

OCR A-LEVEL ECONOMICS • H460

ECONOMICS



EXAM QUESTION PACK

THE GLOBAL CONTEXT

SCORE

/284

PERCENTAGE

%

STEMUP

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* The fall in the value of the South African rand between 2012 and 2016 had an impact on the current account of the country's balance of payments.

Evaluate, with the use of an appropriate diagram(s), whether a fall in the value of a country's currency will always reduce a deficit on the current account of its balance of payments.

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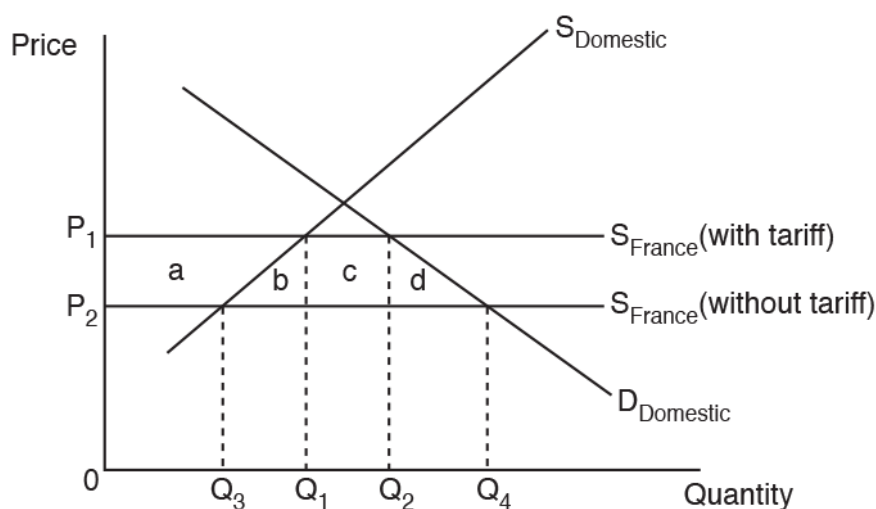
2 Which change will cause the exchange rate to appreciate?

- A A decrease in the demand for exports
- B An increase in domestic interest rates
- C An increase in interest rates abroad
- D An increase in the demand for imports

Your answer

[1]

3 In 2016 Turkey was involved in negotiations attempting to gain membership of the European Union. One impact of it gaining membership would be the removal of the tariff currently charged on agricultural products imported into Turkey from France. The diagram below shows the effect of the removal of the tariff. Which area on the diagram would represent the net welfare gain from trade creation?



- A $a + b + c + d$
- B $a + c$
- C $b + d$
- D c

Your answer

[1]

- 4 Two countries are involved in the production of cars and bananas. If they each decided to use half of their resources on the production of each of the products, they would produce the following quantities:

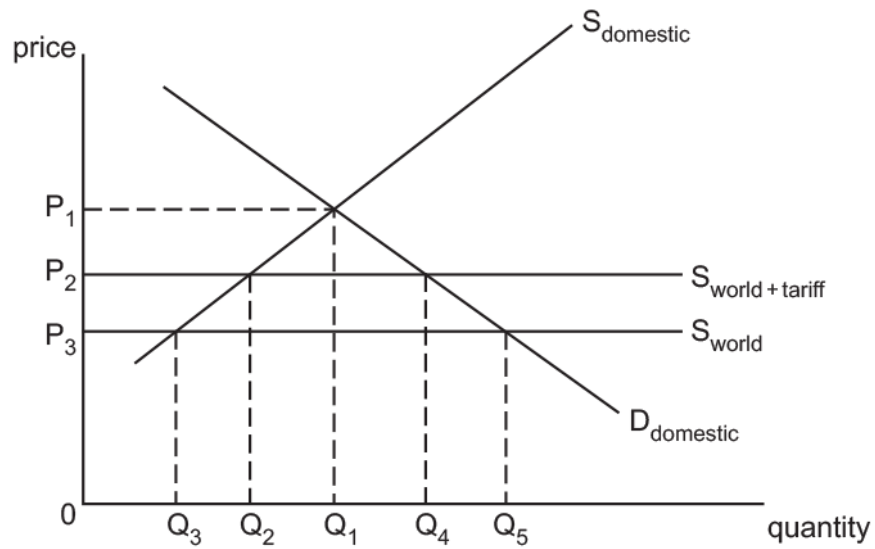
Good	Country Y	Country Z
Cars	4,000	3,000
Bananas	300,000	100,000

Which of the following represents world output of each good if both countries fully exploited their comparative advantage?

	Cars	Bananas
A	3,000	300,000
B	4,000	100,000
C	6,000	600,000
D	8,000	200,000

Your answer

[1]



In the diagram above, what is the new level of imports if a tariff is removed?

- A $Q_2 - Q_3$
- B $Q_4 - Q_2$
- C $Q_5 - Q_3$
- D $Q_5 - Q_4$

Your answer

[1]

6 What is an advantage of EU membership?

- A Member states have tariff free trade with the rest of the world
- B Member states have control over fiscal and monetary policy
- C There are no trade barriers between member states
- D The same currency is shared by all members

Your answer

[1]

Please refer to insert **H460-03 June 2018, Olympic Games**, which can be downloaded separately and is also included with Question 31.

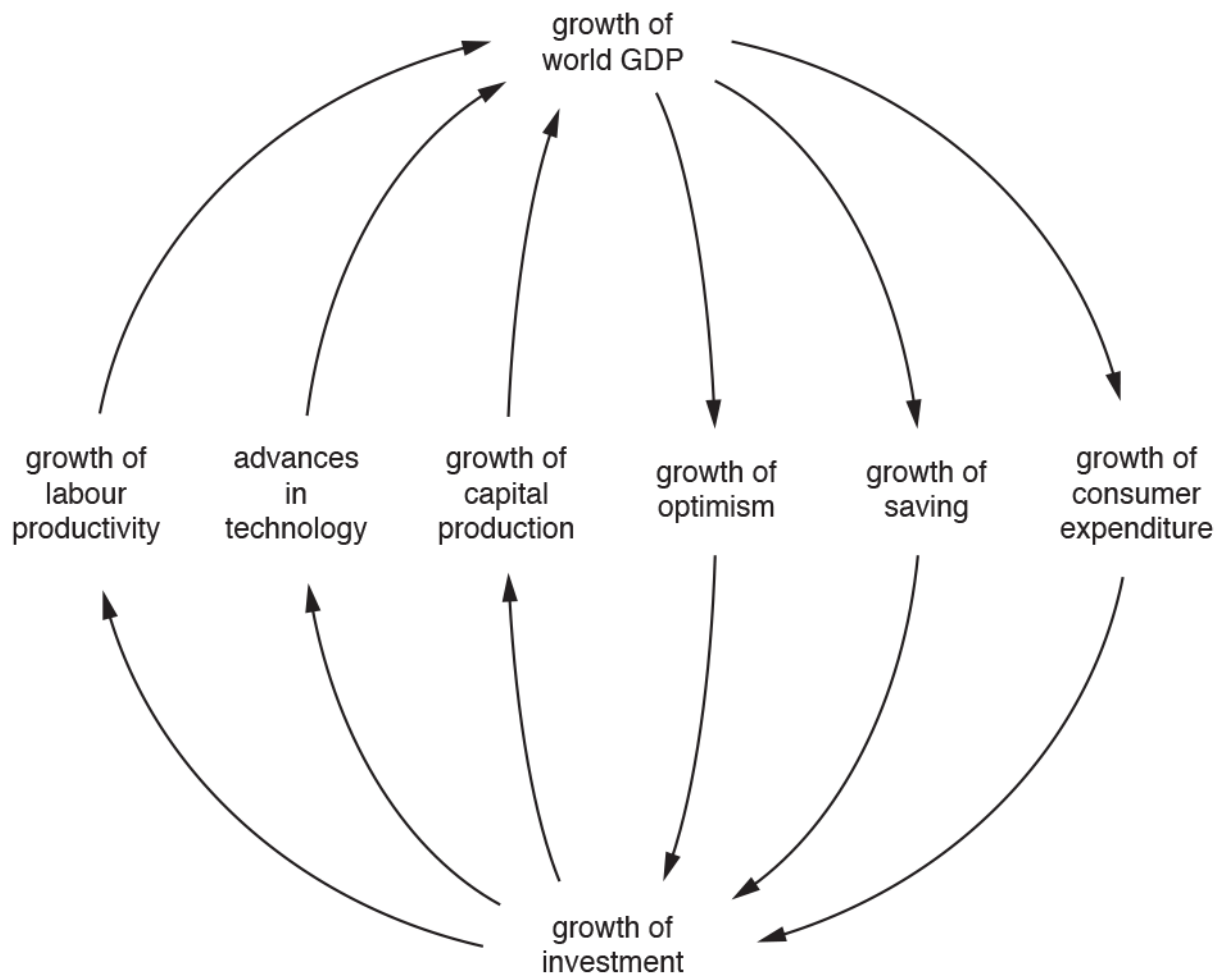
Explain, using an appropriate diagram, why the changes in the Olympics index, illustrated in Fig. 2.2, may occur as a result of a country hosting the Olympic Games.

[4]

Trade wars were threatening the process of globalisation in 2018 and were restricting the ability of countries to exploit their comparative advantage and their absolute advantage. In the years before, advances in production and communication technology had lowered production and transport costs, had increased the ability of firms to move production around the world and increased the size of firms' markets.

World trade increased by 3.2% in 2017. This contributed to a growth in world GDP. Higher GDP can result in a virtuous circle as shown in Fig. 1.

Figure 1 A virtuous circle



While the benefits of globalisation are widespread, the costs are often concentrated in particular areas and among those unskilled workers who are geographically and occupationally immobile.

- 10 One of the reasons why the US government imposed tariffs on steel imported from China was to protect the jobs of US steel workers.

Some economists are also concerned that globalisation can result in governments engaging in tax competition to keep firms and skilled workers in the country and to attract foreign MNCs and

foreign skilled workers into the country. Table 1 shows government tax revenue and expenditure
15 for selected countries in 2017.

Table 1 Government tax revenue and government expenditure 2017

Country	Government tax revenue (US\$ billion)	Government tax revenue as a % of GDP	Government expenditure (US\$ billion)
China	2672	22.4	3146
Germany	1598	43.8	1573
India	249	10.2	330
Ireland	85	26.2	87
Russia	254	17.3	288
UK	984	38.4	1076
USA	3336	22.0	3991

International competition may, on the other hand, encourage governments to spend more on education, training and health care to increase productivity and so attract foreign direct investment. Table 2 shows the corporate tax rates and the foreign direct investment attracted by the same selected countries.

Table 2 Corporate tax rates and foreign direct investment 2017

Country	Average corporate tax rate (%)	Foreign direct investment per head (US\$)
China	25.0	1098
Germany	29.8	17 963
India	34.6	287
Ireland	12.5	295 400
Russia	20.0	3378
UK	19.0	30 852
USA	40.0	12 489

- 20 The UK economy is more affected by changes in the global economy than the USA. This is because it is a more open economy. The UK has a relatively high marginal propensity to import. Between 2016 and 2017, average UK household income rose from £26 300 to £27 400 while average household spending on imports rose from £4950 to £5280.

The growth of the emerging economies, including China and India, is having an impact on the UK.

- 25 For instance, Chinese steel firms have captured some of the UK's steel industry's market at home

and abroad. Indian MNCs produced more than £26 billion of goods and services in the UK in 2016 and employed more than 100 000 workers in the UK.

Distinguish between absolute advantage and comparative advantage.

[2]

- (b) Using Table 2, evaluate to what extent differences in corporate tax rates explain differences in foreign direct investment in countries.

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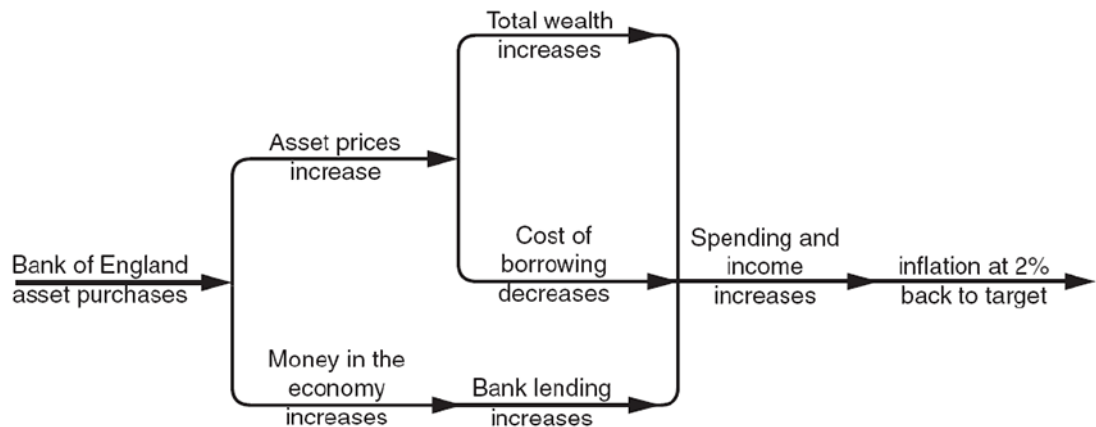
(c) * Evaluate whether the growth of emerging economies will benefit the UK economy.

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The Fragile Five was a name invented in August 2013 by a banking analyst, James Lord, to describe Brazil, India, Indonesia, South Africa and Turkey. These emerging economies accounted for 12% of global GDP and 20% of global economic growth between 2009 and 2013. They had, however, a heavy reliance on external finance and were seen as the most susceptible to sudden changes in the direction of hot money flows. In early 2014 they had large current account deficits, slowing economic growth, inflation rates between 6% and 11% and were generally experiencing falling exchange rates.

