



General Certificate of Education (A-level)
June 2013

Economics

ECON4

(Specification 2140)

Unit 4: The National and International Economy

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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June 2013

ECON4

Advanced Level Economics Unit 4**General Instructions**

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

- (i) **An issue-based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.
- (ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

AQA ADVANCED LEVEL (A2) ECONOMICS
**LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) Good analysis and good evaluation	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) Good analysis but limited evaluation OR Reasonable analysis and reasonable evaluation	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) Reasonable, including some correct analysis but very limited evaluation	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) Weak with some understanding	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) Very weak	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- An** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

1 THE GLOBAL CONTEXT

Total for this Context: 40 marks

- 01** Using the data on unemployment in **Extract A**, calculate the number of people unemployed in Egypt in 2010, given a labour force of 27million, **and** identify **one** other significant feature of the data for 2010. (5 marks)

The calculation:

Value: Given the labour force in Egypt of 27m and the data indicating that 9% of the labour force is unemployed, the number of people unemployed is 2.43m (accept 2.4m)

For the correct answer of 2.43m (working need not be shown). 2.4m is acceptable. The unit (millions) must be shown.	3 marks
For an answer without the unit shown	2 marks
For showing the correct method but arriving at the wrong answer.	1 mark

Identifying one significant feature:

For identifying a significant feature and providing supporting data with the unit shown.	3 marks (1 + 2)
For identifying a significant feature but using data without the unit shown.	2 mark
For identifying a main feature without supporting data.	1 mark
For simply providing one item of data with or without the unit shown or providing a 'trawl' and including a number of statistics, none of which can be regarded as particularly significant.	0 marks

Significant features include:

- of the countries shown, only Qatar has double-digit real GDP growth (16.6%)
- the range of real GDP growth rates is quite wide within the 6 countries shown (16.6% - 0.8% = 15.8% points)
- all countries shown have positive growth, eg Egypt 5.1%, Jordan 2.3%
- unemployment levels are high with the exception of Qatar (Qatar: 0.5%, Saudi Arabia: 10.8%)
- there is a wide range of values for annual inflation of 14.8% (Iran's 12.4%, Qatar's -2.4%)
- Qatar is the only economy shown to experience deflation in 2010 (– 2.4% change in inflation rate)
- average real GDP growth is 5.35% (5.4% to one decimal place)
- average change in inflation prices is 5.53% (5.5% to one decimal place)
- highest and lowest values per indicator (reference to one of the indicators is sufficient): real GDP growth 16.6% to 0.8%; unemployment 15.3% to 0.5%; inflation 12.4% to -2.4%.

MAXIMUM FOR PART 01: 5 MARKS

- 02 Extract B** (line 27) states: 'One of the benefits of economic success can be a higher standard of living.'
- Explain the term 'a higher standard of living' **and** analyse **two** factors which can be considered in any assessment of a country's standard of living. (10 marks)

Explanation:	
For a definition of the term 'higher standard of living', eg the increased well-being of the population, the increased economic welfare of the population. A candidate may define in narrow terms, eg an increase in the per capita rate of consumption of goods and services.	Up to 2 marks for a definition (ensuring that the definition is not also credited as part of the analysis)
For further explanation of the term, eg references to material well-being, to the quality of life, to the HDI, ISEW, Misery Index.	Up to 2 marks per explanation (do not also credit in the analysis but ensure additional marks are awarded for deeper analysis in that section)

Maximum 4 marks for the explanation

Analysis of two factors. Award one mark for each step in a logical chain of reasoning. For example:

Higher income per head (1 mark) because growth of GDP has outstripped population growth (1 mark) allowing more spending on goods and services (1 mark) , hence greater material well-being (1 mark) and perhaps higher saving for higher future consumption (1 mark) .	Up to 5 marks
Life expectancy	Up to 5 marks
Infant mortality rates/mortality rates	Up to 5 marks
Access to health care/quality and quantity of health care.	Up to 5 marks
Access to education and the quality and duration of education provision.	Up to 5 marks
Environmental factors affecting the quality of life	Up to 5 marks
Quantity and quality of public goods	Up to 5 marks
Quality of goods and services consumed	Up to 5 marks
Distribution of income	Up to 5 marks
Any other valid factor	Up to 5 marks per factor
References to the UK and/or other economies	1 mark per reference up to a maximum of 2 marks

Use of appropriate diagrams, eg AD/AS, MPC/MS.	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks
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A candidate can be awarded a **maximum of 6 marks** for the analysis if the explanation has not been attempted.

