



Rewarding Learning

**ADVANCED
General Certificate of Education
2014**

Economics

Assessment Unit A2 2

The Global Economy

[AE221]

WEDNESDAY 21 MAY, AFTERNOON

**MARK
SCHEME**

General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are 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 schemes 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 and 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. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

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 to 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” so that 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 all 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 selects 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 selects 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) • In 2011 Western European growth was 1.8% (approx) and Sub-Saharan Africa growth was 9.4% (approx). This is a difference of 7.6 percentage points.
- In 2011 Sub-Saharan Africa growth was roughly 5 times that of Western European growth.
 - In 2012 Western European growth was -0.2% (approx) and Sub-Saharan Africa growth was 9.2% (approx). This is a difference of 9.4 percentage points.
 - In 2013 Western European growth was 0.8 % (approx) and Sub-Saharan Africa growth was predicted to be 10.5% (approx). This is a difference of 9.7 percentage points.
 - In 2013 Sub-Saharan Africa growth was predicted to be roughly 13 times that of Western Europe.
 - Over the 3 year period Western Europe grew by 2.4% (approx).
 - Sub-Saharan Africa grew by 32 % (approx).
 - GDP in Sub-Saharan Africa has increased by 29 percentage points (compound calculations give different results).
 - At least two other minor points of comparison.

[1] mark for each valid point made up to a constrained maximum of [5].

For a purely narrative approach with no attempt at data manipulation

max [3]

[5]

- (b) A number of factors have contributed to high growth rates in Sub-Saharan Africa:
- High prices for oil and other commodities have benefitted those African nations such as Nigeria which have large quantities of natural resources
 - High levels of FDI have increased industrialisation
 - Improved communications have made many parts of Africa attractive tourist destinations
 - Trade barriers within Africa have been reduced
 - High growth rates are relatively easy to achieve because of the low starting point
 - Many African Nations are enjoying a peace dividend due to the end of civil wars.

Level 1 ([1]–[3])

Candidate provides little explanation for high growth rates in Sub-Saharan Africa. There may be a reference to or verbatim use of the points in the source but no explanation or development. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some explanation for high growth rates in Sub-Saharan Africa. There will be some development of the points in the source but this will be limited and there is no significant use of other points. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation for high growth rates in Sub-Saharan Africa. There will be extensive development of the points in the source and this may be complemented by reference to other issues. Quality of written communication is of a high standard. [10]

(c) High growth rates in Sub-Saharan Africa will have significant implications for the UK economy. These include:

- Many UK firms will invest in Africa, leading to an inflow of FDI to Africa
- In time this investment may generate profits which will return to the UK as income from abroad
- Many African firms will start to export to the UK. This will be bad for some UK firms but good for UK consumers
- Greater prosperity in Sub-Saharan Africa may lead to a reduction in immigration to the UK
- The net welfare impact is difficult to assess
- Rise in prosperity in Africa will create opportunities for UK firms
- Urbanisation and rise of middle class will create opportunities for UK exporters

Level 1 ([1]–[3])

Candidate provides little explanation of the impact on the UK economy of high growth rates in Sub-Saharan Africa. There may be a reference to or verbatim use of the points in the source but no explanation or development. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate provides some explanation of the impact on the UK economy of high growth rates in Sub-Saharan Africa. There will be some development of the points in the source but this will be limited. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate provides a clear and comprehensive explanation of the impact on the UK economy of high growth rates in Sub-Saharan Africa. There will be extensive development of the points in the source and this will be complemented by additional issues. Quality of written communication is of a high standard. [10]

(d) The UK foreign aid budget is a relatively small percentage of total government expenditure and removing it would have only marginal impact on the budget deficit. Nevertheless in times of austerity it is reasonable that every area of government spending should come under scrutiny.

Issues for analysis and discussion include:

- Problems of misuse of aid by corrupt governments
- Inefficient allocation of aid
- Opportunity cost of foreign aid budget upon other areas of government spending
- Hostility to and dangers faced by aid workers in many countries
- Aid may create dependency and hinder economic development
- Aid may improve UK security in nations where there has been a breakdown of the state
- Political influence which UK receives through its aid budget
- Relative affluence of some recipient nations such as India.

