lower bureaucratic costs • lower prices as competition increases Macroeconomic effects might include: • lower inflation (might be shown by rightwards or downwards shift of LRAS) • improved balance of payments as exports improve • infrastructure improvements attracts FDI • indirect increased AD via G, I or X, and multiplier effects • increase in real GDP	

	NB Accept infrastructure, labour markets, tax incentives, inequality and poverty as micro or macroeconomics if developed appropriately. NB for a Level 4 answer there must be reference to the context of <i>Indonesia</i>. Evaluation points might include: • impact will depend on success of policies – may refer to previous underinvestment in the Extract E, or higher investment in neighbouring countries • Some supply side policies conflict with other policies, e.g. fiscal and there is a fiscal constraint by law (Extract E) • depends on whether supply side policies are interventionist or market-based as to whether there will be an inflationary effect, crowding out effect etc. • labour market still appears to be inflexible (Extract E) • collecting tax to pay for the capital spending or repayment of loans can have negative impact, e.g. government failure, aid dependency	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q15.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis (3): • Definition of opportunity cost as the next best alternative foregone (1) • Governments have to pay interest (1) at the expense of other expenditure (1) • Servicing means paying back interest and minimum capital requirements (1) e.g. to prevent a default, loss of confidence, other repercussions (1) • The debt is external (1), and in this case owed by governments as they have been borrowing from abroad (1) • Use of PPF to show opportunity cost may be awarded as analysis (1) Application (2 marks for 1 point, or 1 + 1): e.g. • Debt service payments above 20% of G (1) are unsustainable (Extract D) (1) • £20billion raised 2010-2015 (Extract D) (1) • Commodity prices soaring and foreign loans available' (Extract D) (1) • 'Heavy repayment schedules at a time of low commodity prices' (Extract D) (1) • Governments have taken to 'private debt too eagerly' (Extract D) (1) • 'Median level of debt risen from 34% to 48% in 2017' (Extract D) (1) is heavy because of 'low tax base' (Extract D) (1) • High levels of poverty – half of the 26 million people (1), so many feel the effects of reduced government expenditure (Extract E) (1) • 'non-existent tuna fleet' or other hidden debt (Extract D) or corruption (1) at the expense of other government spending (1) • Opportunity costs applied to any developing country, e.g. spending on poverty alleviation, education and health spending or recent cyclone April 2019 (1). Award a maximum of 1 application mark if there is no reference to Extract D	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/implicit understanding of two reasons why manufacturing firms stay small, (1+1) e.g. • Size of market/lack of access to export markets/low export earnings due to lack of demand • Absence of economies of scale, or insufficient incentive or ability to grow (apart from access to financial) • Problems of human capital, e.g. lack of educated workforce • Lack of infrastructure making expansion into new areas difficult, or small markets • Actions of foreign firms to foster dependency • Government or international actions to make it hard for firms to grow • Lack of TNC involvement in Mozambique/volatility of currency/capital flight • Firms want to remain close to customers- meet needs with specific goods. • Firms might be manufacturing niche products with inelastic demand and high-income elasticity • Small firms more able to manufacture and sell through selling online and have small assets. • Perfect / monopolistic competition characteristics, e.g. low barriers to entry • Non-economic factors, e.g. natural disasters, political tensions, drought • Cost of finance, cost of servicing loans, financial economies of scale and scope. Do not allow access to finance.	