One influence on the direction and volume of hot money flows to and from the Fragile Five is changes in the monetary policy measures of the US and UK. The US Federal Reserve Bank and the Bank of England had been using quantitative easing to increase the money supply (see Fig. 1). This monetary policy measure had been adopted because it was considered that nominal interest rates were already close to zero and that these very low interest rates were having little effect on aggregate demand. The Bank of England's monetary policy is influenced by its need to meet the government's inflation rate target.

Fig. 1 – The anticipated transmission mechanism of quantitative easing



Towards the end of 2013 and at the start of 2014 US and UK monetary policy changed. There was a reduction in the growth of the money supply in the two countries and the prospect of a rise in interest rates in the US. This led to a significant withdrawal of short term funds from the Fragile Five. In January 2014 all of the Fragile Five economies raised their interest rates to prevent an outflow of foreign funds and further falls in their currencies.

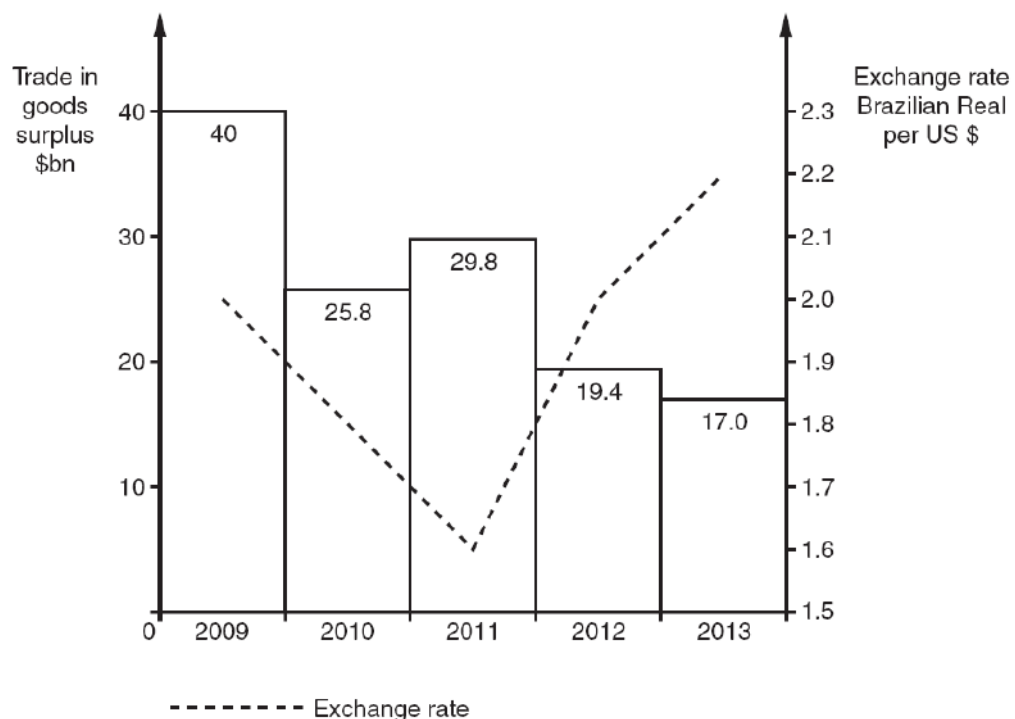
At an emergency midnight meeting the Turkish central bank raised the country's interest rate from 7.75% to 12%. Hot money flows finance more than 80% of Turkey's current account deficit. Turkey's currency, the Turkish lira, fell by 13% against the US dollar in January 2014. Table 1 provides details of changes in Turkey's export and import prices and volumes and current account position in recent years. Among these changes were that Turkey's terms of trade altered from 101 in 2011 to 98 in 2012 and 97 in 2013.

Brazil's trade balance and the value of its currency, which is called the real, also fluctuated over the period. Fig. 2 shows the change in Brazil's exchange rate against the US dollar and its trade balance between 2009 and 2013.

Table 1 – Turkey's export prices, import prices, export volumes, import volumes and current account position, 2009–13

Year	Index of export prices	Index of import prices	Index of export volumes	Index of import volumes	Balance on the current account of the balance of payments as % of GDP
2009	96	95	103	105	–2.5
2010	102	98	120	110	–8.0
2011	108	107	116	120	–10.0
2012	109	111	129	126	–7.0
2013	110	113	130	138	–5.7

Fig. 2 – Brazil's exchange rate and trade balance, 2009–13



The governments of Brazil, Turkey and the other three Fragile Five economies urged the US and the UK to continue with quantitative easing and not to raise interest rates. Janet Yellen, the Chairman of the Federal Reserve Bank, however, stated that US monetary policy will be influenced only by the US economy. This led to criticism by the governors of the central banks

of the Fragile Five economies. Raguram Rajan, India's central bank governor, argued for greater policy cooperation between developed and emerging economies. He said that, 'We
40 would like to live in a world where countries take into account the effect of their policies on other countries and do what is right broadly, rather than what is right given the circumstances of that country.'

Please refer to insert H460-02 Specimen which can be downloaded separately and is included above.

Using Table 1:

- (i) Calculate the change in Turkey's terms of trade between 2009 and 2010.

----- [2]

- (ii) Explain what happened to Turkey's terms of trade over the whole period shown.

----- [2]

(b) Using Fig. 2:

(i) Explain what happened to Brazil's exchange rate between 2011 and 2013.

----- [2]

(ii) Explain what effect the change in Brazil's trade in goods surplus between 2009 and 2010 would have been expected to have had on the country's exchange rate.

----- [2]

(c) * Evaluate the extent to which an emerging economy, such as India, can operate an independent monetary policy.

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[12]

- 10 * The income gap between the richest 1% of US households and the other 99% of households widened to a record amount in 2012 with the top 1% receiving more than 19% of total household income.

Evaluate whether globalisation always increases income inequality in a developed economy.

[illegible]

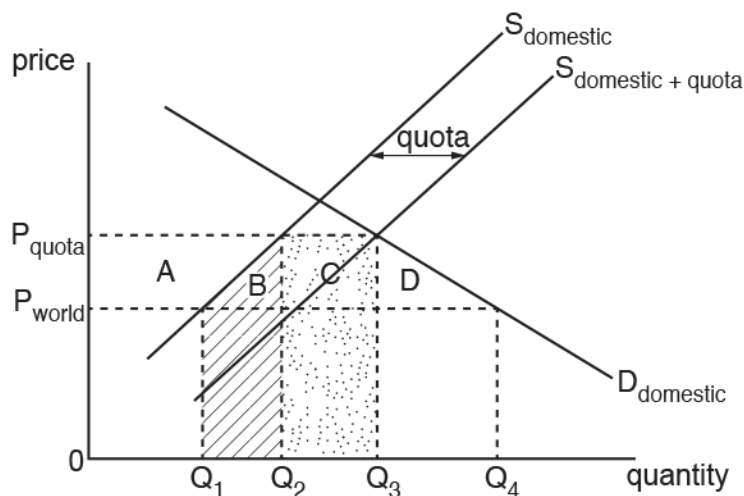
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[25]

- 11 In a domestic market without protectionism, the world price of Good Y is represented by P_{world} in the diagram below. The government intervenes and bans the import of Good Y from all countries except Country X, on which it imposes a quota. Which area shows the revenue generated by Country X as a result of this quota being imposed?



- A Area A
- B Area B
- C Area C
- D Area D

Your answer

[1]

- 12 Which of the following identifies the stages of economic integration in the correct order, from least integrated to most closely integrated?

- A Customs union – monetary union – free trade area – economic union
- B Free trade area – customs union – monetary union – economic union
- C Free trade area – monetary union – customs union – economic union
- D Monetary union – customs union – free trade area – economic union

Your answer

[1]

13 What does the Marshall-Lerner condition state?

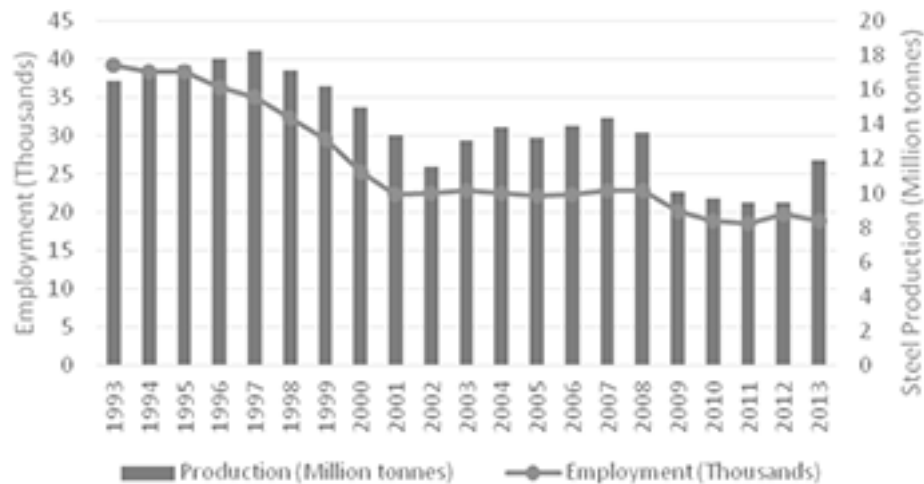
- A An exchange rate depreciation will only improve the balance of trade if the sum of the elasticities of demand for exports and imports is greater than one.
- B An exchange rate depreciation will only improve the balance of trade if the sum of the elasticities of demand for exports and imports is less than one.
- C Countries have a comparative advantage in the production of goods which intensively use the factors of production they have plentiful supply of.
- D Countries have an absolute advantage in the production of goods which intensively use the factors of production they have plentiful supply of.

Your answer

[1]

In recent years the steel industry in the UK has been in rapid decline. Whilst globalisation and a number of other structural changes such as the impact of the global financial crisis account for the shrinking of the industry over the past twenty years, the fact that production fell by almost a third between 2014 and 2015 demonstrates there are a number of significant short term pressures, including the strength of the pound, the relatively high electricity prices and the extra cost of climate change policies.

Figur 1.1 – UK Steel Production & Employment



Given the role steel plays as a crucial input in the production process in so many industries, it is understandable why increased competition in the steel market is of interest to the government. Steel is used widely in the construction of roads, other infrastructure and a wide range of home appliances, including ovens and sinks, all of which have been affected by movements in the price of steel.

Perhaps the biggest threat facing the UK steel industry is the competition it faces from China. China has the capacity to produce 1.1 billion tonnes a year. This not only dwarfs UK production but indeed Europe's as a whole – steel production in the entire European Union stands at 170 million tonnes. Some economists critical of China's actions point to the problems caused by the huge excess capacity that the country is believed to have; estimated to be more than 300 million tonnes. In the face of falling domestic demand Chinese firms are now selling overseas at a loss in order maintain their production levels. Whilst EU steel imports into the UK cost on average 897 euros a tonne in 2014, Chinese steel imports were just 583 euros a tonne. It is argued that selling at unfairly low prices in this way has destabilised the global steel market, with UK firms finding it impossible to compete.

Such actions have reignited the debate surrounding the benefits of protectionism. Whilst some EU anti-dumping measures have already been implemented in the steel industry, it is argued that further tariffs might be necessary to protect British jobs. However, the Chinese government says this goes against the terms of the agreement it reached when it joined the World Trade Organisation in 2001. Indeed, this is just one of many trade disputes which have occurred between China and the EU in recent years.

Industry experts warn that the plight of British steel manufacturers cannot only be blamed on China. The

increasingly tough air pollution standards imposed on British firms put them at a competitive disadvantage compared to Chinese firms who are not required to meet these standards. Moreover, the appreciation of the pound, particularly against the Euro, has rendered British steel uncompetitive in European markets. This suggests a broader range of policies may be required to ensure the survival of the industry in the UK, including: lower business rates, a relaxation of carbon emissions targets for heavy manufacturers and a commitment that British steel is used in major construction projects.

Extract 2 – Tata Steel as a dominant employer

Figur 2.1 – Employment in the UK Steel Industry



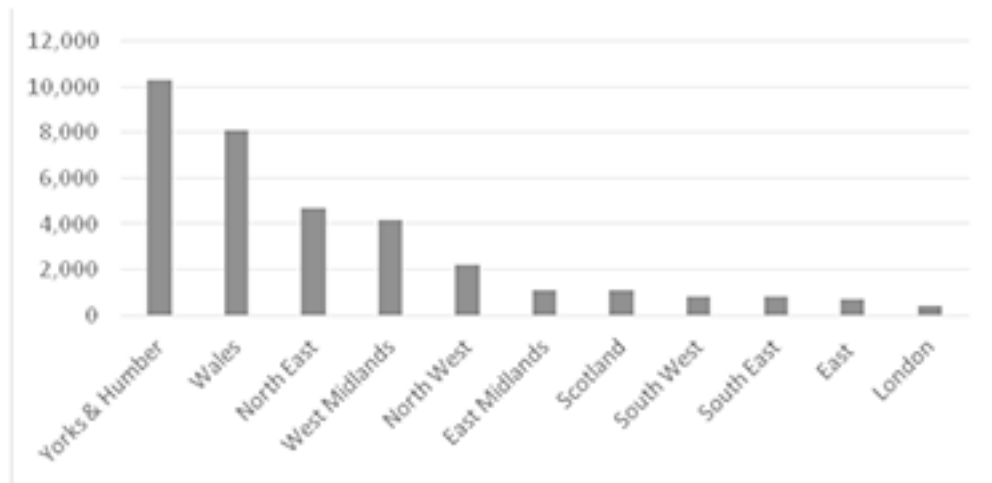
In January 2016, Tata Steel announced a further 1,050 job losses, including 750 at Port Talbot, the UK's biggest steelworks, on top of the already significant cut backs made in recent years. This is particularly troublesome given the increasingly dominant role Tata Steel plays in the UK steel industry. As other manufacturers have either shut down or relocated, Tata Steel is now responsible for employing 17,000 of the approximately 20,000 workers employed in the steel industry, suggesting the prospects of finding similar employment for those being made redundant is remote.

