AQA

A LEVEL
Economics

ECON4R/Unit 4: The National and International Economy
Mark scheme

2140
June 2015

Version Vi Final Mark Scheme

Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate 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, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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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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 <u>and</u> 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 <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable 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	Limited but showing some appreciation of alternative points of view
	Good throughout much of the answer with few errors and weaknesses	Some good application to issues Where appropriate, some good use of data to support answer	Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	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 in **Extract A**, calculate the income tax payable in 2014/15 for someone In New Zealand earning $30 000 of taxable income **and** identify **one** significant feature of the tax rates between 2010/11 and 2014/15. **[5 marks]**

The calculation

($14000 x 10.5% + $16000 x 17.5%) = ($1470 + $2800) = ($4270)

For the correct answer ($4270). The 'unit' ($) **must** be shown.	**3 marks**
For the correct answer **without** a unit shown or for any other answer between $4265 and $4275 (inclusive).	**2 marks**
For showing the correct method but arriving at a wrong number, ie ($14000 x 10.5% + $16000 x 17.5%) = any other number than $4270. **OR** Calculating 17.5% of $30000 = $5250.	**1 mark**

Identifying one significant feature of the data

For identifying a significant feature **(1 mark)** and providing relevant and accurate supporting data **(1 mark)** with units **(1 mark)**.	**Up to 3 marks**
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	**0 marks**

Examples of significant features include:

- All income tax rates fell from 2010/11 to 2014/15, for example the lowest rate ($0 to $14000) fell from 12.5% to 10.5%
- The top tier of tax ($70001 and above) had the largest percentage point decrease in tax rates from 38% to 33%
- The lowest tier of tax ($0 to $14000) had the lowest percentage point decrease in tax from 12.5% to 10.5%.

MAXIMUM FOR PART 01: 5 MARKS

02   **Extract B** (lines 3–5) states: 'When taxation is progressive, it is highly debatable whether or not increasing top rate taxes on income raises extra revenue, or whether it may result in less money being collected'.

Explain the term progressive tax **and** analyse why a rise in income tax rates may lead to lower tax revenue.

[10 marks]

Explanation

For a relevant explanation of progressive tax: tax rates rise as a proportion of income as income increases **(2 marks)** and going on to explain that the average tax rate is less than the marginal tax rate **(2 marks)** or that it is likely to be a direct tax levied on the income of an individual or profits of a firm **(2 marks).**	**Up to 4 marks**
For providing a numerical example of how a progressive tax works.	**Up to 2 marks**

Maximum of 4 marks for the explanation

Analysis

Award marks for each step in a logical chain of reasoning

For example: As tax rates rise, it increases the disincentive to pay tax **(1 mark)** which creates an incentive to reduce hours worked **(1 mark)** or attempt tax avoidance **(1 mark)** to reduce the total tax liability **(1 mark)** and could lead to a brain drain **(1 mark)** as people leave the country in order to find countries with more generous tax systems **(1 mark)**.	**Up to 8 marks**
Use of appropriate diagrams, eg Laffer curve or supply of labour diagrams	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks.** **These marks can be given in addition to analysis marks.**
Reference to the UK or other economies.	**1 mark per reference up to a maximum of 2 marks, included as part of, but not in addition, to the analysis.**

MAXIMUM FOR PART 02: 10 MARKS

03 **Extract C** (lines 9–11) states: 'However, the tax summaries have been heavily criticised in that they may make individuals more inclined to support political parties which favour lower taxes without considering the wider picture of what state spending provides.'

Using the data and your knowledge of economics, to what extent do you agree that cuts to direct taxation would benefit growth **and** living standards in the UK? Justify your answer.

[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**.

Candidates who do not address both parts of the question **should be limited to 16 marks.** Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

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

Introduction	• Economic growth • Standard of living concepts • Direct taxation.
Developing the response to the question (Application)	**Drawing on the information in the extracts:** • Electoral success (**Extract B**) • Lower taxes creating growth **(Extract B)** • Balancing budget helped by growth **(Extract B)** • Reduced size of the state **(Extract B)** • What goods and services the state provides **(Extract C)** • Health, education and welfare in terms of living standards (**Extract C**) • Benefiting certain income groups **(Extract C)** • The effect of shifting from direct to indirect taxation (**Extract C**).