	Application (1+1 or 2): e.g. • Further depreciation of the metical (Extract E) • Lack of economic stability (Extract E line 26) • Slowdown in FDI (Extract E) • Depressed global demand (Extract E) • Low levels of employment in the sector (Extract E) may imply lack of skilled workers • High interest rates (Fig. 2 and Extract E line 14) • High import costs (Extract E line 15) • Needs urgently to improve its investment environment and confidence (Extract E line 17) • Large scale emigration (Extract E) • High numbers of people 'below the poverty line' (Extract E line 6) mean the market/incomes are small • 'Economic dependence on South Africa' (Extract E) may limit prices/market power of firms.	
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	Analysis (1+1) • Development of each point, up to 1 mark for each valid factor Evaluation (2 marks for any relevant point, two points 1+1): • The development of the gas fields (Extract E) will 'transform the economy' • Pick up in coal and electricity (Extract E) which are probably larger firms and may have impact on manufacturing • may consider whether this is because of choice or lack of opportunity • Long term 'prospects are promising' (Extract E, line 20) e.g. sustainable agreement, gas fields production in 2020s or other initiatives such as trade blocs NB Cost of finance, financial economies of scale etc are allowed. It is only ACCESS to finance e.g. unavailability of microfinance, savings gap, loss of external lenders which is excluded. NB Access to finance <i>may</i> be credited as part of the evaluation but not as KAA	(8)
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Question Number	Indicative content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 • Microfinance meaning and role • Plugs the savings gap / Harrod-Domar model • Enables firms to be set up – fixed or start-up costs • enables firms to invest in human capital and overcome primary product dependency • Use of Figure 3 to illustrate size and importance of microfinance operations • Use of Extract F – e.g. ‘100 000 borrowers’, many new business start-ups which could not have gained finance from any other source’, ‘unfulfilled demand for microfinance’ • How borrowers benefit – small firms can be set up or expanded, allowing firms to gain capital and materials to set up businesses, provide more employment, lead to improved living standards • Borrowers lack collateral so cannot borrow from banks in the normal way • The money is in small amounts £200 to £300, paid back regularly and over a short period of time, on which basis the firm forms a business plan for which the lender will approve or advise • Microfinance allows firms to form without the stigma of aid or the dependence of FDI • Use of cost/revenue analysis to support arguments (perfect/monopolistic competitive market) • Macro analysis (AD/AS) must link back to borrowers, e.g. increased standard of living, allows firms to expand/invest NB For Level 3, answers must link to borrowers NB The answer can take the form that there are more costs than benefits as part of the KAA, using the benefits as the evaluation	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(c) continued	Evaluation 4 • Use of Figure 2 to show high base rates and Figure 3 to show average 75% APR on microfinance • Large potential for expansion (Extract F) • May encounter lack of demand as more than half of the population live below the poverty line • Weak infrastructure does not allow borrowers to access markets • Alternatives to microfinance could be considered, e.g. aid, FDI, debt relief • Reasons why microfinance can be damaging to borrowers, e.g. pressure on women (98% of borrowers), over-indebtedness, poor guidance given to borrowers, macro-finance is needed for economies of scale, people borrowing multiple times, for uses which are social not business orientated. • Large numbers of people setting up similar businesses/highly competitive e.g. food stalls, so profits tend to be low/need for dynamic efficiency • Funds from private banks very different from NGOs – banks might be more cautious, and therefore more likely to succeed, might be better advice, support from specialists, softer terms from either institution might lead to moral hazard	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(d)	Knowledge 4, Application 4, Analysis 8, Evaluation 9 Microeconomic influences may include: • Labour force and other demographic factors e.g. emigration of skilled/educated workers, disease, low life expectancy • Small firms with low levels of capital • Low levels of personal saving/high levels of personal debt • Primary product dependency • Volatility of commodity prices • Debt – although do not award access to credit and banking. Allow arguments based on dependency or opportunity cost, for example • Lack of infrastructure/other capital • Absence of property rights • Non-economic factors e.g. natural disasters, social problems • Joint ventures with global companies Macroeconomic influences may include: • Trade liberalisation – may refer to tariffs or trade agreements • Role of FDI e.g. the tuna fleet cover-up dries up FDI • Government policy failure, e.g. weak expansion in fiscal policy, high interest rates, lack of subsidies, privatisation, interventionist strategies, e.g. management of exchange rate, buffer stocks • Actions of other international institutions e.g. IMF or NGOs • Macroeconomic stability, e.g. rate of inflation (might refer to Figure 2), rate of economic growth, exchange rate (metical at a 'new low')	