This dominant position also indicates Tata Steel may in fact be acting as a monopsonist employer. Trade unions, unhappy about enforced reforms to pensions and engaged in negotiations surrounding wages and working conditions, argue that the company is abusing its market power at great cost to its workers. Tata's response to this accusation is that it is external competitive market pressures in the steel industry driving its behaviour in the labour market, rather than any deliberate action to exploit workers.

Extract 3 - Moving the UK labour market forward

Job losses in the steel industry present particular concern to the government because of the uneven way in which employment is distributed across the country, as illustrated in Fig. 3.1.

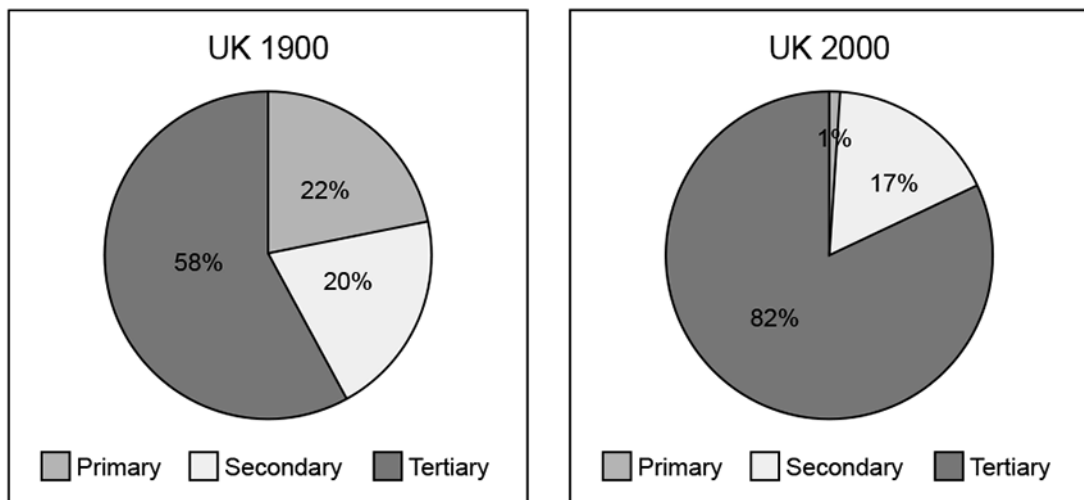
Figur 3.1 – Employment in the UK steel industry by region



The decline in the steel industry therefore has the potential to be very harmful on the local economies of regions where steel production takes place, with a lack of geographical mobility likely to create regional unemployment.

Changes in the steel industry in some ways mirror the wider changes which have taken place in employment across the UK economy over the last century as a result of deindustrialisation.

Fig 3.2 – Employment in the UK by sector



This loss in manufacturing employment and the increasing demand for skilled workers has caused a number of skills shortages to develop in the economy. Economists point to this, along with the regional unemployment that has developed as a result of the shutting down of manufacturing firms in the north of England, as evidence of the UK labour market being inflexible.

In an increasingly globalised world in which consumer demand, technology and patterns of comparative advantage are constantly changing, having a flexible labour market is crucial in enabling UK firms to be

internationally competitive. This has caused the government to consider a number of policies designed to create a labour market in which skilled workers are able to quickly adjust to the changing demand of employers, firms have flexibility over wages and flexible working hours and contracts are commonplace.

Some policies to achieve this are more controversial than others, with a topical cause for debate being the existence of zero hours contracts. Approximately 1.4 million individuals in the UK are currently employed on such contracts, which require workers to work as and when they are needed with variable hours. Whilst this has certainly enabled firms to more easily alter the size of its workforce in responses to changes in demand, it is criticised by some as being extremely unfair to workers because of the uncertainty it creates. On the other hand, this could be seen as a good example of the type of relaxing of employment protection required to keep the UK economy competitive in the twenty first century.

In addition, there are a number of other policy options available to the government to improve the flexibility of the UK labour market:

- Implement a points based immigration system
- Raise the school leaving age
- Provide more apprenticeships
- Reduce marginal tax rates

Please refer to insert H460-03 Practice 1 which can be downloaded separately and is included above.
Identify **two** factors which could explain falling profitability in the UK steel industry.

[2]

- 15 Please refer to insert H460-03 Practice 1 which can be downloaded separately and is included above with Question 31.

Evaluate, using an appropriate diagram, the extent to which protectionist policies would benefit the UK steel industry and the wider macroeconomy.

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[15]

- Which combination of price elasticities of demand and supply would enable the devaluation to reduce the deficit?

Your answer

[1]

17 Which of the following is a characteristic of a customs union but **not** of a free trade area?

- A A common currency between the member states
- B A common external tariff
- C Fixed exchange rates
- D The absence of tariff barriers between member states

Your answer

[1]

18 A British manufacturer of luxury cars sets its prices in pounds sterling (£) and sells 90 cars per week in the USA when the price is £200 000 per car and the exchange rate is £1 = \$2. The price elasticity of demand for its cars in the USA is unitary.

Assuming an unchanged sterling price, what is the maximum number of cars it can sell per week if the exchange rate changes to £1 = \$1.50?

- A 60
- B 90
- C 120
- D 150

Your answer

[1]

19 Which of the following is a characteristic of globalisation?

- A A reduction in the harmonisation of economic policies
- B A reduction in the impact of external shocks on national economies
- C A reduction in the power of international organisations such as the IMF
- D A reduction in the segmentation of markets between national economies

Your answer

[1]

20 The table below shows selected economic data on four countries in 2012.

Country	GDP (US\$bn PPP)	Exports (US\$bn)	Imports (US\$bn)	Stock of FDI at home (US\$bn)	Stock of FDI abroad (US\$bn)
Belgium	416	305	312	1160	1185
Denmark	209	106	98	148	139
Germany	3228	1460	1250	1320	1830
USA	16 240	1562	2264	2670	4460

Which country was the most integrated into the global economy?

- A Belgium
- B Denmark
- C Germany
- D USA

Your answer

[1]

21 A country is faced with a surplus in the current account of its balance of payments and unemployment.

Which of the following would reduce both of these problems?

- A A decrease in its government spending on education
- B A decrease in its interest rates
- C An increase in its rate of corporation tax
- D An increase in the value of its currency

Your answer

[1]

22 Which of the following factors has contributed to globalisation?

- A Higher trade barriers
- B Improvements in communications
- C More restrictions on capital movements
- D Tighter immigration controls

Your answer

[1]

23 The theory of comparative advantage seeks to explain patterns of trade. Which of the following is a weakness of the theory of comparative advantage?

- A A developing country may lack the capital to have an absolute advantage in the production of any good or service over a developed country
- B Countries will import goods from countries that can produce those goods at a lower opportunity cost
- C Heckscher-Ohlin theory suggests countries should specialise in producing goods which intensively use factors of production they have large endowments of
- D High transport costs mean countries are more likely to trade with neighbouring countries

Your answer

[1]

24 A small country engages in the international trade of seven goods. Using the information below, calculate the terms of trade.

Good	Price of good	Proportion of total export revenue
Exports		
A	£22	25%
B	£5	25%
C	£2	30%
D	50p	20%
Imports		
E	£7	10%
F	£2	70%
G	£1	20%

- A 0.31
- B 0.45
- C 2.21
- D 3.24

Your answer

[1]

25 Please refer to insert H460-03 June 2019 which can be downloaded separately and is included above with Question 27.

Some economists argued membership of the European Single Market caused a number of trade distortions, including in the beef market, where Irish firms had an artificial advantage over US firms as a result of being able to export to the UK tariff-free.

Explain, using an appropriate diagram and the information in Extract 1, the impact on the UK of a free trade deal that would enable US firms to export beef to the UK tariff-free.

[6]

- 26 Please refer to insert H460-03 June 2019 which can be downloaded separately and is included above with Question 27.

Using Fig. 1.2, explain what happened to the value of the pound following the UK's vote to leave the European Union.

[2]

27 * The central bank of Kenya cut the country’s interest rate twice in 2016. The first time it was followed by a fall in the value of the country’s currency, the Shilling, but the second time its exchange rate appreciated.

Evaluate, with the use of an appropriate diagram(s), whether a reduction in a country’s rate of interest would reduce its exchange rate.

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[25]

28 * In June 2016 Afghanistan joined the World Trade Organisation, becoming its 164th member.

Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development.

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[25]

Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development.

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[25]

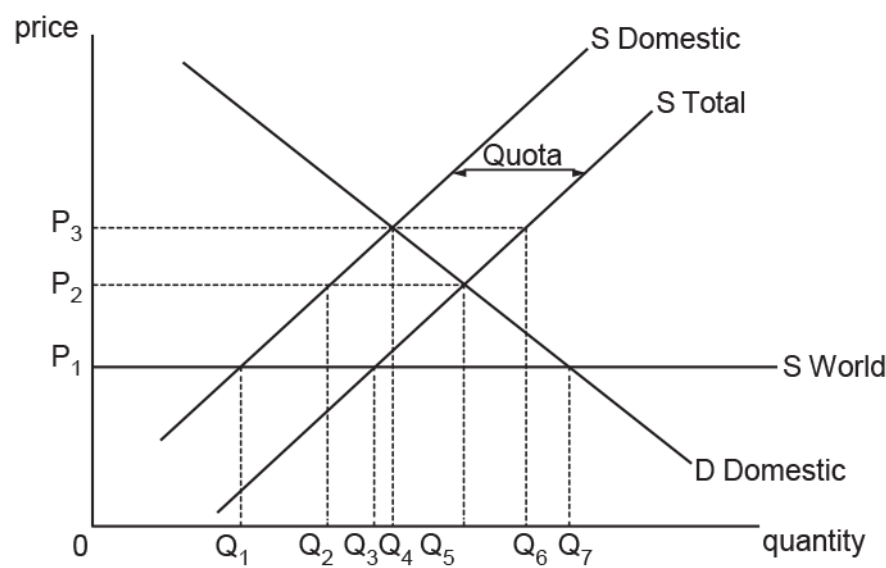
31 What would cause the exchange rate to depreciate?

- A An increase in domestic incomes
- B An increase in incomes abroad
- C Export subsidies
- D Technological advancement of domestic goods

Your answer

[1]

32 The diagram below shows the market for textiles in the US. Suppose the market was initially operating at a price of P_1 , when no restrictions on trade were in place. What is the new market equilibrium as a result of the US imposing a quota on textiles imports?



Option	Price	Domestic Production	Quantity Consumed
A	P_1	Q_1	Q_3
B	P_2	Q_2	Q_5
C	P_2	Q_5	Q_5
D	P_3	Q_4	Q_6

33 What is the impact of the Marshall-Lerner condition holding?

- A An exchange rate appreciation will only reduce a current account deficit in the long run
- B An exchange rate appreciation will reduce a current account deficit
- C An exchange rate depreciation will only reduce a current account deficit in the long run
- D An exchange rate depreciation will reduce a current account deficit

Your answer

☐

[1]

34 How does comparative advantage explain why the UK imports cars from Germany?

- A German car manufacturers can export tariff free to the UK
- B Germany can produce cars at a lower opportunity cost than the UK
- C Germany can produce cars more efficiently at a lower cost of production than the UK
- D Germany is located closer to the UK than US car manufacturers

Your answer

☐

[1]

The global economy is changing. It is becoming more integrated and China is moving towards becoming the world's largest economy. Lower costs of transport continue to increase the volume of international trade. Producing in different countries and buying products from anywhere in the world are being made easier by advances in communications.

- 5 World trade grew by 4.4% in 2017 and is predicted to grow by 4.7% in 2018. China is accounting for a higher proportion of this global trade and a higher proportion of global output. The country has experienced a significant rise in its GDP per head in recent years. This has had an impact on its citizens' life expectancy. Fig. 1 shows the average income and life expectancy in a number of countries.

Country	GDP per head (\$)	Life expectancy (years)
Bangladesh	4200	73.7
China	16700	75.8
Egypt	12700	73.2
Germany	50800	80.9
Guinea	2200	62.1
Japan	42900	85.5
UK	44300	80.9
USA	59800	80.1

Fig. 1 GDP per head and life expectancy in selected countries 2017

- 10 Developments in the Chinese economy can be illustrated by both movements in the country's production possibility points and in the position of the production possibility curve as shown in Fig. 2.

