

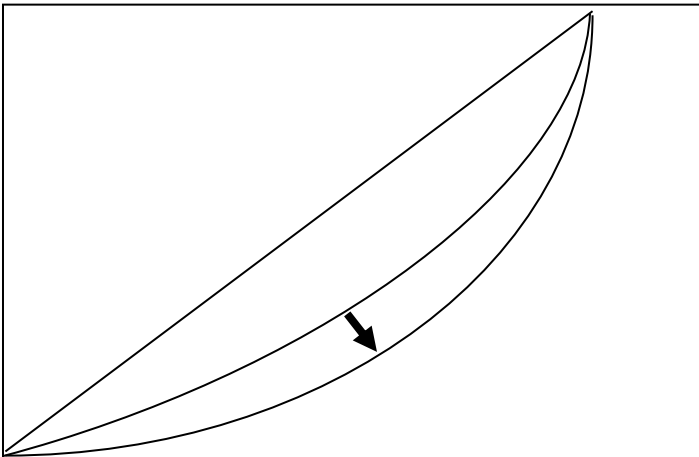
Unit 4 – Mark scheme

Question number	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical and tabular forms.	B	(1)
2	QS9: Interpret, apply and analyse information in written, graphical and tabular forms.	D	(1)
3	QS5: Calculate and interpret index numbers.	C	(1)
4	QS9: Interpret, apply and analyse information in written, graphical and tabular forms.	A	(1)
5	–	C	(1)
6	QS6: Calculate cost, revenue and profit (marginal, average, totals). QS9: Interpret, apply and analyse information in written, graphical and tabular forms.	A	(1)

Question	Answer	Mark
7(a)	Application 2 Quantitative skills assessed: QS7: Make calculations to convert money from real terms. Up to 2 marks for calculations: • $6.8\% - 15.5\% =$ (1) • -8.7% (1) Award full marks for the correct answer (minus 8.7%).	(2)

Question	Answer	Mark
7(b)	Knowledge 2, Application 2 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge Up to 2 marks for identification of definition of terms of trade, e.g.: EITHER - The price of exports relative to the price of imports (2) 1 mark if value is used instead of price in the above definition OR - Formula: Terms of trade = $\frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$ (2) 1 mark if (x 100) is omitted in the above formula Application Up to 2 marks for application to the Russian economy, e.g.: - Fall in export prices (1) associated with fall in world oil prices or depreciation of the rouble (1) - More must be exported to gain a given amount of imports (1) causing a fall in the terms of trade index (1). - Increase in import prices (1) associated with depreciation in the value of the rouble (1) - More must be exported to gain a given amount of imports (1) causing a fall in the terms of trade index (1).	(4)

Question	Answer	Mark
7(c)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge Up to 2 marks for knowledge of possible effects, e.g.: • Reduced inflows into the financial account (1). • Fall in exports in the medium term (1). • Fall in employment (1). Analysis Up to 2 marks for linked explanation of how two of the above points would affect Russia's balance of payments accounts: • Reduced inflows into the financial account may result in a foreign exchange gap (1). • Fall in exports in the medium term may lead to a deterioration in the balance of trade and, therefore, to the current account (1). • Fall in employment may lead to lower living standards and lower imports. Therefore, there would be an improvement in the balance of trade and, consequently, to the current account (1). Application Up to 2 marks for application to sources, e.g.: • In first 6 months of 2015, the current account surplus fell to 3.0% of GDP from 7.1% (1). • 70% of Russia's export earnings are from oil and gas exports (1). Evaluation Up to 2 marks for evaluative comments: • Future profit flows to transnational companies might fall (1) reducing the current account deficit (1). • The decline in foreign direct investment adds to the problem for the Russian energy industry of not being able to raise funds from Europe / America (1), which will create an even larger funding gap for the industry (1). • In the long term, less FDI will cause a leftward shift in the LRAS curve (1), reducing potential GDP (1).	(8)

Question	Answer	Mark
7(d)	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical and tabular forms. Knowledge Up to 2 marks for definition of recession and knowledge of Lorenz curve: • Understanding of recession: 2 consecutive quarters of negative economic growth (1). • Correctly-labelled original Lorenz curve diagram (1). Application Up to 2 marks for application to Lorenz curve: • Correctly drawing a new Lorenz curve moving outwards (1). • Recognition that an increase in inequality would lead to an increase in the Gini coefficient (1). Analysis Up to 2 marks for explanation of impact of an increase in income inequality on the Lorenz curve: • Recession causes an increase in unemployment and, therefore, likely to cause an increase in inequality (1). • Increase in income inequality reflected in increase in Gini coefficient (1) and move in Lorenz curve further away from 45° line (1). • The new Lorenz curve shows a smaller proportion of total income is earned by a given percentage of the population at lower income levels (1) / or a higher proportion of total income is earned by a given percentage of the population at higher income level (1).  Cumulative % of income Cumulative % of population	(6)