	Possible evaluation points include: • Degree to which the factors are inevitable • Signs of improvements in passages • Some factors are temporary, e.g. fall in commodity prices such as coal and drought affecting production and exports to other countries within Africa NB Do not award KAA for arguments based on ACCESS TO credit and banking, although this approach is permitted as part of the evaluation NB for a Level 4 response there must be micro and macro factors (s). There must be reference to both growth and development for Level 4	
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	PPD/ Harrod-Domar/ debt/ aid/ debt relief/ cost of credit/ non-economic factors/currency issues / competitiveness index can be used as micro or macro.	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
(e)	Knowledge 4, Application 4, Analysis 8 Evaluation 9 Microeconomic effects may include: • On people with debt (better off) and savings (worse off) • On people with fixed incomes – may refer to falling real incomes • On firms' profits, e.g. that face rising costs and if they cannot raise prices they will face falling profits, or falling sales as consumers delay purchases. This might be illustrated with cost/revenue diagrams. • On firms' costs if they face rises in interest rates as a policy corollary of high inflation, which might lead to lower profits. This might be illustrated with cost/revenue diagrams. • Opportunity cost, e.g. effects on a government's spending if costs of servicing debts fall • Effect on labour markets e.g. people might work more hours to cover increased cost of living NB do not award fall in profits or revenue or rise in costs unless a valid chain of reasoning is given Macroeconomic effects may include: • International competitiveness and balance of payments, between African countries and with the rest of the world. Exports likely to fall and imports likely to rise • Distribution of income and wealth • Confidence and investment in financial markets • Policy responses, e.g. rises in interest rates and effects on AD • Shift in AS and/or AD may be used as part of the analysis • High inflation might deter Investment and FDI	

	NB do not award rise in unemployment/fall in growth unless a valid chain of reasoning is given Possible evaluation points include that the effect depends on: • Whether wages rise in line with inflation • The degree of inflation, and the policy and international responses. • The PED of countries buying the African exports • The PED of importing countries as imports become relatively cheap	
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	• Whether African countries are trading with each other the effects of inflation may be cancelled out e.g. use of Figure 2 to show neighbouring countries with higher inflation rates • Whether asset prices rise as to the redistributive impact • Depends on whether this is a long-term inflation problem- could be short term e.g. linked to commodity price rises. Only a problem if it is sustained. • The figures are in one month in July 2017 and may not reflect inflation story for full year. Time series data may be more useful. • Depends on the type of inflation – e.g. cost push or demand pull. • Impact on exchange rates e.g. higher inflation may erode the value of the currency. This might cancel out the impact on competitiveness NB for a Level 4 answer there must be reference to the context of African countries (not just one) NB for a Level 4 response there must be micro and macro effect (s). Costs/ shift in PPF/ currency/labour markets/competitiveness etc. can be used as micro or macro.	(25)
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Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic factors. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Q16.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/Understanding: Up to 2 marks for e.g. • Absolute poverty: Lacking basic necessities to survive (1) • Relative poverty: Relatively poor compared to rest of your country (1) Application: Up to 2 marks for e.g. (1+1 OR 2) • Absolute poverty: World Bank definition: \$1.90 a day (1) PPP values (1) • Relative poverty: 60%/50% (1) below median household income in your country (1) • Reference to Figure 1 or Extract A/B (1+1) Analysis: Up to 1 mark for e.g. • Absolute poverty can decline at the same time as relative poverty is increasing (1) • There may be relative poverty in a country but not necessarily absolute poverty (1)	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/Understanding: Relevant factors identified (1+1), e.g. • Level of education • Level of healthcare • Level of infrastructure • Level of trade • Capital flows • Civil war • Drought • Poor governance • Liberalisation of trade/tariff cuts Analysis: Linked development of each factor (1+1), e.g. in Sub-Saharan Africa • Relative lack of education means a less skilled and therefore less productive workforce (1) • Relative lack of healthcare means people spend more time absent from work with illnesses and therefore reduces productivity (1) • Relative lack of infrastructure makes it more difficult and therefore expensive to move goods around the country to markets (1)	