Award a maximum of **8 marks** if candidate analyses only one factor.

Where a candidate analyses more than two factors, award marks to the best two factors.

MAXIMUM FOR PART 02: 10 MARKS

- 03** **Extract B** (lines 36 – 37) states that, if other MENA economies were to follow Jordan's lead, there would be a 'significant strengthening of MENA's economic importance in the global economy'.
- To what extent, if at all, should developed countries such as the UK be concerned about a significant strengthening of the economic importance of MENA countries in the global economy? Justify your answer, using the data and your economic knowledge
(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded more than **15 marks**.

Where there is no explicit reference to the data, award a maximum of **21 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24 marks</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> evaluation	17 to 21 marks <i>Mid-point 19 marks</i>
Level 3	A reasonable answer including some correct analysis but very limited evaluation	10 to 16 marks <i>Mid-point 13 marks</i>
Level 2	Weak with some understanding	4 to 9 marks <i>Mid-point 7 marks</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2 marks</i>

Introduction	<ul style="list-style-type: none"> • criteria for assessing 'significant strengthening of the economic importance' • identification of one or more MENA economies • the range of economic experience in the MENA economies.
Developing the response to the question (Application)	<ul style="list-style-type: none"> • comparative advantage • labour productivity • production possibilities • supply of resources from the resource-rich MENA economies (line 6) • opportunities for UK financial services (lines 12 – 13) • the threat from MENA manufacturing (lines 13 – 14) • further investment opportunities for UK in the MENA economies (lines 18-20) • the potential significance of free trade agreements between MENA and other economies (lines 24 – 26) • potential benefits to the UK of higher living standards in MENA countries (lines 27 – 30).
Analysis	<ul style="list-style-type: none"> • economic growth • employment and unemployment • balance of payments on current account • supply-side reforms • AD/AS analysis • comparative advantage • further structural change in the UK economy • living standards • direction of investment • use of diagrams • references to the UK and/or other economies.

<p>Evaluation</p>	<ul style="list-style-type: none"> • 'concern' needs to be measured against opportunities in the MENA economies • continuing political instability in the MENA region may dilute any threats to the UK and any opportunities for the UK in the MENA economies • the inflexibility of the UK economy may mean lost opportunities • if and when importance strengthens, the MENA economies' more powerful negotiating position regarding prices of resources needed by developed countries • MENA economies in relation to other opportunities elsewhere in the global economy • opportunities/threats in the UK domestic economy compared to those presented by the MENA economies • how the UK might compare to other economies with similar aims of gaining a foothold in the MENA economies, eg, the emerging markets • the significance of relative inflation rates between MENA economies and the UK, and between the UK compared to other economies showing interest in the MENA economies • the possible greater impact on the UK and a cause for concern if the UK's major markets, the EU and US, continue to have problems • the threat the MENA economies pose to the UK in established UK markets especially in the long term • a final judgement on the economic consequences. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 03: 25 MARKS

2 THE EUROPEAN UNION CONTEXT**Total for this Context: 40 marks**

- 04** Using the data in **Extract C**, calculate for Germany in 2011 the change in real GDP in €bn, given real GDP in 2010 of €2500bn **and** identify **one** other significant feature of the data for the period 2010 to 2013. (5 marks)

The calculation:

Value: With real GDP being €2500bn in 2010, the real GDP growth rate of 3% shown for Germany in 2011 would indicate an additional €75bn of output in real terms in that year. It is acceptable for candidates to give this figure or (€2500bn + €75bn) €2575bn.

