

Mark Scheme (Results)

Summer 2016

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

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General Marking Guidance

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

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

QUALITY OF WRITTEN COMMUNICATION:

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

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

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

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

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

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

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

	Could cause income distribution to become more uneven especially if workers' wages are related to productivity while those of managers are not <i>But this could be offset by other factors e.g. increases in means-tested benefits</i> • Lower tax revenues if incomes are falling <i>Further evaluative points:</i> • Impact depends on degree by which productivity has fallen • Fall in productivity may be a short run phenomenon only • Is the fall in absolute or in relative productivity? NB: Answers which confuse productivity and production are unlikely to score more than a Level 2 mark. Maximum 24/30 if no reference to an example(s)	(30)
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Level	Mark	Descriptor
Level 1	1-11	Identification of points which have limited relevance
Level 2	12-15	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation or list of several points with little analysis
Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

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

	<i>level of skills and education or than state benefits</i> • <i>Globalisation has helped to reduce inequality through greater economic integration across national borders</i> • <i>Prioritisation of the most significant factor(s) (with justification)</i> • <i>The significance of a cause will be different in different countries e.g. depending on policies to redistribute income</i> Reference should be made to at least one country; otherwise 16/20 maximum	(20)
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Level	Mark	Descriptor
Level 1	1-7	Identification of points which have limited relevance
Level 2	8-10	Typically, answers will consider 1 factor with 1 evaluative point or 2 points with no evaluation or list of several points with little analysis
Level 3	11-14	Typically, answers will consider 2 factors with 1 evaluative point or 3 points with no evaluation
Level 4	15-16	Typically, answers will consider 3 factors with 1 evaluative point
Level 5	17-20	Typically, answers will consider 3 factors with at least 2 evaluative points

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

	- Measures which increase the power of trade unions - Improvements in health care Policies/ways to reduce wealth inequality might include: - increase in inheritance tax <i>But: Wealth inequality may not fall if asset prices are increasing rapidly</i> - A new mansion or wealth tax - Increase in stamp duty on house or share prices – which will reduce demand for these assets and so reduce their prices Must refer to a specific country, otherwise maximum of 24/30 Also, if only either wealth distribution or income distribution is consider then maximum of 21/30	(30)
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Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

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

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

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

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Level	Mark	Descriptor
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Level 3	16-21	Typically, answers will consider 3 factors with 1 evaluative point or 4 points with no evaluation
Level 4	22-25	Typically, answers will consider 4 factors with 2 evaluative points
Level 5	26-30	Typically, answers will consider 4 factors with 3 evaluative points

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

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

Question Number	Answer	Mark
4 (b)	Knowledge and analysis: (6 marks) Possible measures include: (For each point: 1 for identification, 1 for data reference and up to 2 for explanation) • Subsidies to domestic farmers to increase production of locally grown foodstuffs. This would reduce demand for imports and so lead to an improvement in the current account • Incentives e.g. tax breaks to process cocoa beans into raw materials for cocoa production. This would increase the value of Ghana's exports and so reduce the current account deficit • Measures to reduce inflationary pressures e.g. by reducing the fiscal deficit which would also release resources for the private sector so helping to increase exports. • Allow tariffs extract refers to 'new taxes to increase revenue' • Removal of taxes on exports Measures must be related to the impact on the current account (explicitly or implicitly) for second analysis mark. Application 2 marks: Specific data references include: Current account deficit in 2014: 12.3% (1) 'investment grants' (1); 'the removal of export taxes' (1) 'subsidies to process more beans within the country'(1)	(8)
Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two points
Level 2	3-4	2 marks for identification; 2 for application
Level 3	5-8	2 marks for identification; 2 for application, and 4 for analysis of the 2 points identified.

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

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

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

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

Question Number	Answer	Mark
4 (e)	For knowledge, application and analysis: 9 marks for up to 3 points (up to 5 marks for any one point) Evaluation: 6 marks: (3 + 3; 4 + 2; or 2 + 2 + 2 marks) Measures include: • Increase in taxes – direct and/or indirect (could count as 2 points for 2 different taxes) <i>But: these measures could reduce AD and cause a slower rate of economic growth and lower tax revenues; Laffer curve analysis</i> • Cuts in public expenditure on capital projects <i>But: if capital expenditure is cut, then this could reduce future growth and tax revenues. Also would cause a fall in AD and a reduction in GDP via the multiplier effect</i> • Cuts in public sector wages ('a 75% increase in public sector salaries over two years') <i>But: could cause industrial unrest</i> • Measures to raise revenues and improve the supply-side of the economy e.g. privatisation <i>But: such measures have a one-off effect only</i> • Measures to increase economic growth e.g. by promoting foreign direct investment; other supply side policies such as improvements in education <i>But: might increase public expenditure and worsen the fiscal deficit at least in the short run</i> Measures must be related to the impact on the fiscal deficit (explicitly or implicitly) for more than 2 KAA marks per point. <i>N.B. Specific data references relating to Ghana must be included. Otherwise, maximum 7/9 marks.</i>	(15)
Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 benefits; 2 for application
Level 2	5-9	2 marks for identification of 2 benefits; 2 for application; 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 benefits; 2 for application; 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

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

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

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

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

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

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

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

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

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

	increasing as rapidly as in Italy. Also, the Government has adopted QE to increase AD and the rate of inflation <i>But in the longer term, it may become more of an issue as the debt burden increases</i> • Countries have had higher debt to GDP ratios in the past without experiencing serious problems <i>But the interest burden reduces revenue available for expenditure on other goods and services provided by the state</i> • If the higher debt is being used to finance public sector investment in the supply-side of the economy, then future economic growth would reduce the debt burden <i>But higher public sector employment and wages may increase the debt to GDP ratio to increase in the short run</i> • If GDP is rising at a faster rate than public sector debt then the ratio of debt to GDP will fall <i>N.B. Specific data references relating to the context must be included e.g. to Italy, Japan and Ireland. Otherwise, maximum 7/9 marks.</i> <i>Candidates may take the view that it is/is not a cause for concern with the reverse view used for evaluation.</i>	(15)
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Level	Mark	Descriptor
Level 1	1-4	2 marks for identification of 2 points; 2 for application
Level 2	5-9	2 marks for identification of 2 points; 2 for application, 5 for analysis of at least 2 issues
Level 3	10-15	2 marks for identification of 2 points; 2 for application 5 for analysis of at least 2 issues; 6 marks for up to 3 evaluative points (3 + 3; 4 + 2; or 2 + 4; or 2 + 2 + 2)

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

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

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

GUIDELINES FOR MARKING ESSAY QUESTIONS 6EC04

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

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

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