	Application: 2 marks (1+1) for reference to the data/candidates' own knowledge, e.g. • Extract B: two thirds of 780 million illiterate adults are women • Extract B: poor people- more malnutrition, lower odds of receiving health care • Absolute poverty has declined far more rapidly in East Asia than Sub-Saharan Africa Evaluation: 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1), e.g. • Significance of different factors • Improvements will only occur in the long term	(8)
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Question Number	Indicative Content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 Possible policies might include e.g.: • Fiscal policy: increase people's disposable incomes, increase employment and so reduce downsides of low wages and unemployment due to foreign competition. A more redistributive tax/welfare system to reduce inequality/poverty caused by globalisation. • Expansionary monetary policy: cut in interest rates, rise in availability of credit, allows businesses to borrow for investment to help combat increased foreign competition. • Supply side policies, e.g. improved education, healthcare, infrastructure, etc.: Improvements in these will boost productivity and this boost GDP as well as meaning firms would be more likely to be able to pay higher wages. Higher productivity would enable firms to better compete with foreign competition in the form of lower prices. Candidates may discuss in the context of developed or developing countries NB To access Level 3 there must be reference to two valid macroeconomic policies, apart from protectionism	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
(c) continued	Evaluation 4 • Impact of expansionary fiscal policy on budget deficit • If business confidence is low, expansionary monetary policy may not lead to increased borrowing for investment • Supply side policies may not be effective in the short run or have public sector cost implications • Effectiveness of policies, e.g. lack of consumer confidence	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative Content	Mark
(d)	Knowledge 2, Application 2, Analysis 2, • Incentive to work hard in order to receive higher reward will help increase economic growth which can result in reduced absolute poverty • More innovation due to the profit motive for firms and inventors leads to more competitive industry and faster economic growth • Lower taxes or less redistribution may encourage entrepreneurs to relocate to the country • Reference to rising living standards in a largely market based economy, e.g. UK, US NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation	(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
(d) continued	Evaluation 4 • Inequality reduces consumer confidence so less consumption, increase in saving. Aggregate demand may fall as a result. • Excessive inequality can lead to more crime, poorer healthcare, etc. • Low pay can act as a disincentive to seek employment and economic growth suffers as a result. NB Arguments for or against the benefits of inequality can be taken as KAA or evaluation	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 The role of the financial sector in the growth and development in developing countries includes: • facilitating saving so banks have more funds for lending, facilitating investment and therefore growth • promoting lending to enable more investment in the economy • exchanging currencies- enabling firms to imports parts and materials- often more cheaply- and also enabling them to export - helping to increase size of their market • providing a market for equities • Harrod-Domar model • Microfinance • Central banks/international organisations NB For a Level 3 response candidates must refer specifically to growth/development in a developing country/countries/regions	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • Clear rule of law required for financial sector to develop • Risk of corruption • Risk of market failure in financial markets • Lack of financial literacy in developing countries may limit potential • Other factors may play a larger role, e.g. healthcare, infrastructure, education	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q17.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 2, Analysis 1 Knowledge/Understanding: Up to 2 marks for e.g. • Guaranteed minimum price (1) • Reduced fluctuations in income/price (1) • Fairtrade farmers/growers/suppliers receive a higher price for their crops (1) • Fairtrade 'premium' paid to farmers/growers/suppliers (1) • Extra financial support for farmers/growers/suppliers (1) • Increased income/profit for farmers/growers/suppliers (1) Application: Up to 2 marks for e.g. (1+1 OR 2) • 44% of Fairtrade premium was spent on improving business administration and infrastructure • 45% was spent on investing in farm equipment, training, and funding • Price volatility for farmers • Fragile incomes for farmers • Fluctuating world cocoa prices • Diversification into other crops • Median annual income for cocoa farmers in Ivory Coast of US\$2 600/not a living income • Even tripling farm output would not provide a cocoa farmer with a living income Analysis: Up to 1 mark for e.g. • Fairtrade is designed to support people in developing countries (1) • Farmers can use additional income to invest into their business (1) • Fairtrade is democratic in the sense that farmers can choose how to spend their Fairtrade premium money (1) • Alternative to aid using the market system (1)	(5)

Question Number	Answer	Mark
(b)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge/Understanding: Relevant methods identified (1+1), e.g. • Diversification • Invest in technology/machinery • Improved use of resources • Increased processing of cocoa beans within the country Application: 2 marks (1+1 OR 2) for reference to the data/candidates' own knowledge, e.g. • World cocoa prices plunged by more than a third in 2017 • Average cocoa farm yields only half of what could be achieved • Fertilisers/replanting/tractors to increase output/yield • Diversification into livestock/other crops • Producing chocolate bars from cocoa beans	