Level 1 ([1]–[5])

Candidate provides little critical examination of this view. Few issues are addressed and none in any depth. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some critical examination of this view. A number of issues are addressed though this approach may lack depth. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth critical examination and judgement of this view. Several issues are addressed in some depth. Quality of written communication is of a high standard. [15]

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- 2 (a) A nation's balance of payments must always balance for the very simple reason that if spending takes place then the funding for it must have come from somewhere. So if the UK has a deficit on its current account then this could be financed by a surplus on the capital and financial accounts. Individual sections of the balance of payments can be in surplus or deficit but the overall balance of payments must always balance and sum to zero.

For example a deficit on trade in goods could have been financed by borrowing from abroad which would appear as an inflow in the finance section of the balance of payments. Currently the USA has a substantial deficit on trade in goods with China. However this is balanced by Chinese purchases of US government securities.

Nations may add to their reserves which appear as a debit on the balance of payments. Similarly drawing from reserves is a credit item.

In the event that all recorded transactions do not balance then it is obvious that some items have been missed or wrongly valued. Hence a figure for net errors and omissions is included to ensure that the account does balance.

Level 1 ([1]–[5])

Candidate provides little explanation of why a nation's balance of payments must always balance. There is no significant understanding of the different sections of the balance of payments and how they are related. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of why a nation's balance of payments must always balance. There is a degree of understanding of the different sections of the balance of payments and how they are related. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of why a nation's balance of payments must always balance. There is an in-depth understanding and explanation of the different sections of the balance of payments and how they are related. Quality of written communication is of a high standard. [15]

- (b) There are a number of policies open to the UK government in dealing with a current account deficit.

Supply Side Policies. If successful these will increase productivity and

reduce the costs of UK exports. Their main disadvantage is the time lag between implementation and successful policy outcomes. They may also be socially divisive. However they do offer the prospect of a long term solution to a structural current account deficit which most other policies do not.

Other possible policies are:

- Deflation of aggregate demand. This will work only if imports are income elastic. It has the disadvantage that a massive recession might be required to eliminate a deficit and this is likely to be politically unacceptable.
- Depreciation of currency. This depends on the fulfilment of the Marshall-Lerner conditions and may be hard to achieve if there are significant capital inflows into the UK at the same time as the current account deficit. This may also be inflationary
- Import controls. These are unlikely because of EU and WTO membership

Conclusion: Supply Side Policies may provide a non-inflationary solution to a balance of payments deficit unlike depreciation of currency

Level 1 ([1]–[7])

Candidate provides little critical examination of this view. There is no significant understanding of the issues and little economic analysis. Quality of written communication is limited.

Level 2 ([8]–[13])

Candidate provides some critical examination of this view. However this will be one-sided or lack depth. There is a degree of understanding of the issues and some economic analysis. Quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate provides a clear in-depth critical examination of this view. A significant range of issues is addressed and supported by appropriate economic analysis. Quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate provides a clear in-depth and comprehensive critical examination and judgement of this view. Virtually all relevant issues are addressed and supported by appropriate and detailed economic analysis. Quality of written communication is excellent. [25]

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- 3 (a)** The European Central Bank is the central bank for the member states of the Eurozone. It was established by the Treaty of Amsterdam in 1998 and is independent of any national government, though the Central banks of member states are represented on its board.

The main function of the ECB is to control monetary policy with a view to achieving a rate of inflation of around 2 per cent. Its main instrument for this purpose is the rate of interest. However, currently the ECB appears to be more concerned about problems of deflation within the Eurozone.

It is also responsible for managing the reserves of the Eurozone and

conducting foreign exchange operations to manage the value of the euro. This role was particularly important during the recent currency crisis which threatened the very existence of the euro.

During this crisis it managed the transfer of funds to countries such as Ireland and Greece which faced the possibility of leaving the Eurozone because of high levels of debt. It led negotiations for rescheduling the debts of nations in danger of default.

