



Rewarding Learning

**ADVANCED
General Certificate of Education
January 2011**

Economics

Assessment Unit A2 2

The Global Economy

[AE221]

TUESDAY 1 FEBRUARY, AFTERNOON

MARK SCHEME

General Marking Instructions

This mark scheme is intended to ensure that the A2 examination is marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 18-year-olds, which is the age at which the majority of candidates sit their A2 examinations.

Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

Threshold performance: Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Marking calculations

In marking answers involving calculations, examiners should apply the “own figure” rule. Candidates are not penalised more than once for a computational error.

Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

Level 3 (High Standard): The candidate successfully reflects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

Level 4 (Excellent): The candidate successfully reflects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.

- 1 (a) Overt barriers are clear and open. They are import controls, such as tariffs and quotas, imposed by governments and are there for the specific purpose of restricting imports.

Covert barriers are imposed when a government wishes to restrict imports without doing so formally. This might be because of membership of the EU or not wishing to be in breach of WTO regulations. In these circumstances governments will twist health and safety regulations or customs procedures so as to place obstacles in the way of imports.

A classic example of this is the French decree in 1982 that all Japanese videocassette recorders had to pass through the tiny customs post at Poitiers. This effectively restricted imports without any formal import control. Other examples are the French ban on British beef long after BSE had been eliminated and the EU ban on American beef which has been injected with growth hormones.

Max [3] for explanation of overt barriers

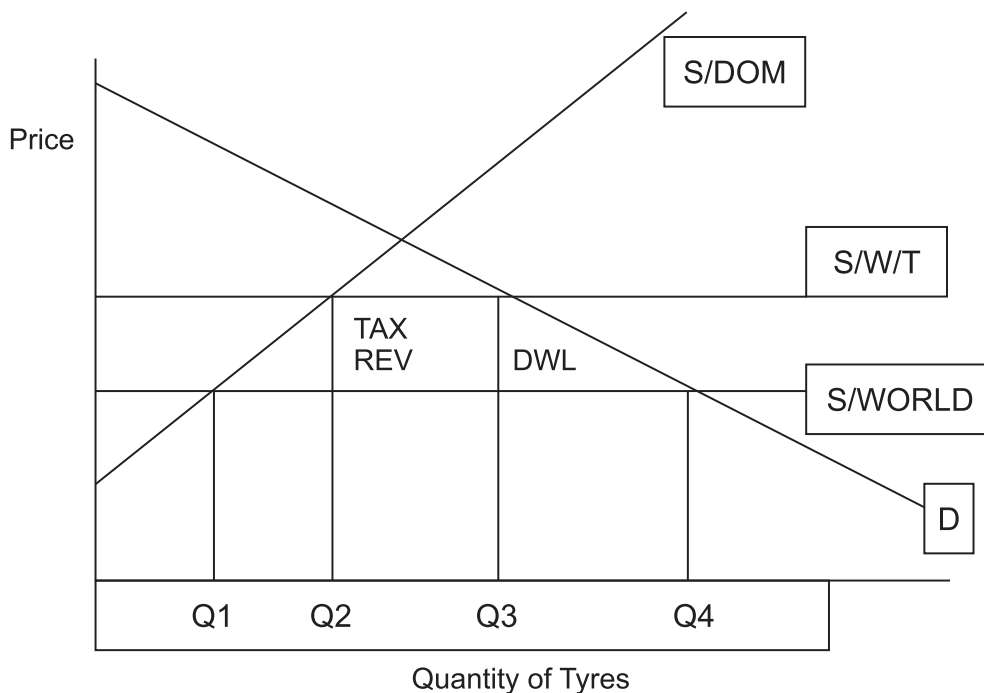
Max [3] for explanation of covert barriers

Constrained maximum of [5]

[5]

- (b) The imposition of the tariff barrier has three economic impacts:
- it increases producers' surplus and the welfare of American tyre manufacturers and workers
 - it reduces consumer surplus and the welfare of American consumers
 - it raises revenue for the American government.

However, there is an overall net welfare loss which is often referred to as a deadweight welfare loss.



With free trade, America can buy as many tyres as it wishes at the prevailing market price. So American consumers purchase Q4 tyres, of which Q1 is supplied domestically and Q4 minus Q1 is imported.