	Analysis: Linked development of each factor (1+1), e.g. • Diversify into other crops to reduce impact of fluctuating prices • Machinery can speed up harvesting and reduce labour costs • Fertiliser can increase output of cocoa so farmers have more to sell • <i>Adding value</i> by processing beans Evaluation: 2 marks for two evaluative comments OR 2 marks for identification and linked development of one comment Evaluative comments (1+1), e.g. • Significance of different methods • Improvements will only occur in the long term • Increasing cocoa yields will further reduce cocoa prices	(8)
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Question Number	Indicative Content	Mark
(c)	Knowledge 2, Application 2, Analysis 4 • Fluctuating prices make it hard for farmers to plan ahead for future purchases of seeds, equipment, etc. and will discourage investment into the farm to improve productivity • Falling cocoa prices reduce profits for farmers • Falling cocoa prices reduce the Ivory Coasts' terms of trade, affecting their ability to buy important imports such as capital equipment • Fluctuating current account • Cocoa is over half of Ivory Coast's exports and thus is a significant part of the country's economy and changes will have a big impact on AD NB For a Level 3 response candidates must refer specifically to Figure 2	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3-5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6-8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative Content	Mark
(c) continued	Evaluation 4 - Ivory Coast has comparative advantage in cocoa (climate, soil, etc.) so they should specialise in this to maximise output - Growth of schemes such as Fairtrade will help in the future	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative Content	Mark
(d)	Knowledge 2, Application 2, Analysis 2, Possible policies might include e.g.: - Supply-side policies to improve productivity such as improved education or healthcare will make workforce more efficient and thus reduce per unit costs to better compete with cheaper imports (allow more than one supply-side policy) - Deregulation policies (e.g. labour laws) to reduce production costs for firms and therefore they will be able to compete on price with other African countries better - Investment in infrastructure to reduce transport costs for exporters - Subsidies provided by the government to help firms adjust to new competition, e.g. could be used to purchase new, more efficient machinery - Demand-side policies such as reduction in taxes on businesses to reduce their costs and increase competitiveness on price	(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative Content	Mark
(d) continued	Evaluation 4 • Education investment will take a long time until those students enter the workforce • Opportunity cost for the government of investment • Potential side effects of wage-related policies	(4)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
(e)	Knowledge 3, Application 3, Analysis 3 • Trade creation as a result of joining the trading bloc • Increased specialisation & trade for countries & their firms, following theory of comparative advantage so total output of the economy can increase. Could potentially be explained diagrammatically or with a numerical example • Higher incomes for workers in the countries thanks to increased demand for the country's exports pushing up wages • Increase in jobs as domestic firms now have much larger market to sell their products to, improving standard of living for citizens of the countries NB For a Level 3 response candidates must refer specifically to benefits for sub-Saharan African countries	(9)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
(e) continued	Evaluation 6 • Trade diversion resulting in loss of efficiency as trade switches to less efficient producers within the trading bloc • More integration means financial crises will spread more quickly across the trading bloc • Loss of output due to cheaper competition from lower wage cost countries	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5-6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Q18.

Question Number	Answer	Mark
(a)	Knowledge 2, Application 1, Analysis 1 Knowledge/Understanding: Up to 2 marks for e.g. • Enabling growth/prevent recession • Providing temporary loans/credit • Promoting economic stability • Promoting international monetary cooperation • Promoting exchange rate stability Application: 1 mark for relevant example e.g. • \$57bn lent to Argentina • Money helps to stabilise currency • Money enables Argentinian government to continue repayments on its debt • Other relevant examples Analysis: Up to 1 mark for e.g. • Countries such as Argentina relied on IMF as it would be too risky for financial markets to lend to them • IMF will insist on reforms to economy as part of financial assistance	(4)

Question Number	Answer	Mark
(b)	The only correct answer is B <i>A is not correct because that refers to an increase in the value of the currency</i> <i>C is not correct because that refers to direct intervention in the currency markets</i> <i>D is not correct because that refers to an increase in the value of the currency</i>	(1)