For the correct answer of €75bn or €2575bn (the 2010 real GDP figure added to the €75bn which represents the 3% growth in the data). Working need not be shown but the unit must (€bn).	3 marks
For an answer without the unit shown	2 marks
For showing the correct method but arriving at the wrong answer.	1 mark

Identifying one significant feature:

For identifying a significant feature and providing supporting data with the unit shown (%).	3 marks (1 + 2)
For identifying a significant feature but using data without the unit shown.	2 mark
For identifying a main feature without supporting data.	1 mark
For simply providing one item of data with or without the unit shown or providing a 'trawl' and including a number of statistics, none of which can be regarded as particularly significant.	0 marks

Significant features include:

- only one of the economies shown has negative real GDP growth in 2010-2011 (Spain: -0.1%)
- in 2011, all economies experience positive real GDP growth, eg the euro area: 1.6%
- the range of real GDP % values 2010-13 is 5.8% points. Italy has the greatest negative value, forecast to be – 2.2% in 2012 with Germany having the highest positive figure of the period at 3.6% in 2010. (It is acceptable just to give the range)
- the UK is forecast to have the highest growth of real GDP in 2012 and 2013, at 0.6% and 2.0% respectively, compared to a weaker position in 2010 – 2011
- Germany has the best actual real GDP growth figures in 2010 and 2011 at 3.6% and 3.0% respectively but does not maintain this position in the forecast figures
- in none of the years does the EU as a whole show the best values when compared to the individual economies shown, eg in 2010 and 2011, EU real GDP growth is 2.0% and 1.6% respectively
- the highest real GDP growth figure for the period is in 2010 (Germany: 3.6%) and the lowest in 2012 (Italy: -2.2%). (This point may be made without reference to the range as above).

MAXIMUM FOR PART 04: 5 MARKS

05 **Extract D** (line 18) states: 'Overall, the fears of a double-dip recession still loom large'.

Explain the phrase 'double-dip recession' **and** analyse **two** possible reasons for unemployment rising in a recession. *(10 marks)*

Explanation	
For a definition of the phrase 'double-dip recession', eg an economy which has been in recession, experiences a tentative recovery, but then slips back into recession; a definition of recession, eg in terms of 2 consecutive quarters of negative GDP growth.	Up to 2 marks per definition (ensuring that the definition is not also credited as part of the analysis). A good candidate is likely to begin by defining recession (2 marks) and then define the actual phrase used in the question (2 marks)
For further explanation of the term with particular reference to the term recession and its characteristic, perhaps putting it into the context of the trade cycle, or the output gap.	Up to 2 marks per explanation (do not also credit in the analysis but ensure additional marks are awarded for deeper analysis in that section)

Maximum 4 marks for the explanation

Analysis of why unemployment rises. Award one mark for each step in a logical chain of reasoning. For example:	
As the economy slips into recession, unemployment will begin to rise (1 mark) as consumers begin to spend less (1 mark) and businesses dismiss workers in order to cut costs (1 mark) and ensure their survival until the upturn (1 mark) . This unemployment will be the cyclical portion of total unemployment (1 mark) .	Up to 5 marks
UK recession as part of a global recession or a recession amongst our major trading partners.	Up to 5 marks
Less investment and so potentially less job creation.	Up to 5 marks
Higher savings amongst consumers as confidence wanes, and therefore less spending.	Up to 5 marks
Industries or regions already weak now facing further, perhaps more severe, decline.	Up to 5 marks
Housing as a major, labour-intensive sector, comes under pressure and initiates a negative multiplier process.	Up to 5 marks
Deflation and the potential for deferred spending	Up to 5 marks

Governments refuse to take adequate counter-cyclical (Keynesian) measures perhaps already constrained by fiscal problems.	Up to 5 marks
Wage inflexibility	Up to 5 marks
Any other valid point analysed	Up to 5 marks per point analysed
References to the UK and/or other economies.	1 mark per reference up to a maximum of 2 marks
Use of appropriate diagrams, eg AD/AS, PPF, output gaps.	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks

A candidate can be awarded a maximum of **6 marks** for the analysis if the explanation has not been attempted.

Award a maximum of **8 marks** if a candidate analyses only one reason.

Where a candidate analyses more than two features, award marks to the best two features.