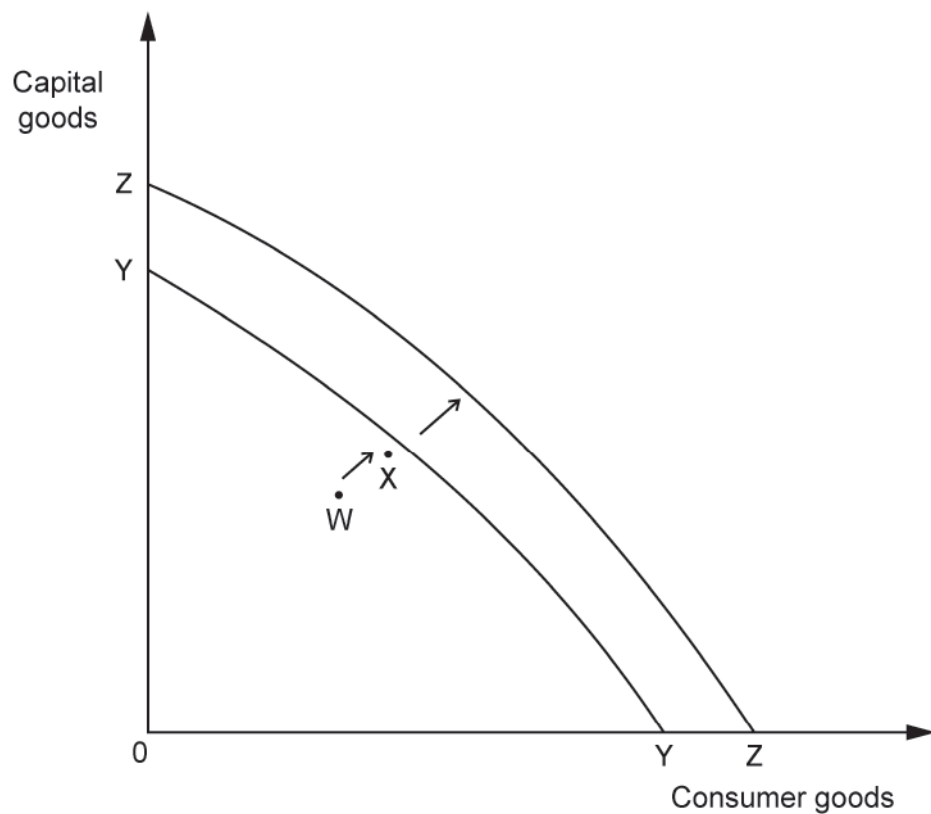


Fig. 2 A country's production possibility curve and points

The Bangladeshi economy has also grown in recent years, but its growth has been more erratic. In 2017, the country's main export destinations were the USA, Germany, UK and France. Its main
 15 sources of imports were China, India, Singapore and Japan. In 2017, the value of its exports to the UK was £2251 m while the value of its imports from the UK were £190 m. Bangladesh is also a recipient of UK overseas aid. In 2016, the UK government spent £13.4bn on overseas aid, in line with its target of 0.7% of GDP. Bangladesh was the 11th largest recipient, receiving £170 m. Fig. 3 provides some more information on the Bangladeshi economy.

	\$ billion
Consumer expenditure	191
Exports	50
Government spending	13
Investment	76
Imports	68
Tax revenue	25

Fig. 3 Details on the Bangladeshi economy 2017

20 Bangladesh's finance minister suggested in 2017 that he would cut the country's corporate tax

rates as they are much higher than most other countries. He argued that such a move would increase the country's rate of economic growth.

Some economists suggest that low-income countries are likely to grow more rapidly than high-income countries. Fig. 4 shows GDP per head and economic growth rates of a number of countries.

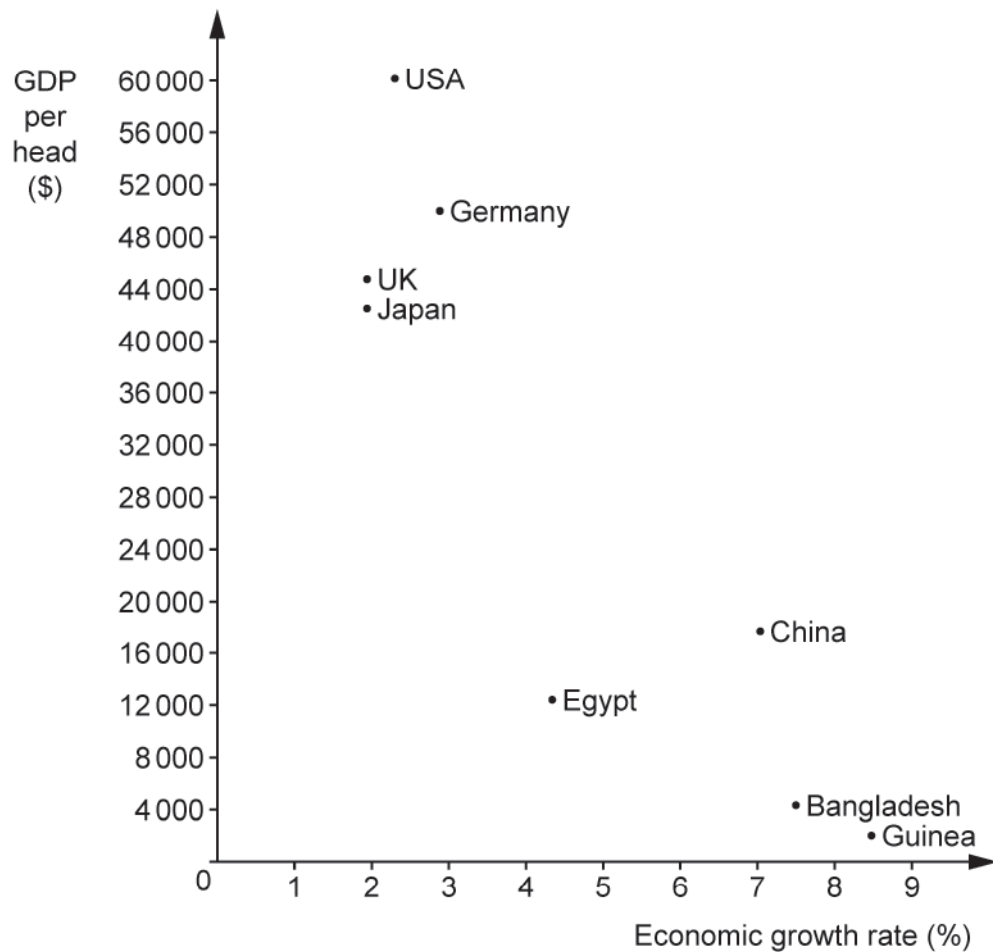


Fig. 4 GDP per head and economic growth rate of selected countries 2017

- 25 People in low-income countries may have a greater incentive to work hard to improve their living standards. Perhaps more significantly, the countries may be able to take advantage of technology transfer from high-income countries and their relatively low wages may attract foreign direct investment. The countries may also have greater potential to reallocate resources from low to high value activities.
- 30 To date, Asian countries have been more successful in narrowing the income gap than African countries. A number of African countries have poor infrastructure, low labour productivity, rapidly growing populations and a lack of economic and political stability.

Please refer to insert H460-02 October 2020 which can be downloaded separately and is included above.

Using information from the stimulus material, identify two causes of globalisation.

Cause 1

Cause 2

[2]

- 36 * In 2018, the US President accused China and Russia of lowering the value of their currencies to artificially low levels.

Evaluate, with the use of an appropriate diagram(s), whether a central bank's decision to reduce the exchange rate to an artificially low level will benefit its economy.

Handwriting practice lines consisting of 20 sets of three horizontal dashed lines.

This image shows a full-page view of a document template. It consists of a white background with approximately 25 horizontal dashed lines spaced evenly apart, typical of primary or secondary school writing paper. In the bottom right corner, there is a small black rectangular box containing the white text "[25]", indicating the page number.

Whilst much of the developed world grapples with the challenge of trying to reduce people’s food intake to improve their health, it remains the case that in many of the world’s least developed countries (LDCs), millions of citizens suffer from malnourishment as a result of living in absolute poverty. High and sustained rates of economic growth are considered essential in overcoming this problem, with the diet of individuals living in emerging economies noticeably improving as a result of the rapid economic growth they have seen in recent years. Fig. 3.1 illustrates how GDP and population size has changed in selected countries over the past 20 years.

Country	GDP (USD, billions at 2010 prices)		Population (millions)	
	2000	2019	2000	2019
Brazil	1538	2347	175	211
China	2232	11 537	1262	1398
Germany	3118	3959	82.2	83.1
Japan	5348	6210	127	126
US	12 620	18 318	282	328

Fig. 3.1 – GDP and Population of selected countries 2000–19

Brazil’s high rate of economic growth is often credited to the way it has embraced export-led growth, having liberalised its trade policy in the early 1990s. It is one of the world’s largest producers of soybeans and exports soy across the globe. This expansion in exports has contributed to Brazilians enjoying higher levels of income and a reduction in poverty. Indeed, it is often argued that it is emerging economies such as Brazil with plentiful natural resources and China with an abundant labour supply that have benefited most from international trade, whilst a number of developed nations, such as the UK, suffer from persistent current account deficits.

Fig. 3.2 details the value of exports in the same countries listed in Fig. 3.1.

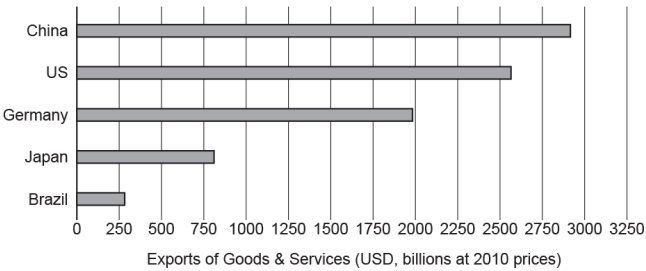


Fig. 3.2 – Exports of Goods & Services of selected countries in 2019

However, it is not universally accepted that Brazil has benefited from international trade. The price volatility on world markets of the commodities it exports can be very damaging to the economy, whilst the rate of deforestation in the Amazon rainforest is often cited as an example of how emerging economies suffer from the intensive use of their natural resources.

* Evaluate, using the information in **Extract 3**, the extent to which emerging economies gain more from international trade than developed economies.

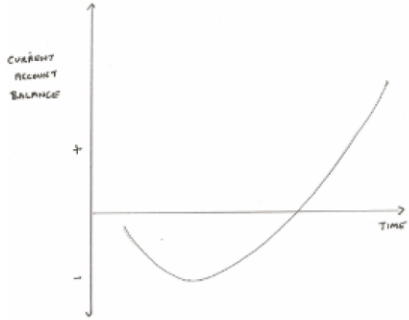
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Handwriting practice lines consisting of 20 horizontal dashed lines.

END OF QUESTION PAPER

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
1	Evaluate, with the use of an appropriate diagram(s), whether a fall in the value of a country's currency will always reduce a deficit on the current account of its balance of payments. Level 5 (21–25 marks) Good – Strong knowledge and understanding of the effects of a fall in the value of the currency on the current account of the balance of payments. Strong analysis of how a fall in the value of the currency will be affected by the price elasticity of demand for exports and imports and other relevant factors. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a fall in the value of the currency will reduce a deficit on the current account of the balance of payments, weighing up both why it might and why it might not and reaching a supported judgement. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of the effects of a fall in the value of the currency on the current account of the balance of payments. Strong analysis of how a fall in the value of the currency will be affected by the price elasticity of demand for exports and imports and other relevant factors. Strong analysis will have consistently well-	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content</i> A fall in the value of a country's currency will be likely to reduce export prices in terms of foreign currency and increase the price of imports in terms of the domestic currency. The J-curve effect suggests that a reduction in the value of a country's currency will initially increase a current account deficit before it reduces it as shown in the diagram below. Insert Fig.3  In the short term, firms purchasing imports may not have the time to find alternative products and so demand may be price inelastic. The Marshall-Lerner conditions states that a devaluation or depreciation in the currency will only improve a current account position if the combined price elasticity of demand for exports and imports is greater than one. Demand for products can become more elastic over time as buyers can investigate alternative products and change contracts. This means that it is possible that export revenues may increase and import expenditure may fall over time. There is the possibility that demand for exports and imports may remain inelastic in the long run. In this case, exporters may decide to keep their price unchanged in terms of the foreign currency. When the revenue is converted back into the domestic currency, it will rise in value. If, however, price is lowered for exports and raised for imports and demand stays inelastic, the current account position will not improve.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether a fall in the value of the currency will reduce a deficit on the current account of the balance of payments, weighing up both why it might and why it might not and will weigh up both sides but without reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of the effects of a fall in the value of the currency on the current account of the balance of payments. Good analysis of how a fall in the value of the currency will be affected by the price elasticity of demand for exports and imports and other relevant factors. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether a fall in the value of the currency will reduce a deficit on the current account of the balance of payments, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i>		There are other reasons why a fall in the value of the currency may not improve the current account position. Domestic firms may find it difficult to sell more products at home and abroad if the quality of their products has not kept pace with rival products. The presence of import restrictions may also make it difficult to export more. In addition, while foreigners may be willing and able to purchase more of the country's imports, if supply is inelastic, it will not be possible to raise supply significantly. One reason why supply may be price inelastic is because the economy is experiencing full or near full employment. There is also the possibility that a fall in the value of the currency will not reduce a deficit if incomes fall abroad which will reduce foreigners' purchasing power. Primary income may move into a deficit if, for instance, domestic firms are paying higher interest on foreign loans. Having fewer workers sending back income from abroad may move the balance on secondary income into a deficit. A fall in the value of a country's currency will not always reduce a deficit on the current account. The outcome will depend, in part, on the price elasticity of demand of exports and imports. As the J curve suggests demand is likely to be more elastic in the long run. Over time, however, other factors may change such as incomes abroad which can offset the competitive advantage of lower export prices and higher import prices. A depreciation/devaluation is more likely to reduce a current account deficit if the demand for exports and imports are elastic, the supply of exports is elastic, domestically produced goods are increasing in quality, incomes abroad are rising and there is an absence of trade restrictions. <u>Examiner's Comments</u> This was the slightly more popular of the two questions in Section A. The vast

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	Level 2 (6–10 marks) Good knowledge and understanding of the effects of a fall in the value of the currency on the current account of the balance of payments. Reasonable analysis of how a fall in the value of the currency will be affected by the price elasticity of demand for exports and imports and other relevant factors. How a fall in the value of the currency will be affected by the price elasticity of demand for exports and imports and other relevant factors. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether a fall in the value of the currency will reduce a deficit on the current account of the balance of payments, considering both why it might and why it might not. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of the consequences of the effects of a fall in the value of the currency on the current account of the balance of payments. Limited or no analysis of how a fall in the value of the currency will be affected by the price elasticity of demand for exports and imports and other relevant factors. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether a fall in the value of the currency will reduce a deficit on the current account of the balance of		majority of candidates recognised that a fall in the value of the currency would lower export prices and raise import prices. As previously mentioned, some candidates wrote at length about the causes of depreciation. Some other candidates did not go much beyond stating that export revenue would rise and import expenditure would fall. There were, nevertheless, some excellent answers which made use of the Marshall-Lerner condition and the J curve and which showed a good awareness of the factors affecting the influence of a fall in the value of the currency on the current account balance.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			payments, in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td>On the borderline of this level and the one below</td><td>At bottom of level</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level		
Descriptor	Award mark														
Consistently meets the criteria for this level	At top of level														
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)														
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)														
On the borderline of this level and the one below	At bottom of level														
			Total	25											