Level 1 ([1]–[5])

Candidate provides little explanation of the role and functions of the ECB. There may be vague references to some issues but these will lack substance. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of the role and functions of the ECB. Key issues will be explored though this may lack depth or contain errors . Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of the role and functions of the ECB. All key issues are explored with accuracy and clarity and quality of written communication is of a high standard. [15]

- (b) The issue of protecting a domestic economy against a low cost emerging economy is certainly not a new one. In the 18th century the emergence of the USA caused much consternation in Britain and led to calls for import controls. It was against this background that David Ricardo published his theory of comparative advantage. Today in the USA there are many who wish to curtail trade with China. Similarly in the EU many political voices wish to revert to “fortress Europe” and curb trade with the developing world.

Issues for analysis and evaluation include:

- Explanation of import controls and how they can be implemented
- Welfare analysis of controls, including impact on consumer and producer surplus
- Application of theory of comparative advantage
- Reference to contemporary economic events , including rise of BRIC nations
- Role of WTO
- Possibility of complacency and X-inefficiency in domestic economy
- Special cases which might justify protection eg infant industries, sunset industries, strategic industries
- Possibility of retaliation and worsening of international relations
- Impact on living standards in developing countries

Level 1 ([1]–[7])

Candidate provides little evaluation of this view. There may be a few anecdotal points such as “cheap labour” but these will not be supported by any significant economic analysis. Quality of written communication is limited.

Level 2 ([8]–[13])

Candidate provides some evaluation of this view. There will be a few relevant points, supported by a degree of economic analysis. Quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate provides a significant evaluation of this view. A range of relevant points are developed and explained with supporting economic analysis. Quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate provides a comprehensive in-depth evaluation and judgement of this view. There is a balanced critical examination of both sides of the debate and a reasoned final judgment. Quality of written communication is excellent.

[25]

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- 4 (a) The exchange rate of the pound is, by and large, a freely floating one, which means it is determined by market forces with a minimum of government intervention.

Hence it will be the demand and supply for pounds and any other currency which ultimately determines the rate of exchange between these two currencies. The pound will rise in value against another currency if demand rises or supply falls. The overall value of the pound against a basket of other currencies is a weighted average of its value against each of the currencies in the basket. The weights are determined by the percentage of UK trade with each country.

A number of factors influence these market forces:

- UK purchases of imports from a country creates sales of sterling and purchases of its currency
- Foreign purchases of exports from the UK will cause sales of foreign currency and purchases of pounds
- Investment flows from abroad to the UK increase the demand for pounds and the supply of the currency of the investing nation
- Investment flows from the UK to overseas increase the demand for foreign currency and the supply of pounds
- Speculation can affect market forces
- International confidence in the economic management of the country can also affect market forces.

Level 1 ([1]–[5])

Candidate provides little explanation of how the rate of exchange between the pound and other currencies is determined. There is no significant economic analysis and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of how the rate of exchange between the pound and other currencies is determined. There is a degree of economic analysis and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of how the rate of exchange between the pound and other currencies is determined. This is supported by relevant economic analysis and 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 2012) to be no longer the case with a political consensus that membership is unlikely to happen for the foreseeable future. However it remains possible that if the Eurozone sovereign debt crisis can be resolved that membership might be the best course of action for the UK

Issues for analysis and evaluation include:

- Transition costs eg changing slot machines etc
- Reduced transaction costs 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 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 land border with Eurozone country
- Cost of bailing out other highly indebted Eurozone nations such as Greece and Spain

Level 1 ([1]–[7])

Candidate displays no significant understanding of the issues involved in the UK adopting the euro. There is no serious evaluation or economic analysis and quality of written communication is limited.

Level 2 ([8]–[13])

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

Level 3 ([14]–[19])

Candidate displays a clear understanding of the issues involved in the UK adopting the euro. There is in-depth evaluation supported by relevant economic analysis and 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 which is supported by clear and relevant economic analysis. Quality of written communication is excellent. [25]

Total

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