MAXIMUM FOR PART 05: 10 MARKS

- 06** **Extract D** (lines 39 – 41) argues that the ‘best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU’.
- To what extent would you agree that the EU is likely to offer ‘the best hope for stronger UK economic growth’ over the next few years? Justify your answer, using the data and your economic knowledge. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24 marks</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> evaluation	17 to 21 marks <i>Mid-point 19 marks</i>
Level 3	A reasonable answer including some correct analysis <u>but</u> very limited evaluation	10 to 16 marks <i>Mid-point 13 marks</i>
Level 2	Weak with some understanding	4 to 9 marks <i>Mid-point 7 marks</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2 marks</i>

Introduction	<ul style="list-style-type: none"> • economic growth • general causes of economic growth • the EU • ‘the best hope’ in relation to what?
Developing the response to the question (Application)	<ul style="list-style-type: none"> • economic growth theory • trade cycle and recession • fiscal policy and deficit-reduction policy • application to recent/current events so heavily represented in the media • the EU tumbling back into recession (lines 4 – 6) • variation in prospects between EU member countries (lines 7 – 8) • strict fiscal policies in UK and in much of the rest of the EU (lines 20 – 22) • recovery in the global economy (lines 35 – 36) • hopes for stabilisation in the eurozone (lines 40 – 41).
Analysis	<ul style="list-style-type: none"> • how the EU can help UK GDP growth, eg demand for exports, euro and other currencies strengthening against the pound • stimulus from those EU economies recovering more quickly than others • the EU and the single market • stimulus from other parts of the world, eg the emerging markets • UK supply-side reforms giving a competitive edge in albeit depressed markets • the contribution of domestic demand within the UK, eg if fiscal constraints are relaxed on spending, tax cuts are introduced, consumers begin to show a stronger response to low interest rates

	<ul style="list-style-type: none"> the impact of any increase in domestic wage increases should they occur after a period of restraint UK private sector beginning to more than compensate for the contraction of the public sector investment trends in the UK trends in the exchange rate of the £ against other currencies impacting on UK global exports use of diagrams references to the UK and/or other economies.
Evaluation	<ul style="list-style-type: none"> whatever growth is seen within the EU, other parts of the world may grow more strongly and offer more opportunities to the UK the speed of recovery particularly in the eurozone the persistence/exacerbation of economic problems for the UK should the eurozone begin to break up whether or not the UK is competitive enough against the emerging markets greater reliance for growth from within the UK if recovery becomes more rapid, perhaps on the back of a looser fiscal policy, increased consumer and business confidence, a stronger government growth strategy the dangers of discussing just in terms of eurozone/non-eurozone countries; analysis must be of individual EU economies to assess their potential contribution to UK growth in the future and their past importance to the UK economy in more stable times, the size of population in the EU, total spending power, and the benefits to the UK of the single market whatever the UK prospects for growth emanating from the EU, the long term sense of limiting UK reliance on one area of the world and developing stronger links elsewhere a final judgement on the prospects for the UK <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 06: 25 MARKS

SECTION B

Essay 1

Total for this Essay: 40 marks

In November 2011, the UK inflation rate was 4.8%, the rate of unemployment was 8.3%, while Bank Rate remained at 0.5%.

- 07** Explain **two** economic consequences for an individual **and two** economic consequences for an economy of an increase in its price level. *(15 marks)*

For defining the price level and/or inflation with reference to cost-push and demand-pull or the phrase 'increase in the price level' and/or 'economic consequences'.

Up to 2 marks per definition to a maximum of 4 marks

For explaining two economic consequences for an individual; award one mark for each step in a logical chain of reasoning. For example:

- a rise in the price level will erode real personal disposable income **(1 mark)** when there has been no increase in money wages to compensate **(1 mark)**. This means that consumption may have to be curtailed **(1 mark)** and/or the proportion of income saved reduced **(1 mark)**. The material well-being of the individual is therefore affected **(1 mark)** as might the quality of life **(1 mark)** if the individual feels the necessity of working longer hours to compensate **(1 mark)**.
- greater danger of unemployment if competitiveness suffers or anti-inflation measures take effect
- 'shoe-leather' costs
- 'menu' costs
- the real value of debts
- the dangers of being a creditor
- uncertainty affecting decisions, notably consumption decisions
- the impact on those on fixed incomes
- the impact on behaviour of rising expectations about inflation
- reduced real value of savings
- any other valid point.