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
2			B	1 (AO1)	Rationale A Demand for domestic currency would fall, causing a depreciation. B Correct: hot money would flow into the country, raising the demand for the currency and causing an appreciation. C Hot money would flow out of the country, increasing supply of the currency and causing a depreciation. D Demand for foreign currency would increase, increasing supply of the domestic currency and causing a depreciation.
			Total	1	
3			C	1 (AO3)	Rationale A This is the gain in consumer surplus but does not account for the loss in domestic producer surplus and tariff revenue. B This is the loss in domestic producer surplus and the loss in tariff revenue. C Correct: The net gain excludes the transfer of welfare from producers and the government to consumers (a + c) D This is the loss in tariff revenue
			Total	1	

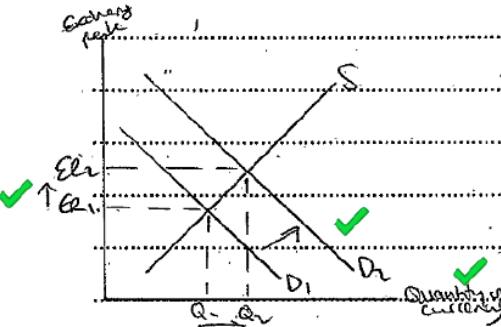
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
4			C	1 (AO2)	Rationale A Specialisation here is correct but the quantities need to be doubled to reflect that the initial figures were the result of half of the resources producing each good. B This goes against the theory of comparative advantage as countries are specialising in goods which incur higher opportunity cost than in the other country. C Correct: Country B has a comparative advantage in the production of cars as it can produce cars at a lower opportunity cost than A. Country B has a comparative advantage in bananas. D This goes against the theory of comparative advantage as countries are specialising in goods which incur higher opportunity cost than in the other country.
			Total	1	
5			C	1 (AO3)	Rationale A This is the reduction in domestic production. B This is the original level of imports. C Correct: Q_5 units are demanded and Q_3 is the level of domestic production – the difference is the quantity imported. D This is the increase in consumption.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
6			C	1 (AO1)	Rationale A There is only free trade within the EU – members are still subject to tariffs around the world except when the EU has a free trade deal with the country. B The European Central Bank sets interest rates for all members of the Eurozone whilst there are restrictions on fiscal policy set out by the EU. C Correct: being part of the EU entitles members to free trade within the single market. D Not all member states are members of the Eurozone.
			Total	1	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
7	Explain, using an appropriate diagram, why the changes in the Olympics index, illustrated in Fig. 2.2, may occur as a result of a country hosting the Olympic Games. <i>Award up to 3 marks for a diagram:</i> • Axes (exchange rate/price of currency and quantity) and curves (supply and demand) labelled (1) • Demand curve shifting right (1) • Original and new equilibrium exchange rate clearly labelled on y-axis (1) <i>Award up to 2 marks for associated explanation:</i> • Tourists visiting the host city/foreign firms wanting to invest in the country will increase demand for the currency (1) • This will cause the exchange rate to rise/appreciate from e_1 to e_2 (1)	4 (AO1 x 1) (AO2 x 1) (AO3 x 2)	Accept axes labels focusing on the price of one host country (eg. price of £). Do not award axes labels mark when it is not clear the diagram refers to an exchange rate – eg. price alone should not be credited. No marks should be awarded for diagrams with AD/AS labels on curves.  First explanation mark requires clear understanding of why demand for the currency increases – simply saying demand increasing causing a shift in the demand curve to the right is not sufficient. Second explanation mark requires clear reference to diagram – simply saying that the exchange rate appreciates is not sufficient. Examiner's Comments This question saw a relatively even split between those candidates who were did not to interpret the Olympics index and therefore could not be credited any marks or did not answer the question and those who had read the case study carefully to reach the right conclusion and were credited full marks. The presentation of exchange rate diagrams was mixed, with many incomplete or incorrect axes or curve labels.
	Total	4	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
8	a		Distinguish between absolute advantage and comparative advantage. Absolute advantage is being able produce the product with less resources/lower unit costs/produce more with fewer inputs. (1) whereas comparative advantage is being able to produce a product at a lower opportunity cost (1).	2 (AO1 x 2)	<u>Examiner's Comments</u> Most candidates were able to define opportunity cost, but definitions of absolute advantage were often imprecise, such as 'produce more'.

Mark Scheme

Question		Answer/Indicative content	Marks	Guidance
	b	Using Table 2, evaluate to what extent differences in corporate tax rates explain differences in foreign direct investment in countries. Level 2 (5–8 marks) Good knowledge and understanding of corporate tax rates and foreign direct investment. Good – strong analysis of what the table shows and how a low corporate tax rate may attract FDI and vice versa. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Reasonable – strong evaluation of whether a low corporate tax rate will attract FDI/a high corporate tax rate will discourage FDI, considering both why differences in corporate tax rates may explain differences in FDI and why they might not, underpinned by appropriate theoretical analysis. Good evaluation will weigh up the reasons why it might and the reasons why it might not but without reaching a supported judgement. Strong evaluation should include a supported judgement. Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of corporate tax rates and foreign direct investment. Limited – reasonable analysis of what the table shows and how a low corporate tax rate may attract FDI and vice versa. Limited analysis will have little evidence of	8 (AO1 x 1) (AO2 x 1) (AO3 x 3) (AO4 x 3)	<i>Indicative content</i> An inverse relationship is the expected one. Foreign firms are likely to be attracted by a low corporation tax rate as more of any profit earned can be kept by the firm. This could be paid to shareholders or used to reinvest. This is shown by: • The two countries with the lowest corporation tax rates, Ireland and the UK, attracted the most foreign direct investment per head. • India, which has the 6th highest corporation tax had the lowest FDI per head. • With an analysis of why. However, this is not shown by: • The USA, who has the highest corporation tax rate but the middle level of FDI. • The level of FDI is influenced by a number of factors and not just the rate of corporation tax. For instance, firms may be attracted by the presence of skilled labour and good infrastructure. To finance a good education system and provision of, for instance, good roads, a government may impose relatively high tax rates. • A growing economy may also attract FDI as foreign firms may expect a growing market for their products. • Foreign MNCs will be encouraged to set up in countries where they expect to receive high net profit. Possible judgement. • A low corporation tax may attract FDI but on its own it is unlikely to be sufficient. • A low corporation tax rate will not attract FDI if it is anticipated that it will not be possible to earn a high enough

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			reasoning that addresses the question asked. There is a lack of a clear structure. Reasonable analysis will have correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Limited evaluation of how differences in corporate tax rates may affect foreign direct investment in countries in the form of an unsupported statement or no evaluation. 0 marks No response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td>On the borderline of this level and the one below</td><td>At bottom of level</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	On the borderline of this level and the one below	At bottom of level		net profit because of low demand and/or high average cost of production. A 40% corporation tax on a £50 million profit is more attractive than a 10% corporation tax on a £5 million profit. • The FDI per head may be distorted by population figures. NB Do not award lower corporation tax lowers costs of production. Examiner's Comments This question was answered well by most candidates. Where it was not answered well, it was due to a lack of use of the data. There was also confusion from some who related lower corporation tax to a fall/lower costs of production, rather than retaining more profit. Exemplar 2 <i>region There is more incentive for foreign investor to invest in those region, such as Ireland, where has the lowest tax rate and highest FDI per head. India, the second highest rate has the lowest FDI per head. With a reduction in production cost, foreign investor can have a more competitive production with a lower</i> In Exemplar 2 the candidate correctly identified Ireland and India, and the inverse relationship was implicit, so they got good analysis here, but the response was not given strong analysis because they confused the idea that lower corporation tax would lead to lower production costs.
Descriptor	Award mark														
Consistently meets the criteria for this level	At top of level														
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)														
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)														
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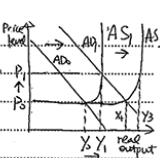
Mark Scheme

Question		Answer/Indicative content	Marks	Guidance
	c	Evaluate whether the growth of emerging economies will benefit the UK economy. Level 3 (9–12 marks) Good knowledge and understanding of emerging economies and UK macroeconomic performance. Good – strong analysis of how the growth of emerging economies may affect the UK economy. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of whether the growth of emerging economies will benefit the UK economy, weighing both why it might and why it might not. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (5–8 marks) Good knowledge and understanding of the growth of emerging economies may affect the UK economy. Reasonable analysis of how the growth of emerging economies may affect the UK economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or	12 (AO1 x 1) (AO2 x 1) (AO3 x 5) (AO4 x 5)	<i>Indicative content</i> The growth of emerging economies may benefit the UK economy in a number of ways. • Higher output in these economies will raise incomes. Some of the higher incomes may be spent on UK exports. • A rise in UK exports may reduce the deficit on the current account of the balance of payments. • Higher demand for UK products may also contribute to a rise in UK economic growth and a fall in UK unemployment. • More profitable firms in emerging economies may have funds available to set up branches or buy out firms in the UK. • Emerging economies MNCs may increase the output and employment of the UK. They may introduce new products and new production methods. • MNCs also usually contribute disproportionately to their host country's exports. The growth of emerging economies may not benefit the UK economy. • Growth may be export-led. The emerging economies' firms may capture some of the UK's export markets and may sell more to the UK economy. • A reduction in exports and an increase in imports would have an adverse effect on the UK balance of payments and aggregate demand. • Rising incomes and possibly improvements in skills and infrastructure in emerging economies may encourage some UK firms to relocate some of their production to branches in India and China. This could reduce output, employment and tax revenue in the UK. • Emerging economies' MNCs in the UK may replace some UK firms and so

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance						
			not linked to the analysis. Reasonable evaluation of whether the growth of emerging economies will benefit the UK economy, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–4 marks) Limited – reasonable knowledge and understanding of how the growth of emerging economies may affect the UK economy. Limited analysis of how the growth of emerging economies may affect the UK economy. Little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of whether the growth of emerging economies will benefit the UK economy in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks No response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)		may not make a net contribution to UK output and employment. - Emerging economies' firms may send any profit they may make to their home countries. Possible judgement - The effect on UK government policy of greater competition from emerging economies is uncertain. The UK government may engage in tax competition to attract emerging economies' firms to set up in the country or it may spend more on measures to raise labour productivity and improve infrastructure. - To date, the growth of exports from the emerging economies to the UK has outgrown the growth of UK exports to them. For example, China has become a major competitor to UK firms at home and abroad while its rises in imports have benefited largely countries that produce commodities. - The growth of emerging economies, nevertheless, has the potential to benefit the UK economy. UK firms may be able to sell more products if they respond to their rising demand in a competitive way. - The benefits and costs arising from the growth of emerging economies are unlikely to be evenly spread. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. Examiner's Comments Candidates were able to argue the positives of how it benefits the UK economy and how it may not. However, some students only applied the benefits to the emerging economy. The best answers used the extract to back up or formulate their answers. There were a range of ways they could access analysis and evaluation marks and answers displayed this range.
Descriptor	Award mark										
Consistently meets the criteria for this level	At top of level										
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)										

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			Just enough achievement on balance for this level Above bottom and either below middle or at middle of level (depending on number of marks available)		For example, how India has created jobs within the UK and hence improved employment, then linked to economic growth and how China's steel production has been detrimental to the UK causing structural unemployment. An increase in exports to emerging economies leading to economic growth and then competition from emerging economies could lead to the decline in UK industries were also common answers. Exemplar 3  the export of AD in UK will increase, the shift of $AD_0 \rightarrow AD_1$ will increase real output by $X_0 \rightarrow X_1$. UK economy (GDP) growth has been weak in the recent with a growth of 1.4% only, having more external demand through export & increase in foreign income can stimulate the economy. As export increases, the balance of payment will move from deficit to surplus, this will improve the BOP & current account deficit, which reduces the substantial outflow of capital and avoid national debt. Example is the reform & opening up of China which improve the UK economy through increase in tourism and export through trade of Goods & service. Another positive is the migration of skillful labour. Economic growth in emerging economies can improve the human capital of the people living in there. By AS growth - supply side policy such as increase in education funding can produce for skillful labour, which can migrate to UK & become UK's factors of production, thus increase UK AS. For example, the India econ growth has lead to a growth of engineering specialists who can support the construction of HS2, illustrate by $(AS_1 \rightarrow AS_2)$ and potential growth of $(X_1 \rightarrow X_2)$, also applicable to PPF outward shift. In Exemplar 3 the candidate makes excellent use of context and theory to analyse the benefit to the UK economy. Points are fully developed using chains of reasoning which include relevant context and detail. The diagram is integrated and explained. This showed strong analysis and was awarded full marks.
			On the borderline of this level and the one below At bottom of level		
			Total	22	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
9	a	i	Up to two marks: Two marks for correctly calculating the change. One mark for calculating 101 and 104.	2 (AO1 x 1) (AO2 x 1)	Supporting evidence: 2009: 101 2010: 104. The terms of trade rose by three (index) points.
		ii	Up to two marks: One mark for recognising what has happened. One mark for supporting evidence in terms of relationship between export and import prices.	2 (AO1 x 1) (AO2 x 1)	The table shows: - the terms of trade deteriorated over the whole period - export prices rose by less than import prices.
	b	i	Up to two marks: One mark for recognising nature of the change. One mark for supporting evidence.	2 (AO1 x 1) (AO2 x 1)	It fell/depreciated/devalued. A higher value of real had to be sold to buy a US\$.
		ii	Up to two marks: One mark for expected change. One mark for reason.	2 (AO1 x 1) (AO2 x 1)	Fall in trade surplus would have been expected to have reduced the exchange rate. Demand for the currency would have fallen/supply of the currency risen.
	c		Level 3 (9–12 marks) Good knowledge and understanding of an independent monetary policy in the context of an emerging economy. Strong analysis of the reasons why and why not an emerging economy may be able to operate an independent monetary policy. Strong evaluation including a supported judgement on the extent to which an emerging economy can operate an independent monetary policy. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (5–8 marks) Good knowledge and understanding of an independent monetary policy and/or an emerging economy. Good analysis of the reasons why and why	12 (AO1 x 1) (AO2 x 1) (AO3 x 5) (AO4 x 5)	<i>Indicative content</i> - monetary policy covers a government/central bank's decisions on the interest rate, money supply and exchange rate. Reasons why it might not: - developed countries' central banks may ignore the side effects of their monetary policy measures on emerging economies - an emerging economy may not be able to move its interest rate/growth of the money supply in a different direction due to the risk it will lead to destabilising outflows/inflows of hot money, e.g. if the US and UK raise interest rates, emerging economies will be forced to raise their interest rates to avoid an outflow of hot money; an outflow of money would increase the supply of the currency; a fall in the exchange rate can push up the rate of inflation as it will raise the price of