With the imposition of the tariff the world supply curve moves to S/W/T. Demand falls to Q3, of which Q2 is supplied domestically and imports are Q3 minus Q2.

There is a fall in consumer surplus, a rise in producer surplus, a tax income for the American government and an overall net welfare loss, marked DWL.

Level 1 ([1]–[3])

- candidate provides no significant economic analysis of the effect on the American economy of tariffs on Chinese tyres
- there is no serious attempt at a diagram
- quality of written communication is limited.

Level 2 ([4]–[7])

- candidate provides some economic analysis of the effect on the American economy of tariffs on Chinese tyres, however, this may be incomplete or contain errors
- there is a serious attempt at a diagram
- quality of written communication is satisfactory.

Level 3 ([8]–[10])

- candidate provides a clear and comprehensive economic analysis of the effect on the American economy of tariffs on Chinese tyres
- there is an accurate diagram
- quality of written communication is of a high standard. [10]

(c) The WTO has three distinct roles in facilitating world trade:

- to provide a framework for negotiating and formalising trade agreements, aimed at liberalising world trade. An example of this is the Doha round of negotiations
- to ensure that these agreements are adhered to
- to provide a dispute resolution process when countries feel that trade agreements have been breached. Recently the Boeing aircraft company claimed that EU subsidies for the development of the European Airbus A380 were illegal and their complaint was upheld. The WTO has the power to award compensation to aggrieved parties.

Level 1 ([1]–[3])

- candidate provides little explanation of the role of the WTO in facilitating world trade
- there may be vague references to free trade but little more
- quality of written communication is limited.

Level 2 ([4]–[7])

- candidate provides some explanation of the role of the WTO in facilitating world trade, however, this is likely to be incomplete or contain minor errors
- quality of written communication is satisfactory.

Level 3 ([8]–[10])

- candidate provides a clear and comprehensive explanation of the role of the WTO in facilitating world trade and this is likely to be illustrated by appropriate examples
- quality of written communication is of a high standard. [10]

- (d) Under proposals agreed in 2002 expenditure on agriculture (excluding rural development) is to remain constant in real terms between 2006 and 2013. However, when allowance is made for economic growth and for the effects of enlargement, the percentage of EU GDP allocated to agriculture will fall significantly. Nevertheless, it will remain the largest single item in the EU budget and still cause great hardship for European consumers and African farmers.

Issues for analysis and evaluation include:

- explanation of the regime of support for European agriculture
- evaluation of arguments for this support, e.g. need to treat agriculture as a strategic industry
- costs of agricultural support to taxpayers and food consumers
- impact of agricultural protection on third world producers
- experience of countries like New Zealand which have abolished government support for agriculture
- positive externalities from a well maintained countryside.

Level 1 ([1]–[5])

- candidate shows little understanding of the issues involved in dismantling the entire CAP
- there is no significant evaluation
- quality of written communication is limited.

Level 2 ([6]–[10])

- candidate shows some understanding of the issues involved in dismantling the entire CAP
- there is a degree of evaluation though this may lack depth and balance
- quality of written communication is satisfactory.

Level 3 ([11]–[15])

- candidate shows a clear understanding of the issues involved in dismantling the entire CAP
- there is in-depth evaluation and judgement
- quality of written communication is of a high standard. [15]

- 2 (a) A fixed exchange rate system is where a currency has a fixed value against another currency or commodity. The best known example of such a system was the gold standard which operated in the 19th and early 20th centuries. This valued one pound sterling at 0.257 ounces of gold and holders of pounds could exchange them for gold at that rate. Today the Chinese renminbi is pegged at a fixed rate against the American dollar.

A floating exchange rate system is one where its value is determined by the market forces of demand and supply for that currency. Most of the world's currencies today are left free to fluctuate though government may sporadically intervene to iron out extreme volatility.

Areas for analysis and explanation include:

- explanation of a fixed exchange rate system
- explanation how a fixed exchange rate may be maintained
- examples of fixed rate systems
- explanation of a floating exchange rate system
- explanation of demand and supply for a currency
- examples of floating currencies
- appropriate diagrams.