Up to 6 marks per explanation

For explaining two consequences for an economy; award one mark for each step in a logical chain of reasoning.	
<ul style="list-style-type: none"> the impact on competitiveness (1 mark) if the economy's prices rise faster than those in its trading partners (1 mark). It therefore becomes more difficult to sell goods and services overseas (1 mark) unless exporters' prices are limited by accepting narrower profit margins (1 mark). It also means that imports can become more price attractive (1 mark) and so imported goods begin to displace those produced domestically (1 mark). The current account can therefore be adversely affected (1 mark). the impact of policies introduced to combat inflation 'menu costs' distributional effects the impact on business confidence and hence investment a cause of unemployment inflation can make supply-side reforms more imperative, eg leading to higher productivity, lower unit costs and thus a compensatory factor when considering the impact of price increases rising inflation expectations across the economy as a cause of further inflation impact on the exchange rate short run, long run considerations. 	<p style="text-align: center;">Up to 6 marks per explanation</p>
Use of diagrams to help support explanations, eg Phillips curve, AD/AS, MEC (examiner note: MEC is not in spec).	<p style="text-align: center;">Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation</p>
References to the UK and/or other economies.	<p style="text-align: center;">1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above.</p>

Examiner note: there may be need for flexibility where a candidate argues a case for a factor that we would normally associate with, say, the individual, being relevant to the economy, eg shoe-leather costs and inefficiency in the economy.

Award a maximum of **10 marks** if both parts of the question are not addressed, i.e. the individual and the economy.

MAXIMUM FOR PART 07: 15 MARKS

08 To what extent are low interest rates appropriate in the UK at a time of high inflation?
(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24 marks</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>Mid-point 19 marks</i>
Level 3	A reasonable answer including some correct analysis but very limited evaluation	10 to 16 marks <i>Mid-point 13 marks</i>
Level 2	Weak with some understanding is shown	4 to 9 marks <i>Mid-point 7 marks</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2 marks</i>

Introduction	<ul style="list-style-type: none"> • interest rates • role of MPC • inflation and government target • understanding of 'high inflation' • cost-push/demand-pull inflation.
Developing the response to the question (analysis and application)	<ul style="list-style-type: none"> • aggregate demand • aggregate supply • cost-push inflation • Phillips Curve theory • macroeconomic indicators • liquidity trap (examiners note: this is not in the specification) • interest rates and the transmission mechanism • the impact of low interest rates, eg on consumer credit, investment • interest rates as a cost of production • the importance of identifying the prime cause of inflation • other macroeconomic problems at the time of high inflation • the function of interest rates in controlling inflation • analysis of the possible irrelevance of interest rates to inflation given the known cause of inflation • the impact of high interest rates on other aspects of the macroeconomy if they were to be used to control inflation, e.g. unemployment • other anti-inflation policies when interest rates are being kept low • use of diagrams • references to the real world perhaps including the stats included in the preamble to the question, as well as others known by the candidate.

<p>Evaluation</p>	<ul style="list-style-type: none"> • the importance of having low interest rates because of the condition of the macroeconomy, eg the perceived need to prevent recession and future deflation • interest rate policy as a possible irrelevance given the type of inflation which is prevalent • high inflation seen as a manageable problem irrespective of what happens to interest rates • how permanent/temporary the high inflation is seen to be • the duration of the era of low interest rates • the possible importance of having a favourable exchange rate in world markets which can be achieved through low interest rates • an assessment of the potential contribution of other policies to the battle against inflation, eg supply side, fiscal, so that high interest rates are not so vital even if the inflation arises from high demand • the extent of inflation in an international context: 'high' may be in an historical context domestically, possibly in relation to a government inflation target, rather than in the current international context • a final judgement perhaps in the context of recent UK experience. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 08: 25 MARKS

Essay 2
Total for this Essay: 40 marks

Weaknesses in the UK balance of trade in goods persist, with a deficit of £27.6bn in the third quarter of 2011, compared, for example, to £23.3bn in the same quarter in 2010.