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			not an emerging economy may be able to operate an independent monetary policy. Reasonable evaluation as to whether an emerging economy can operate an independent monetary policy without considering its extent. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–4 marks) Reasonable knowledge and understanding of monetary policy and/or an emerging economy. Reasonable analysis of the reasons why and why not an emerging economy may be able to operate an independent monetary policy. Little or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		imports - an emerging economy may be a member of a trade bloc which may require some co-ordination of monetary policy measures. Reasons why it might: - an emerging economy may be able to operate an independent monetary policy if it is prepared to operate a freely floating exchange rate; higher interest rates may result in a lower exchange rate which may encourage an inflow of hot money; with speculators expecting the exchange rate to rise in the future - capital controls may be imposed; these limit the amount of currency coming into and going out of the country - some countries discourage the movement of destabilising hot money flows by developing their financial sector. Credit, where appropriate, knowledge/analysis of other, relevant factors. Possible routes into evaluation: - a fall in the exchange rate may not always encourage financial investors to buy the currency as they may expect a further depreciation - there may be greater cooperation between central banks but central banks are likely to put national self-interest before global interest - fiscal and structural reforms may reduce the emerging economy's reliance on hot money flows - even some developed economies are restricted in their ability to operate an independent monetary policy.
			Total	20	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
10	Level 5 (21-25 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy. Strong analysis of the link between globalisation and income inequality in a developed economy. Strong evaluation including a supported judgement on whether globalisation will always increase income inequality in a developed economy. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16-20 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy. Strong analysis of the link between globalisation and income inequality in a developed economy. Good evaluation as to whether globalisation will increase income inequality but without considering whether this will always be the case. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11-15 marks) Good knowledge and understanding of globalisation in the context of income inequality in a developed economy. Good analysis of the link between globalisation and income inequality in a developed economy. Reasonable evaluation as to whether	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	<i>Indicative content</i> • a more integrated global economy with greater mobility of products, capital and labour has the potential to increase global output and so real incomes • income inequality will increase if the benefits of globalisation are not equally distributed. Reasons why this may occur: • entrepreneurs may gain higher incomes as a result of multinational companies being able to locate in lowest cost countries and because of the increase in the size of markets that firms can sell to • skilled workers may enjoy higher incomes as their skills will be in demand throughout the world and because they are likely to be occupationally and geographically mobile • workers who are mobile are likely to be able to adapt to changes in an economy's comparative advantage and move from declining to expanding industries • unskilled workers may experience a reduction in their wages or may lose their wages due to unemployment • with increased competition from developing economies in a range of manufacturing industries, there may be pressure on firms to cut their labour costs • some domestic firms may set up branches abroad or may outsource some of their lower skilled operations to developing economies • generally production of skill-intensive products for exports has increased while production of labour-intensive products has been replaced by imports. Demand for unskilled workers has fallen relative to demand for skilled workers. Structural unemployment has occurred with those lacking mobility

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	globalisation will increase income inequality but without considering whether this will always be the case. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of globalisation and/or income inequality. Reasonable analysis of the link between globalisation and income inequality in a developed economy. Reasonable evaluation of whether globalisation will increase income inequality but without considering whether this will always be the case. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of globalisation and/or income inequality. Limited analysis of the link between globalisation and income inequality. Limited or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level.		remaining unemployed - the increased mobility of firms and skilled workers which is associated with globalisation may put pressure on the governments of both developed and developing economies to lower their corporate and income tax rates. Tax competition can result in lower tax revenue. MNCs may also try to reduce the tax they pay by moving profits to low tax countries. Due to a reduction in tax revenue there may be less spending on social welfare which could reduce the incomes of the unemployed, sick and elderly. There may also be less spending on state education which in the long run may reduce the skills and earning potential of some workers. Reasons why globalisation may not increase income inequality: - it may encourage the government of a developed economy to increase its spending on education and training in order to retain domestic firms and attract foreign domestic investment. Such spending by increasing labour skills may reduce unemployment and so reduce income inequality - globalisation may result in increased economic growth both within a developed economy and other economies. Trade liberalisation and reduced transport costs can permit economies to concentrate on those products in which they have the greatest comparative advantage. This can increase output and create employment opportunities - if developed economies buy more imports from developing economies and set up branches in developing economies, the incomes of developing economies may rise. With higher incomes, the developing economies may buy more products from the developed economy - rises in wages in developing

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					economies may put less downward pressure on wages in the developed economy - increased economic growth may generate increased tax revenue. Some of this may be spent raising the incomes and opportunities of vulnerable groups by, for example, raising state pensions and unemployment benefits. Credit, where appropriate, knowledge/analysis of other, relevant factors. Possible routes into evaluation: - the impact of globalisation on a developed economy will be influenced by how flexible its labour and product markets are and how its government responds - how governments respond to globalisation can influence income inequality, e.g. the type of supply side policy measures used - the impact will depend on the extent to which the developed economy is integrated into the global economy - income inequality may also be generated by wealth inequality within a developed country - it may also be affected by the government's welfare policy and its impact/effectiveness.
			Total	25	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
11			C	1 (AO3)	Rationale A This is the gain to domestic producers from being able to sell at a higher price. B This is a deadweight loss from imposing a quota. C Correct: Country X will now be able to sell at a higher price than it did when competing with producers from other countries. D This is a deadweight loss from imposing a quota.
			Total	1	
12			B	1 (AO1)	Rationale A Customs and monetary unions represent deeper integration than a free trade area. B Correct: this answer lists the stages of economic integration in the correct order. C A monetary union represents deeper integration than a customs union. D Customs and monetary unions represent deeper integration than a free trade area.
			Total	1	
13			A	1 (AO1)	Rationale A Correct: this will cause the value of exports to rise and the value of imports to fall. B This would cause the value of exports to fall and the value of imports to rise, worsening the balance of trade. C This is the Heckscher–Ohlin theory of international trade. D This incorrectly specifies Heckscher–Ohlin theory.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
14			Identify two factors which could explain falling profitability in the UK steel industry. <i>One mark for each factor identified, up to a maximum of two marks:</i> • Increased international competition (resulting from globalisation) • Falling demand for steel (resulting from global financial crisis) • Appreciation of the pound sterling • Rising costs of production (resulting from high electricity prices or climate change policies)	2 (AO2 x 2)	Award one mark for a factor lifted directly from the case study. For the second factor candidates need to apply this factor to falling profitability – eg. ‘globalisation’ would not be acceptable as a second factor unless linked to falling demand.
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
15	Evaluate, using a relevant diagram, the extent to which protectionist policies would benefit the UK steel industry and the wider macroeconomy. Level 3 (11–15 marks) Good knowledge and understanding of what is meant by protectionism. Good – strong analysis of the impact of protectionism on the UK steel industry and the wider macroeconomy. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the impact of protectionism on the steel industry and UK economy, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of what is meant by protectionism. Reasonable analysis of the impact of protectionism on the UK steel industry and/or the wider macroeconomy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be	15 (AO1 x 2) (AO2 x 3) (AO3 x 4) (AO4 x 6)	<i>Analysis</i> The following diagram may be used to illustrate the impact of imposing a tariff: Imposing a tariff on Chinese steel manufacturers will enable domestic steel producers to sell more (previously Q1 now Q2). This will enhance the competitiveness of domestic firms and protect employment. Domestic firms will gain producer surplus equal to area A. Imports of steel will reduce from Q4-Q1 to Q3-Q2. This could improve the current account of the balance of payments. The improvement in net exports and rising employment generating increased consumption may increase AD in the economy, triggering economic growth and potentially a positive multiplier effect. The government will enjoy tariff revenue equal to area C. This can be used to invest in improving productivity in the steel industry or the provision of other public services. Protectionism can be justified because Chinese steel is artificially competitive because it is being dumped – ie. imposing protectionism in this instance doesn't necessarily go against theory of comparative advantage. A government may consider using an alternative protectionist policy analysis e.g. imposing quotas to limit the volume of Chinese steel imports. There will be a deadweight loss equal to area B + D. This represents the welfare

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			imperfectly labelled or not linked to the analysis. Reasonable evaluation of the impact of protectionism on the steel industry and/or UK economy considering both sides/comparing alternatives <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of protectionism. Limited analysis of the impact of protectionism on the UK steel industry or the wider macroeconomy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the impact of protectionism on the UK steel industry or the wider macroeconomy in the form of an unsupported statement or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks no response or no response worthy of credit.		loss generated by artificially increasing the competitiveness of UK firms. Whilst this policy may help in the short term, it could result in UK producers become complacent/X-inefficient and reliant on government help. Higher steel prices could be bad news for UK firms which rely on steel in their production processes – this could harm their international competitiveness. Protectionism could result in retaliation, meaning the gains from trade cannot be fully exploited. Protectionism will also not address the other reasons for the UK struggling to be competitive in this industry – eg. climate change policies.
			Total	15	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
16			D	1 (AO1)	Rationale A PED for exports + PED for imports = less than 1. B PED for exports + PED for imports = less than 1. C PED for exports + PED for imports = less than 1. D <i>Correct:</i> PED for exports + PED for imports = greater than 1.
			Total	1	
17			B	1 (AO1)	Rationale A This sometimes happens as with some EU countries but it is not necessarily a feature of either a customs union or a free trade area. B <i>Correct:</i> Distinguishes a customs union from a free trade area. C This will give effectively the same result as a. It isn't necessarily a feature of either a customs union or a free trade area. D This is a characteristic of both customs unions and free trade areas.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
18			C	1 (AO3)	Rationale A Based on demand falling by 30, rather than rising by 30. B The reference to the unchanged sterling $r=$price might make candidates think that demand will remain unchanged. C Correct: The price in the USA is initially \$400 000 and total revenue earned is $90 \times \\$400\,000 = \\$36\text{m}$. When the exchange rate changes, the price in the USA falls to \$300 000. As $PED = 1$, revenue will stay the same at \$36m. So now the number of cars sold in the USA is $\\$36\text{m}/\\$300\,000 = 120$ cars. D Based on demand rising by 60 on the basis of $436\text{m}/\\$240\,000$ as some candidates may think that the US price will fall by 40%.
			Total	1	
19			D	1 (AO1)	Rationale A Not a characteristic and there may be more pressure for greater harmonisation. B With more open economies, national economies are more subject to external shocks. C Transnational organisations tend to become more powerful, given the greater interdependency of economies. D Correct: Globalisation involves greater mobility of products and capital with barriers to their free movement between national economies being reduced.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
20			A	1 (AO3)	Rationale A <i>Correct:</i> Belgium – highest proportion of foreign trade and FDI as % of GDP. B Denmark – only country with a surplus of inward FDI but foreign trade and FDI accounting for smaller % of GDP than Belgium. C Germany – largest trade surplus but foreign trade and FDI accounting for smaller % of GDP than Belgium. D USA – largest values of foreign trade and FDI but they account for smaller % of GDP than Belgium.
			Total	1	
21			B	1 (AO3)	Rationale A This may reduce current account surplus but it would increase unemployment as the skills of workers would be reduced making them less employable. B <i>Correct:</i> a decrease in interest rates would be expected to stimulate demand. Higher demand would reduce cyclical unemployment and would be likely to lead to higher imports which would reduce the current account surplus. C This may reduce current account surplus but it would be likely to increase unemployment as firms are likely to reduce their output. D This may reduce current account surplus but it would be likely to increase unemployment as exports are likely to fall and imports rise so domestic firms will reduce output.
			Total	1	