Level 1 ([1]–[5])

- candidate provides no significant explanation of the difference between fixed and floating exchange rates
- there may at best be some vague generalisations
- quality of written communication is limited.

Level 2 ([6]–[10])

- candidate provides some explanation of the difference between fixed and floating exchange rates, however, this will be incomplete or contain minor errors
- quality of written communication is satisfactory.

Level 3 ([11]–[15])

- candidate provides a clear and comprehensive explanation of the difference between fixed and floating exchange rates
- quality of written communication is of a high standard. [15]

- (b) UK membership of the Euro was once a hotly debated political issue. This seems (November 2009) to be no longer the case with a political consensus that membership is unlikely to happen for the foreseeable future.

Issues for analysis and evaluation include:

- transition costs, e.g. changing slot machines, etc.
- reduced transaction cost for trade and travel
- increased specialisation and efficiency as a result of reduced transaction costs
- more opportunities to achieve economies of scale
- greater price transparency should lead to downward pressure on prices
- problems arising from a common interest rate throughout the eurozone area
- problems arising from the inability to devalue currency as a means of correcting imbalances
- concern that the eurozone may not constitute an optimal currency area
- specific issues for Northern Ireland arising from sharing a land border with a eurozone country.

Level 1 ([1]–[7])

- candidate displays no significant understanding of the issues involved in UK adopting the Euro
- there is no serious evaluation
- quality of written communication is limited.

Level 2 ([8]–[13])

- candidate displays some understanding of the issues involved in UK adopting the Euro
- there is a degree of evaluation, though this may lack depth or be one-sided
- quality of written communication is satisfactory.

Level 3 ([14]–[19])

- candidate displays a clear understanding of the issues involved in UK adopting the Euro
- there is meaningful evaluation and judgement
- quality of written communication is of a high standard.

Level 4 ([20]–[25])

- candidate displays a clear and comprehensive understanding of the issues involved in UK adopting the Euro
- there is in-depth evaluation leading to a reasoned and balanced conclusion
- quality of written communication is excellent.

[25]

40

- 3 (a) The current account is principally a record of transactions as a result of exports and imports of goods and services. However, it also contains sections relating to income and current transfers.
- trade in goods: revenue received from exports of goods less payments made for imports of goods
 - trade in services: revenue received from exports of services less payments made for imports of services. The main categories of service are financial services, travel and royalties
 - income: this consists mainly of the returns from UK investment in other countries less the income earned by foreign businesses operating in the UK. It also contains a section for compensation of employees which relates to the repatriated earnings of UK citizens working abroad less a similar flow for foreign workers based in the UK
 - current transfers: these arise mainly from the UK's membership of the EU and is the net figure for payments to and from that body. It also includes private transfers.

The financial account records all outflows and inflows of capital from and to the UK. These include:

- direct investment: this refers to UK firms setting up overseas and foreign firms acquiring assets in the UK
- portfolio investment: this refers to the purchase of shares and bonds and the placing of funds in foreign banks
- changes in reserve assets: this relates mainly to drawing from and adding to foreign currency reserves.

Level 1 ([1]–[5])

- candidate gives no significant explanation of the differences between the current and financial accounts of the UK balance of payments
- there will typically be vague generalisations
- quality of written communication is limited.

Level 2 ([6]–[10])

- candidate gives some explanation of the differences between the current and financial accounts of the UK balance of payments, however, this may be incomplete or contain errors
- quality of written communication is satisfactory.

Level 3 ([11]–[15])

- candidate gives a clear and comprehensive explanation of the differences between the current and financial accounts of the UK balance of payments
- quality of written communication is of a high standard. [15]

- (b) The importance of a current account equilibrium in government macroeconomic policy has fallen in recent decades. This is partly the result of the movement of most developed countries to a floating exchange rate regime and also to the increasing importance of financial and capital flows. Governments feel that they can turn a blind eye to a current account deficit as it is likely to be balanced by a financial account surplus. In addition, a deficit may be corrected by a fall in the value of the pound without the government having to take any other corrective measures.

However, a persistent and significant deficit cannot be ignored for ever and corrective measures will eventually have to be taken.