09 Explain **three** reasons for a country such as the UK experiencing persistent deficits in the balance of trade in goods. (15 marks)

For defining/explaining the balance of trade, visibles/invisibles, the balance of payments on current account, (persistent) deficit/surplus.	Up to 2 marks per definition/explanation to a maximum of 4 marks
For explaining three reasons for deficits; award one mark for each step in a logical chain of reasoning. For example:	
<ul style="list-style-type: none"> high exchange rate (1 mark) which has perhaps appreciated steadily over time (1 mark). It has made the price of exported goods more expensive (1 mark) and the price of imported goods cheaper (1 mark). If the price elasticity of demand for exports and imports is elastic (1 mark) less export revenue can be expected (1 mark). Expenditure on imports will show an increase (1 mark) and hence a balance of trade deficit emerges, all other things being equal (1 mark). persistent inflation which compares unfavourably to that of trading partners high income elasticity of demand for imports supply-side weaknesses such as low productivity limited structural changes in the economy so that it no longer produces what world markets want deindustrialisation making increased imports of imported goods inevitable quality of goods compared to other countries economic downturns amongst our trading partners not experienced within the UK so that export sales become more difficult while imports of goods stay buoyant or even increase especially if overseas suppliers are desperate to sell and reduce their overseas prices comparative advantage protectionism in trading partners not replicated in the UK any other valid point. 	Up to 7 marks per explanation
Use of diagrams to help support explanations, eg AD/AS, comparative advantage, tariffs/quotas.	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation
References to the UK and/or other economies	1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above.

Award a **maximum of 10 marks** if three reasons are not considered, or the three reasons are not explicit.

If more than three reasons are explained, reward the best three.

MAXIMUM FOR PART 09: 15 MARKS

- 10** Discuss the possible contribution of supply-side reforms to achieving an improvement in the UK balance of trade in goods. **(25 marks)**

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24 marks</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>Mid-point 19 marks</i>
Level 3	A reasonable answer including some correct analysis but very limited evaluation	10 to 16 marks <i>Mid-point 13 marks</i>
Level 2	Weak with some understanding is shown	4 to 9 marks <i>Mid-point 7 marks</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2 marks</i>

Introduction	<ul style="list-style-type: none"> definition of supply-side reforms the balance of trade in goods improvement: reduced deficits or from deficit to surplus.
Developing the response to the question (analysis and application)	<ul style="list-style-type: none"> aggregate supply aggregate demand productive capacity cost-push/demand-pull inflation productivity the concept of competitiveness supply-side reforms in outline objectives of reforms, e.g. flexibility, mobility, quality, lower unit costs, choice, structural change individual reforms relevant to the trade in goods the significance of overseas demand for UK exports and UK demand for imported goods other policies not linked to the supply side use of diagrams references to the real world.
Evaluation	<ul style="list-style-type: none"> the nature, extent and effectiveness of UK reforms in relation to those of other countries whether or not supply-side reforms can in any way compensate for decades of deindustrialisation so that imported goods are an inevitability the long-term nature of reforms so that deficits may persist in the short and medium terms the significance of changing tastes in world markets supply-side reforms at a time of a sustained global downturn supply-side reforms concentrating on lowering unit costs rather than quality and choice, so imports remain attractive, exports no more attractive

	<ul style="list-style-type: none">• whether supply-side reforms will always be a story of 'too little, too late'• relative merits of supply-side policies to other policies that can be used to reduce deficits eg significance of exchange rates• a final judgement, perhaps in the context of recent UK experience. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>
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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

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MAXIMUM FOR PART 10: 25 MARKS

Essay 3

Total for this Essay: 40 marks

The formation of single markets by countries in various parts of the world, including within Europe, has shown that much is to be gained from increased economic cooperation.

- 11** Explain the main features of a single market, such as that which exists within the European Union (EU). (15 marks)

For defining a single market (eg a type of trade bloc which is initially a free trade area for goods for the benefit of member countries).

Giving examples of single markets other than the EU, eg. Agreement on Internal Trade (AIT) in Canada; European Free Trade Association (EFTA).

Identifying an important distinction between a single market and a customs union: in the latter a common trade policy such as the EU common external tariff.

Up to 2 marks per definition/explanation to a maximum of 4 marks

For explaining the main features of single markets; award one mark for each step in a logical chain of reasoning. For example:

- a type of trade bloc initially concerned with free trade in goods (examiners take care not to duplicate marks if this was given as a definition above)
- free trade in services
- working to remove barriers to further economic integration, eg any remaining physical barriers (borders), fiscal (taxes), with the long-term aim of strengthening general economic relations between members
- liberalisation of financial markets to encourage better flow of investment funds
- common policy on government procurement (any member government obliged to consider submission of bids for government contracts from any member country)
- common technical, safety and health standards for goods which may arise from cooperation on R&D
- links may be established with neighbouring countries, eg EFTA + EU = EEA
- often having a strong commitment to supporting the international (multilateral) trading system as spearheaded by the WTO.