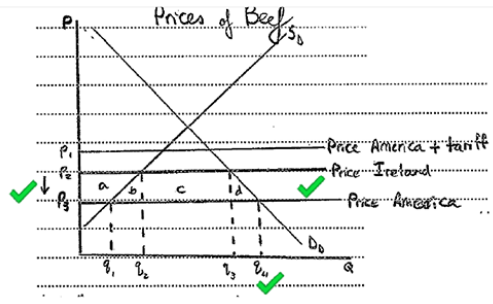
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
22			B	1 (AO1)	Rationale A International trade will be reduced and limit globalisation. B <i>Correct:</i> The provision of fuller information has encouraged globalisation. C Capital will be less mobile and limit globalisation. D Labour will be less mobile and limit globalisation.
			Total	1	
23			D	1 (AO1)	Rationale A The theory of comparative advantage demonstrates there is still an incentive for trade between two countries even when one country has the absolute advantage in the production of all goods and services B This is the theory of comparative advantage C Heckscher-Ohlin theory underpins the theory of comparative advantage as it explains why some countries can produce goods at a lower opportunity cost than other countries D <i>Correct:</i> comparative advantage ignores transportation costs.
			Total	1	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
24			D	1 (AO3)	Rationale A Weighted average of import prices / weighted average of export prices B Calculates an average of export and import prices without weighting them and calculates terms of trade as import prices / export prices C Calculates an average of export and import prices without weighting them D Correct: Terms of trade = weighted average of export prices / weighted average of import prices = $(22 \times 0.25 + 5 \times 0.25 + 2 \times 0.3 + 0.5 \times 0.2) / (7 \times 0.1 + 2 \times 0.7 + 1 \times 0.2) = 7.45 / 2.3 = 3.24$
			Total	1	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
25	Explain, using an appropriate diagram and the information in Extract 1, the impact on the UK of a free trade deal that would enable US firms to export beef to the UK tariff-free. <i>Award up to 3 marks for diagram:</i> - US supply at a price below Irish supply (1) - Original and new price of beef clearly labelled (1) - Increase in imports/reduction in domestic production/increase in consumption clearly illustrated (1) <i>Award up to 3 marks for associated explanation:</i> - Consumer surplus increases (1) by $A + B + C + D$ (1) - Domestic production decreases from Q_2 to Q_1 (1) causing rising unemployment (1) - Producer surplus decreases (1) by A (1) - Net welfare gain of $B + C + D$ (1) - Imports increase (1) from $(Q_3 - Q_2)$ to $(Q_4 - Q_1)$ (1), increasing the current account deficit (1) and decreasing AD (1)	6 (AO1 x 3) (AO2 x 1) (AO3 x 2)	 An explanation based on an inaccurate diagram can be awarded up to a total of 3 marks as follows: - A reduction in the market price (1) - Consumer surplus increases (1) - Domestic production falls (1) causing rising unemployment (1) - Producer surplus falls (1) - Increase in beef imports (1) increases current account deficit (1) and decreases AD (1) Macro labels/explanations of the tariff diagram – e.g. <i>Price level falls</i> - should not be credited. Examiner's Comments Candidates showed a good understanding of the basic impact of a free trade deal, explaining that this would lead to the price of beef falling, consumer surplus rising, beef imports rising and domestic production falling. This enabled candidates to be credited up to 3 marks and answers could have been improved with a correct diagram. Most candidates opted for a standard trade creation diagram (as in Exemplar 2) which implied that beef was initially being imported from the US with a tariff, when the extract and question makes clear that trade was initially taking place with Ireland because of the artificial advantage arising from being part of the single market. Candidates would benefit from more practice manipulating their diagrams to suit the particular scenario given as opposed from just inserting stock

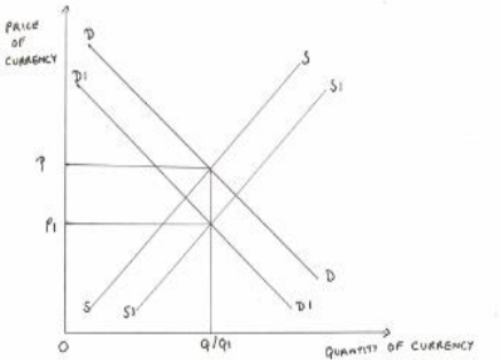
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					diagrams. Candidates who drew the correct diagram sometimes could have achieved top of the mark range if their diagram had been fully integrated into their explanation. At the top end though there were a number of impressive responses with a high degree of technical accuracy, using the diagram to algebraically illustrate the increase in consumer surplus, reduction in producer surplus and the societal welfare gain. Exemplar 2
			Total	6	

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
26			Using Fig. 1.2, explain what happened to the value of the pound following the UK's vote to leave the European Union. - The value of the pound depreciated/decreased/fell (1) - From 1.26/1.27/1.28 euros per pound in June 2016 to 1.12 euros per pound in August/September 2017 (1)	2 (AO2 x 2)	No credit should be awarded to candidates commenting on the exchange rate throughout the period shown in Fig 1.2 rather than focusing on the period following the vote to leave the EU. Accept any correct use of data with an end point from July 2016 to September 2017. <u>Examiner's Comments</u> This was a well answered question, with almost all candidates correctly identifying that the exchange rate depreciated following the vote to leave the European Union. The majority of candidates attempted to use the data to explain. Candidates would benefit from being more precise with their use of data – Exemplar 3 was typical of a one mark answer which could have been improved by stating the dates to which the figures referred, making it impossible for the examiner to verify whether the data had been used accurately. The majority of candidates demonstrated a confident understanding of how to interpret exchange rates. Exemplar 3 <i>The value of the pound depreciated from 1.27 to 1.19 euros per pound.</i>
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
27	Evaluate with the use of an appropriate diagram(s), whether a reduction in a country's rate of interest would reduce its exchange rate. Level 5 (21–25 marks) Good-Strong knowledge and understanding of how an exchange rate is determined. Strong analysis of how a reduction in the rate of interest may affect the exchange rate. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a reduction in a country's rate of interest will always reduce its exchange rate weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of how an exchange rate is determined. Strong analysis of how a reduction in the rate of interest may affect the exchange rate. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether a reduction in	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	A fall in the rate of interest may reduce the inflow of hot money and encourage an outflow of hot money. Households and firms may move money from the country's banks to banks in other countries offering a higher rate of interest. If the country's households and firms are putting more money in foreign banks. The supply of the domestic currency used to purchase foreign currency will increase. If foreigners are buying less of the currency, demand for the currency will decrease. The diagram below shows how these changes in the foreign exchange market would cause a fall in the value of a floating exchange rate.  A central bank may lower its interest rate with the specific intention of lowering the exchange rate possibly with the intention of reducing a current account deficit. A reduction in the rate of interest may, however, not result in a fall in the value of a fixed exchange rate. It would be likely to put downward pressure on the value but a government may seek to maintain the value by instructing its central bank to purchase its currency, using reserves of foreign currency. There is the possibility that, whatever the type of exchange rate system being operated, the demand for the currency may not decrease and the supply of the currency may not increase. There are a number of reasons for this. One is that, despite the reduction, the rate of interest may still be higher than in other countries.

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	a country's rate of interest will always reduce its exchange rate, weighing up both why it might and why it might not without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of how an exchange rate is determined. Good analysis of how a reduction in the rate of interest may affect the exchange rate. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether a reduction in a country's rate of interest will always reduce its exchange rate, considering both sides. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of how an exchange rate is determined. Reasonable analysis of how a reduction in the rate of interest may affect the exchange rate. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether a reduction in a country's rate of interest will always reduce its exchange rate,		Placing money in the country's banks might also offer a better return if the country's economic prospects are good and causing the exchange rate to rise. For example, if the rate of interest in the UK is 4% and the exchange rate is £1 = \$1, an American with a deposit of £100 would earn \$4 when the interest is converted into \$s. If the exchange rate rises to £1 = \$1.5, the deposit holder would receive more interest - \$6. A lower rate of interest may attract foreign direct investment (FDI) if it is thought that the increase might stimulate a rise in consumer expenditure. If more FDI is attracted, demand for the currency will rise and the supply of the currency would fall. In such a circumstance, the value of the currency will rise and not fall. Changes in the rate of interest is only one influence on the demand for and supply of a currency. If it is thought that the central bank has reduced the rate of interest due to concerns about a recession, it may be expected that the economic prospects are not good and the exchange rate will fall. If it is expected that the exchange rate will fall, currency traders will act in a way that will bring about the fall. They will sell the currency and so bring about the very movement they were expecting. In contrast, if it thought that the central bank has reduced the rate of interest because it has succeeded in reducing the inflation rate, it may lead to an expectation that the exchange rate will increase. Whether a lower rate of interest will reduce the exchange rate will be influenced by how its new rate compares with that of other countries, the exchange rate system being operated and how the change is perceived.

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance										
			considering both sides. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of how an exchange rate is determined. Limited or no analysis of how a reduction in the rate of interest may affect the exchange rate. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether a reduction in a country’s rate of interest will always reduce its exchange rate in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr><tr><td></td><td></td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)				
Descriptor	Award mark														
Consistently meets the criteria for this level	At top of level														
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Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)														

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
			On the borderline of this level and the one below At bottom of level		
			Total	25	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
28	Evaluate whether joining the World Trade Organisation (WTO) would increase a country's economic development. Level 5 (21–25 marks) Good-Strong knowledge and understanding of what being a member of the WTO involves. Strong analysis of how membership of the WTO may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether membership of the WTO will increase a country's economic development, weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of what being a member of the WTO involves. Strong analysis of how membership of the WTO may affect economic development. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good evaluation of whether membership of the WTO will increase a country's economic development, weighing up both why it might and why it might not, weighing	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	Joining the World Trade Organisation (WTO) requires a country to agree to follow the rules of the WTO, to negotiate bilaterally with any current WTO member that wants a one to one agreement and to apply any tariff reductions to all other members (most favoured nation rule (MFN)) and to abide by the WTO's resolutions of trade disputes. Being approved to join the WTO can itself attract foreign direct investment (FDI). More multinational companies (MNCs) setting up in the country may increase employment and income and bring in new training methods and technology. The MNCs may contribute to the country's exports. The WTO's MFN rule will also mean that the country will have the same access to the markets of, for instance, the USA and Germany, as other member countries. The move towards free trade that the WTO encourages may enable the country's producers to take greater advantage of the country's comparative advantage. This again can increase output and income. It may also lower prices and so further increases people's purchasing power. The WTO discourages dumping. Such protection in the long run can stop domestic firms being driven out of business by unfair competition and workers losing their jobs. Increases in trade and economic growth can raise both income per head and tax revenue. These increases can, in turn, result in more spending and more resources being devoted to health care and education. Providing greater access to health care and education can raise people's life expectancy and increase choices. There is a risk, however, that having to cut tariffs may reduce a country's economic development. Although recently, under

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	up both sides but without reaching a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of what being a member of the WTO involves. Good analysis of how membership of the WTO may affect economic development. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether membership of the WTO will increase a country's economic development, considering both why it might and why it might not. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of what being a member of the WTO involves. Reasonable analysis of how membership of the WTO may affect economic development. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether membership of the WTO will increase a country's economic development, considering both why it might and why it		new guidelines, lesser developed countries are permitted to retain tariffs on a small percentage of industrial goods, their other industries have to face more competition from imports. This may make it more difficult for infant industries, which may have the potential to gain a comparative advantage, to develop. As the WTO has ruled that it is illegal to ban a product because of the way it is produced, there may be less pressure for the country's government to stop any child or slave labour. If any growth in exports and FDI results in a more rapid exploitation of non-renewable resources, future economic growth and development may be jeopardised. Freer trade may result in a reallocation of resources with some industries expanding and some contracting. Such changes may result in structural unemployment and greater income inequality. There is also the possibility that increased competitiveness may drive down wages as firms seek to cut their costs to remain internationally competitive. Such an approach could lower living standards. The constant queue to join the WTO suggests that many countries think that membership of the WTO does promote economic development. Whether it will do so will be influenced by how its firms respond to the opportunities and challenges presented by freer trade and how any benefits are used and distributed.

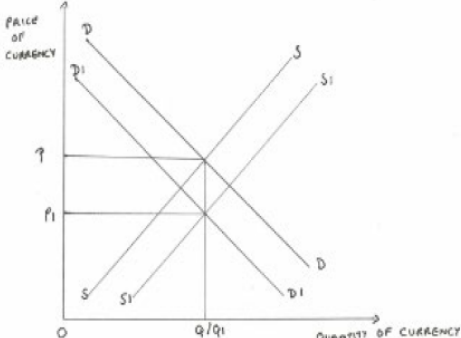
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance								
			might not. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of what being a member of the WTO involves. Limited or no analysis of how membership of the WTO may affect economic development. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether membership of the WTO will increase a country's economic development, in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough</td><td>Above bottom and</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough	Above bottom and		
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			achievement on balance for this level either below middle or at middle of level (depending on number of marks available)		
			On the borderline of this level and the one below At bottom of level		
			Total	25	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
29	Evaluate with the use of an appropriate diagram(s), whether a reduction in a country's rate of interest would reduce its exchange rate. Level 5 (21–25 marks) Good-Strong knowledge and understanding of how an exchange rate is determined. Strong analysis of how a reduction in the rate of interest may affect the exchange rate. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a reduction in a country's rate of interest will always reduce its exchange rate weighing up both why it might and why it might not and reaching a supported judgment. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of how an exchange rate is determined. Strong analysis of how a reduction in the rate of interest may affect the exchange rate. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.	25 (AO1 x 6) (AO2 x 6) (AO3 x 6) (AO4 x 7)	A fall in the rate of interest may reduce the inflow of hot money and encourage an outflow of hot money. Households and firms may move money from the country's banks to banks in other countries offering a higher rate of interest. If the country's households and firms are putting more money in foreign banks, the supply of the domestic currency used to purchase foreign currency will increase. If foreigners are buying less of the currency, demand for the currency will decrease. The diagram below shows how these changes in the foreign exchange market would cause a fall in the value of a floating exchange rate.  A central bank may lower its interest rate with the specific intention of lowering the exchange rate possibly with the intention of reducing a current account deficit. A reduction in the rate of interest may, however, not result in a fall in the value of a fixed exchange rate. It would be likely to put downward pressure on the value but a government may seek to maintain the value by instructing its central bank to purchase its currency, using reserves of foreign currency. There is the possibility that, whatever the type of exchange rate system being operated, the demand for the currency may not decrease and the supply of the currency may not increase.