Question	Indicative content	
7(e)	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (8 marks) – indicative content Possible problems include: • Tax revenues are heavily dependent on oil and natural gas. Therefore, if the oil price falls and remains low, this would result in significant deterioration in the public finances. Oil and natural gas revenues account for more than 40% of Russia's tax revenues. • Export earnings are heavily dependent on oil. Therefore, if the oil price falls and remains low, this would result in significant deterioration in the current account of the balance of payments. 70% of its exports earnings come from oil and gas exports. • The fall in oil prices would cause a fall in the rate of economic growth. Use of AD / AS analysis: fall in exports causes a fall in AD, lower real output and employment. • Oil and natural gas are finite resources, so will eventually be depleted. Therefore, Russia needs to diversify its economy into other industries. • Price fluctuations make it difficult for oil and gas companies to plan output and investment. • The development of shale gas in other countries, e.g. the USA, and the move towards renewable energy may cause a long-run fall in demand for oil and natural gas.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples that are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (6 marks) – indicative content • When oil and gas prices are high, tax revenues would be high, so improving the public finances. Tax revenues may be used to improve public services. • When oil and gas prices are high, export earnings are high so improving the balance of trade. Export earnings may be used to purchase imports of other goods and services so helping to increase living standards. • With rapid growth in GDP before the fall in the price of oil, there was an opportunity to widen the tax base. • Russia may have gained revenue from FDI in the oil and gas industries, especially when prices were rising. • The oil price might increase if there is an agreement among oil producers to reduce supplies. Also, a recovery in the world economy is likely to cause an increase in oil prices. • A fall in oil and gas prices is likely to cause a depreciation in the value of the currency which may provide an incentive to diversify into other industries / increase the competitiveness of other industries.		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Indicative content	
8	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application, Analysis (12 marks) – indicative content Factors include: • Slow recovery from 2008 financial crisis: in particular, weak growth in the eurozone. • Slowdown in China, which has reduced demand for imports (especially raw materials). • Slow growth in developed economies has reduced demand for Chinese exports. • Re-shoring, i.e. TNCs have brought manufacturing back to the developed economy as wages and transport costs have increased in developing economies. • Increase in protectionism, which is partly associated with an increase in nationalism. • Competitive depreciations, which is associated with quantitative easing, causing uncertainty and less trade between countries.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • The world economy may recover – there are signs that the US economy is growing. • The Chinese economy may improve following rebalancing towards increasing consumption. • Further offshoring might occur in the future as poorest developing economies begin to grow. • Future regional trade agreements, e.g. TPP, TTIP, might result in an increase in trade. • As the world economy recovers, there may be less quantitative easing and greater currency stability.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Indicative content	
9	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application and Analysis (12 marks) – indicative content - Understanding of international competitiveness: a country's advantage or disadvantage in selling goods in international markets – this relates to both price and non-price competitiveness. The significance of the exchange rate: - It affects price of imports and exports (and, therefore, the terms of trade). - It is significant in influencing price competitiveness. Other factors include: - Productivity – output per hour worked. This influences average cost and, therefore, price competitiveness. - Relative wage costs. - Relative inflation rates – these affect relative price of exports. - Tax rates, e.g. corporation tax rate, employers' national insurance tax rates. - The quality of infrastructure. - Regulations: environmental; health and safety, which influence the cost of doing business. - Non-price factors including: - quality - design - availability - reliability - after-sales service.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.

Level	Mark	Descriptor
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
Evaluation (8 marks) – indicative content • The exchange rate is particularly important for goods and services which are homogeneous and/or price elastic. • The competitiveness of a country's goods might not be the same as the competitiveness of its services. • Forward contracts may limit the significance of short-term changes in the exchange rate. • Productivity may not be significant if wage costs are low. • High wage costs might be offset by very high productivity. • A high inflation rate may be offset by exchange rate depreciation. • Corporation tax may have more significant implications for foreign direct investment. • Poor infrastructure may be addressed by a TNC which, for example, builds roads.		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Indicative content	
10	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, Application, Analysis (12 marks) – indicative content • Monetary policy: the use of interest rates and quantitative easing to influence the level of economic activity. • Global economy is still recovering from the impact of the 2008 Financial Crisis, with many economies experiencing a slow rate of economic growth often caused by austerity measures, e.g. higher taxes and public expenditure cuts. • Therefore, many countries have been using monetary policy to stimulate their economies. • Explanation of how monetary policy might affect different economic variables, e.g. consumption, investment and the trade balance and, in turn, its impact on real output / economic growth. • Negative interest rates means that depositors have to pay banks when placing money into a bank account. • Negative interest rates imply that the central bank is trying to reflate the economy by adopting a very loose monetary policy. Such a policy may have been necessary because it was expansionary fiscal policy, which may have increased budget deficits further. Also, with other countries experiencing slow economic growth, it was difficult to increase exports. • Quantitative easing: asset purchases by central banks to increase liquidity of banks so enabling them to lend more to firms and consumers.	
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	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.

Level	Mark	Descriptor
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
Evaluation (8 marks) – indicative content • The use of monetary policy may be ineffective if there is a lack of business confidence, meaning that firms are unwilling to borrow to invest. • The use of monetary policy may be ineffective if there is a lack of consumer confidence, meaning that consumers are reluctant to spend. • Banks may be unwilling to increase lending (risk averse). • If other countries are also adopting negative interest rates, then the impact of one country's decision will be limited, e.g. little impact on the exchange rate. • If there is a global recession or slow economic growth, then monetary policy may have very limited effect because, for example, confidence will be low. • Monetary policy would be ineffective if barriers to trade are increasing. • A central bank cannot influence changes in costs, e.g. fall in oil and commodity prices through changes in interest rates. • In the conditions described above, governments may need to use fiscal policy to stimulate the economy – reference to Keynesian economics. • Monetary policy may be effective only after a significant time lag.		
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