Award one mark for each step in a logical chain of reasoning on any feature identified by the candidate up to a maximum of 15 marks for this part of the essay.

Use of diagrams to help support explanations, eg comparative advantage, but diagrams are unlikely in this part of the answer.	Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation
References to the UK or other economies in a relevant way but being sure not to duplicate marks for examples of single markets given in the introduction.	1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above for the explanation.

MAXIMUM FOR PART 11: 15 MARKS

- 12** Evaluate the possible economic costs and benefits to an EU member state, such as the UK, of being part of the EU single market. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>Mid-point 24 marks</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>Mid-point 19 marks</i>
Level 3	A reasonable answer including some correct analysis but very limited evaluation	10 to 16 marks <i>Mid-point 13 marks</i>
Level 2	Weak with some understanding is shown	4 to 9 marks <i>Mid-point 7 marks</i>
Level 1	Very weak	0 to 3 marks <i>Mid-point 2 marks</i>

Introduction	<ul style="list-style-type: none"> the concept of a single market other examples of single markets the development of the EU single market possible criteria for assessing benefits in outline.
Developing the response to the question (analysis and application)	<p><i>It will be perfectly legitimate for a candidate to cite benefits and, by evaluating these, to identify costs (or vice versa), eg competition as a spur to efficiency, but in evaluation, the UK not able to match the achievements in efficiency seen in some other member states with higher unemployment being a potential cost (consequence) of this.</i></p> <ul style="list-style-type: none"> economic growth economies of scale comparative advantage specialisation efficiency, with inefficient firms failing (static v dynamic efficiency) productivity competition choice of goods and living standards mobility of resources harmonisation of economic policies possible trade expansion/trade creation standardisation of national regulations greater ease of doing business between members investment the single market as a 'driver' to further enlargement of the EU in general (although some would see this as a cost)

	<ul style="list-style-type: none"> • costs for the UK associated with being geographically separate from the rest of the EU and peripheral to the core • unemployment • low wages arising from mass immigration • a steady weakening, perhaps ultimately loss, of UK economic links with the rest of the world as trade diversion becomes more prevalent • costs associated with a “survival of the fittest” scenario • bullying by dominant members into accepting economic policies seeking to strengthen the single market which are not in UK’s long-term interests • regulations not necessarily being removed but imposed at EU, rather than national, level • use of diagrams • references to the real world.
Evaluation	<ul style="list-style-type: none"> • much of any objective evaluation may rest on to what extent the single market is allowed to develop ultimately • non-EU countries which did have strong economic ties with one or other members of a single market may find them weakening (trade diversion taking place), eg the Commonwealth and UK • progress can be slow, eg the single market in services still needs to be developed, and yet some members are largely dependent on services • a single market may not mean fewer regulations faced by members but just regulations raised to organisation, rather than national, level and this may not be efficient from the national perspective or, ultimately, from the single market perspective • threat of competition for an individual economy from lower-cost members with implications for the balance of payments and jobs, perhaps irrespective of the efficiency gains in the higher-cost country • labour mobility does not always deal with surplus/shortage problems very neatly and individual countries may suffer • migration driven not by economic factors (e.g. prospects of employment) but the supportive mechanisms in place in the recipient countries (eg welfare and health-care), perhaps causing a heavier burden on an economy’s public finances and downward pressure on wages • higher living standards for all cannot be assumed; improvements may well be patchy • any economic benefits such as higher growth can be diluted by developments beyond the single market, notably global recession • the possibility of any one member being continually pressured to accept developments e.g. the single currency and/or a common fiscal policy • the drawing of different conclusions is possible when considering the likelihood of a two-speed EU, ie euro members v non-euro members • a final judgement on the potential benefits of the single market for a country such as the UK. Some central facts: access to 500m people; over half of UK trade is with other members of the single market; estimated that 3.5mn UK jobs are linked to export of goods and services to the remainder of the single market; another estimate suggests that member countries trade twice as much with each other as they would in the absence of the single market. <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p>

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

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MAXIMUM FOR PART 12: 25 MARKS