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Mark Scheme

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			always reduce its exchange rate, considering both sides. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of how an exchange rate is determined. Limited or no analysis of how a reduction in the rate of interest may affect the exchange rate. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether a reduction in a country’s rate of interest will always reduce its exchange rate in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr><tr><td>Just enough achievement on balance for this level</td><td>Above bottom and either below middle or at middle of level (depending on number of marks available)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)	Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)		
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Question			Answer/Indicative content	Marks	Guidance
			On the borderline of this level and the one below At bottom of level		
			Total	25	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
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			<i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of what being a member of the WTO involves. Limited or no analysis of how membership of the WTO may affect economic development. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled. Limited evaluation of whether membership of the WTO will increase a country's economic development, in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks no response or no response worthy of credit. Note: although a diagram is not required, it may enhance the quality of the answer and should be rewarded at the appropriate level. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks available)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)		
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			Just enough achievement on balance for this level Above bottom and either below middle or at middle of level (depending on number of marks available)		
			On the borderline of this level and the one below At bottom of level		
			Total	25	
31			A	1 (AO1)	Rationale A Correct: This would increase demand for imports, increasing the supply of the currency and causing an exchange rate depreciation. B This would increase demand for exports, increasing demand for the currency and causing an exchange rate appreciation. C This would increase demand for exports, increasing demand for the currency and causing an exchange rate appreciation. D This would increase demand for exports, increasing demand for the currency and causing an exchange rate appreciation.
			Total	1	

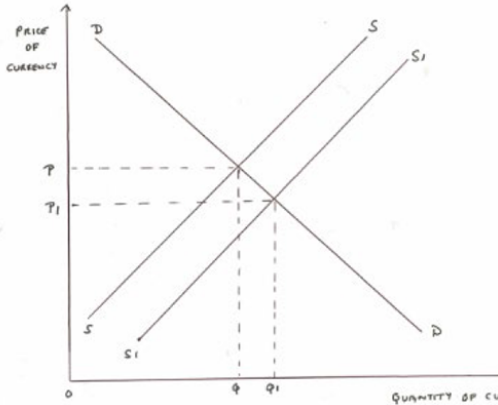
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
32			B	1 (AO3)	Rationale A The price will increase as a result of the quota being imposed as US consumers no longer have access to plentiful supply of cheap imports. B Correct: The new supply curve is S_{Total} , giving a market equilibrium price of P_2 . Consumption will therefore be at Q_5 , with Q_2 being domestic production as this is the amount domestic producers are willing to supply at a price of P_2 . C This incorrectly assumes that there will be no imports – a quota still allows for some imports. D This would be the market price if there was an embargo on imports.
			Total	1	
33			D	1 (AO1)	Rationale A If the Marshall-Lerner condition holds an exchange rate appreciation would increase a current account deficit. B If the Marshall-Lerner condition holds an exchange rate appreciation would increase a current account deficit. C This is confusing the J-curve with the Marshall-Lerner condition. J-curve theory suggests the Marshall-Lerner condition will only hold in the long run, which explains the statement, but the question only states that the Marshall-Lerner condition holds without reference to a time period – this means the current account deficit will reduce as a result of an exchange rate depreciation. D Correct: An exchange rate depreciation will reduce the price of exports, increasing export demand, and increase the price of imports, reducing import demand. When the sum of the price elasticities of demand for imports and exports exceeds 1, this will result in a reduction in the current account deficit.
			Total	1	

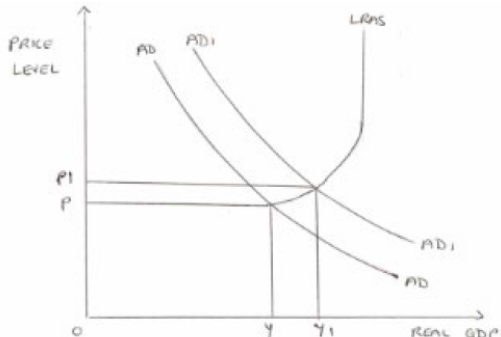
Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
34			B	1 (AO1)	Rationale A Whilst being a member of a free trade area might give Germany preferential access to UK markets, this is an alternative explanation of global trading patterns. B Correct: Because Germany can produce cars at a lower opportunity cost than the UK, it is more efficient for the UK to specialise in the production of goods it has a comparative advantage in and import cars from Germany – this enables consumption to be enjoyed beyond an economy's production possibilities. C This is an explanation of absolute rather than comparative advantage. D Whilst being located closer to a trading partner can reduce costs of transportation and increase trade, this is an alternative explanation of global trading patterns.
			Total	1	
35			Using information from the stimulus material, identify two causes of globalisation. Lower costs of transport (1). Advances in communications/technology (1).	2 (AO1 x 2)	Annotate with  Up to 2 marks for causes from the stimulus Examiner's Comments The causes of globalisation were mainly identified from the stimulus material, but several candidates gave other responses (mainly consequences of globalisation).
			Total	2	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
36	In 2018, the US President accused China and Russia of lowering the value of their currencies to artificially low levels. Evaluate, with the use of an appropriate diagram(s), whether a central bank's decision to reduce the exchange rate to an artificially low level will benefit its economy. Level 5 (21–25 marks) Good -Strong knowledge and understanding of what is meant by a fall in the exchange rate. Strong analysis of how a fall in the exchange rate to an artificially low level will affect an economy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Strong evaluation of whether a fall in the exchange rate to an artificially low level will benefit an economy, weighing up both why it might and why it might not and reaching a supported judgement. <i>There is a well-developed and sustained line of reasoning which is coherent and logically structured. The information presented is entirely relevant and substantiated.</i> Level 4 (16–20 marks) Good knowledge and understanding of what is meant by a fall in the exchange rate. Strong analysis of how a fall in the exchange rate to an artificially low level will affect an economy. It will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the	25 (AO1 x 6 AO2 x 6 AO3 x 6 AO4 x 7)	Indicative content An artificially low exchange rate is one below the free market equilibrium price. A central bank could achieve this by either selling the country's currency and/or reducing the rate of interest to discourage financial investors from purchasing the currency. The diagram shows the free market equilibrium price being P. An increase in the supply of the currency reduces the price to P_x.  A fall in the exchange rate can give a country a price competitive advantage abroad and at home. It will lower the price of exports, in terms of foreign currencies, and raise the price of imports, in the domestic currency. If demand for exports and imports is elastic, with the Marshall-Lerner condition being met, the current account position will be improved. A rise in net exports may lead to higher output and employment. As a result, economic growth may occur and cyclical unemployment may fall. An artificially low exchange rate, however, may create inflationary pressure in a number of ways. One is that to achieve and maintain it, the higher supply of the currency may result in a rise in the money supply in the country. This may increase aggregate demand. There may be higher aggregate demand if the central bank reduces the rate of interest, to lower the price of the currency. Any resulting increase in net exports will also raise

Mark Scheme

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	analysis. Any diagrams must be integral to the analysis. Good evaluation of whether a fall in the exchange rate to an artificially low level will benefit an economy, weighing up both why it might and why it might not without reaching a supported judgement. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</i> Level 3 (11–15 marks) Good knowledge and understanding of what is meant by a fall in the exchange rate. Good analysis of how a fall in the exchange rate to an artificially low level will affect an economy. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Reasonable evaluation of whether a fall in the exchange rate to an artificially low level will benefit an economy, considering both sides. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 2 (6–10 marks) Good knowledge and understanding of what is meant by a fall in the exchange rate. Reasonable analysis of how a fall in the exchange rate to an artificially low level will affect an economy. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning.		aggregate demand as net exports are a component of aggregate demand. Higher aggregate demand may result in demand-pull inflation if the economy is operating at or close to full capacity.  Cost-push inflation may occur as a result of higher import prices. A rise in the price of imported raw materials and capital goods, which cannot be replaced by domestic raw materials and capital goods. Will directly increase the costs of production. Higher import prices may also reduce the pressure on domestic firms and the government to keep inflation low. The country's trading partners may regard lowering the exchange rate to gain a competitive advantage to be unfair competition. As a result, they may impose trade restrictions on the country, exports. While reducing the exchange rate may bring advantages in the short run, it may be difficult to keep the exchange rate artificially low for long and may result in inflationary pressure. The effects of the reduction in the exchange rate will be influenced by the price elasticity of demand for exports and imports, the level of capacity in the economy and how other countries react. Examiner's Comments Question 3 was not as popular as question 2, but there were also many good responses to this. Stronger responses analysed how an artificially low exchange rate would encourage exports and reduce imports, hence increasing AD, with an appropriate well integrated diagram and how that would also potentially increase

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			Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of whether a fall in the exchange rate will benefit an economy, considering both sides. <i>The information has some relevance, but is communicated in an unstructured way. The information is supported by limited evidence, the relationship to the evidence may not be clear.</i> Level 1 (1–5 marks) Reasonable knowledge and understanding of what is meant by a fall in the exchange rate. Limited or no analysis of how a fall in the exchange rate to an artificially low level will affect an economy. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagrams(s) may not be present or are incorrectly labelled. Limited evaluation of whether a fall in the exchange rate will benefit an economy in the form of an unsupported statement or no evaluation. <i>Information presented is basic and may be ambiguous or unstructured. The information is supported by limited evidence.</i> 0 marks No response worthy of credit. <table><tr><th>Descriptor</th><th>Award mark</th></tr><tr><td>Consistently meets the criteria for this level</td><td>At top of level</td></tr><tr><td>Meets the criteria but with some slight inconsistency</td><td>Above middle and either below top of level or at middle of level (depending on number of marks)</td></tr></table>	Descriptor	Award mark	Consistently meets the criteria for this level	At top of level	Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks)		employment. Evaluation was often along the lines of demand-pull and cost-push inflation, and the impact of potential retaliation. Weaker responses did not fully understand the question and talked of fixed exchange rates and therefore, even though they had some valid points which were given their response lost direction. The weaker responses also did not use the economics toolkit or give correct integrated diagrams.
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Consistently meets the criteria for this level	At top of level										
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Question			Answer/Indicative content	Marks	Guidance
			available)		
			Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)	
			On the borderline of this level and the one below	At bottom of level	
			Total	25	

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
37	Evaluate, using the information in Extract 3, the extent to which emerging economies gain more from international trade than developed economies. Level 3 (11–15 marks) Good knowledge and understanding of international trade. Good – strong analysis of how emerging economies might gain more from international trade than developed economies. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. Strong analysis will have consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis. Good - strong evaluation of the extent to which emerging economies gain more from international trade than developed economies, weighing up both sides/comparing alternatives. Strong evaluation should include a supported judgment. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i> Level 2 (6–10 marks) Good knowledge and understanding of international trade. Reasonable analysis of how emerging economies might gain more from	15 AO1 × 2 AO2 × 3 AO3 × 4 AO4 × 6	guidance: • A number of limited analytical/evaluative points can be awarded up to Reasonable, but to be awarded Good or Strong there needs to be greater depth of explanation. • An answer which talks generally about the benefits and costs of international trade without applying it to the question cannot be awarded beyond Limited analysis or evaluation. • An answer which talks about the benefits and costs of international trade to emerging economies without comparing to the impacts on developed economies cannot be awarded beyond Reasonable analysis or evaluation. • Strong evaluation requires an explained judgement. An explained judgement without Good evaluation can be credited as evaluation. • The side of the argument presented first should be credited as Analysis, with the other side credited as Evaluation. Knowledge & Understanding: Knowledge & Understanding marks should be awarded for material that is given in the case study: • High rates of economic growth are essential to emerging economies to overcome poverty. • Brazil's growth occurred because of trade liberalisation. • Brazil is one of the world's largest producers of soybeans. • The expansion in exports in Brazil has resulted in higher levels of income and a reduction in poverty. • Emerging economies such as Brazil with plentiful natural resources and China with an abundant labour supply have benefited most from international trade. • A number of developed nations such

Mark Scheme

Question	Answer/Indicative content	Marks	Guidance
	international trade than developed economies. There is correct analysis largely in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis. Reasonable evaluation of the extent to which emerging economies gain more from international trade than developed economies. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i> Level 1 (1–5 marks) Limited – reasonable knowledge and understanding of international trade. Limited analysis of how emerging economies might gain more from international trade than developed economies. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Limited evaluation of the extent to which emerging economies gain more from international trade than developed economies or no evaluation. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i> 0 marks No response worthy of credit.		as the UK have suffered from persistent current account deficits. • Price volatility of commodities damages the Brazilian economy. • Emerging economies suffer from the intensive use of their natural resources. Analysis and Evaluation requires candidates to go beyond what is given in the case study. Analysis may include: • Emerging economies have weak domestic demand and so rely on international trade to generate enough demand for firms to keep employment high. This is less important to developed economies who have stronger consumer markets. • Emerging economies rely on the import of sophisticated capital as an input in the production process as they cannot produce it domestically in the way developed countries can do. • Many emerging economies have been able to build up big current account surpluses because of their comparative advantage arising from cheap labour or plentiful land etc. Developed economies have seen their comparative advantage eroded, often coinciding with structural unemployment. • MNCs play a crucial role in emerging economies in training workers and building infrastructure. This is more relevant in emerging economies because of weak education systems and insufficient government funds to invest in infrastructure. Evaluation may include: • Terms of trade are often weighted in favour of the more powerful developed nations, meaning they stand to gain more from the trade than emerging economies. • The Prebisch-Singer hypothesis shows

Mark Scheme

Question			Answer/Indicative content	Marks	Guidance
					the terms of trade for some emerging economies is declining over time as the relative price of primary sector products is falling in comparison to the price of more sophisticated capital goods. • Export led growth is not sustainable for emerging economies – once their finite resources are depleted developed countries will move on to trade with a different country, whilst the emerging economy could be left with nothing. • Trade liberalisation has led to financial outflows from emerging economies towards 'safe haven' developed economies. These leakages have made it harder to carry out domestic investment.
			Total	15	