Issues for analysis and evaluation include:

- assessment of significance of any deficit
- analysis of the causes of a deficit
- analysis of the impact of government policy upon the deficit
- impact on exchange rate
- fixed and floating exchange rates
- floating rates as an automatic corrective mechanism for balance of payments deficits
- impact on employment
- impact on investor confidence
- problems of borrowing to finance deficit
- possibility of “Sterling crisis”
- historical and international examples.

Level 1 ([1]–[7])

- candidate provides little explanation of the economic significance of a balance of payments deficit
- there is no significant evaluation of the view that it has no economic significance
- quality of written communication is limited.

Level 2 ([8]–[13])

- candidate provides some explanation of the economic significance of a balance of payments deficit
- there is a degree of evaluation of the view that it has no economic significance though this may lack depth or balance
- quality of written communication is satisfactory.

Level 3 ([14]–[19])

- candidate provides a clear explanation of the economic significance of a balance of payments deficit
- there is meaningful evaluation and judgement of the view that it has no economic significance
- quality of written communication is of a high standard.

Level 4 ([20]–[25])

- candidate provides a clear and comprehensive explanation of the economic significance of a balance of payments deficit
- there is in-depth evaluation and judgement of the view that it has no economic significance
- quality of written communication is excellent. [25]

40

- 4 (a)** Globalisation can be defined as the ever increasing integration of the world's local, regional and national economies into a single international market. (A. Anderton)

There are five aspects of globalisation:

- the free movement of goods and services between countries
- the free movement of labour between countries
- the free movement of capital between countries. This refers to both direct and portfolio investment
- the free movement of technology between countries
- growth of global brands.

Level 1 ([1]–[5])

- candidate shows little knowledge or understanding of globalisation as a concept nor of its various elements
- there is no significant explanation
- quality of written communication is limited.

Level 2 ([6]–[10])

- candidate shows some knowledge and understanding of globalisation as a concept
- there is a degree of explanation of its various elements though may be incomplete or contain errors
- quality of written communication is satisfactory.

Level 3 ([11]–[15])

- candidate shows extensive and clear knowledge and understanding of globalisation as a concept
- there is a detailed explanation of its various elements
- quality of written communication is of a high standard. [15]

- (b)** Globalisation has both positive and negative impacts on the welfare of Less Developed Countries (LDCs). They have gained from access to goods and services from developed countries and Newly Industrialised Countries. On the other hand, farmers, particularly in Africa, have had to compete in their domestic markets with subsidised imports from European and American farmers without getting free access to European and American markets.

Issues for analysis and evaluation include:

- consumers in LDCs have gained from greater choice but their infant industries have found it difficult to compete with imports from the developed world

- many LDCs have gained from tourism
- globalisation has contributed to rises in world commodity prices. This has benefitted some LDCs but disadvantaged others
- large tracts of African farmland have been bought by Chinese and Saudi food producers. Local farmers and farm workers have become unemployed
- freer movement of labour has enabled many workers to migrate to developed countries. Quite often this has created skill shortages in LDCs
- globalisation has contributed to global warming which has had a disproportionate impact on LDCs such as Bangladesh which are vulnerable to rising sea levels
- candidates may explore the possibility that terms of trade have been distorted by the developed world to the disadvantage of LDCs.

Level 1 ([1]–[7])

- candidate shows little understanding of how globalisation has affected LDCs
- there may be some vague anecdotal points but no attempt at an overall evaluation of its impact
- quality of written communication is limited.

Level 2 ([8]–[13])

- candidate shows some understanding of how globalisation has affected LDCs
- relevant issues are explored though this may be superficial or contain errors
- there will be some overall evaluation of its impact though this may lack depth or be one-sided
- quality of written communication is satisfactory.

Level 3 ([14]–[19])

- candidate shows a clear understanding of how globalisation has affected LDCs
- relevant issues are explained with clarity
- there will be a meaningful overall evaluation and judgement of its impact
- quality of written communication is of a high standard.

Level 4 ([20]–[25])

- candidate shows a clear and comprehensive understanding of how globalisation has affected LDCs
- relevant issues are extensively examined
- there will be an in-depth overall evaluation and judgement of its impact
- quality of written communication is excellent.

[25]

40

Total

80