Analysis	**Arguments why direct tax cuts may be beneficial for growth and living standards**: • Increased consumption possibilities • Increased AD as a result of increased consumption and short-run economic growth • Possible increase in firms profits and its role in stimulating investment • Individuals are able to spend more on what they wish, improving welfare • Reduced tax rates leading to more tax revenue (Laffer curve arguments) • Links between economic growth and living standards • Reducing crowding out • Possible multiplier effects. **Arguments why direct tax cuts may be damaging for growth and living standards:** • Possibly leading to reduced state intervention • Reduction in provision of both public and merit goods • Possible increased inequality • Rich having a larger marginal propensity to save, therefore not spending as much, reducing the circular flow • Possible negative multiplier effects • Lack of crowding in • Costs of economic growth in terms of living standards (eg pollution).
Evaluation	• Short-run vs long run considerations • Are growth and living standards always necessarily directly linked? • How can living standards be judged and what factors need to be considered in their measurement? (This could include HDI or other suitable measurements). • The role of the state and the effects of merit and public goods on living standards • Differences between New Zealand's and UK's experiences, eg New Zealand linked to fast growing Asia-Pacific region. • The idea that living standards and growth encompass a wide range of factors beyond that which domestic governments have control. *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.*
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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 3 & 4
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 03: 25 MARKS

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

04	Calculate (to 2 decimal places) Sweden's Consumer Price Index (CPI) figure in December 2015 if the CPI figure stood at 314.05 in December 2014, and the annual rate of inflation was minus 0.3% **and** using **Extract D**, identify **one** significant comparison between the inflation rate of Sweden and the UK. **[5 marks]**

Calculation

314.05 * 0.997 = 313.107 = 313.11 (to 2dp)

For the correct answer (313.11). Allow 313.107. The 'unit', (index points) does **not** have to be shown.	**3 marks**
Any other answer between 313.01 and 313.21 (inclusive) regardless of decimal places.	**2 marks**
For showing the correct method but arriving at a wrong number, eg 314.05 * 0.997 = wrong number.	**1 mark**

Identify one significant comparison:

For identifying a significant feature (**1 mark**) and providing relevant and accurate supporting data (**1 mark**) with units (**1 mark**).	**Up to 3 marks**
For a 'trawl' through the numbers, or for simply providing an item of data seemingly chosen at random with no clear significance.	**0 marks**

Examples of significant comparisons include:

- The UK's inflation rate has always been higher than Sweden's over the period shown, for example they were closest in approximately March 2011 when the UK's was at 4% and Sweden at 3%
- Both Sweden and the UK had their peak rates of inflation in the same year. Sweden peaked in August 2011 at 3.4% and the UK in September 2011 at 5.2%
- Sweden has experienced deflation several times whilst the UK has not, using the CPI measure. For example in December 2015, Sweden recorded deflation of -0.3% whilst the UK had its lowest rate of 0.5%
- A tolerance of 0.2 percentage points for the data is allowed.

MAXIMUM FOR PART 04: 5 MARKS

05   **Extract E** (lines 20–22) states: '…it becomes very difficult to further stimulate domestic demand as real interest rates approach zero. On the other hand, low interest rates contributed to the Swedish currency, the Krona, falling sharply in value…'.

Explain the term 'real interest rates' **and** analyse why low interest rates may lead to a fall in the value of a currency on the foreign exchange market.

[10 marks]

Explanation

Definition: Interest rates are the returns to saving or the cost of borrowing **(2 marks)** whereas real figures have been adjusted to take into account inflation **(2 marks)** so the real interest rate is the nominal interest rate minus the inflation rate **(2 marks)**.	**Up to 4 marks**

Maximum of 4 marks for the explanation

Analysis

Award marks for each logical link in the chain of reasoning.

For example: as interest rates fall as part of a loose monetary policy **(1 mark)** speculators will decide there is little return from holding money in the currency in question **(1 mark)** and will move money to where rates of return are better **(1 mark)** this will lead to a capital flight from that currency to more profitable currencies which increases supply **(1 mark)** and also a decreasing demand for the original currency **(1 mark)** and as a result will depreciate the original currency **(1 mark).**	**Up to 8 marks**
Use of appropriate diagrams, eg supply and demand of currency/exchange rates.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks.** **These marks can be in addition to analysis marks**
Reference to the UK or other economies.	**1 mark per reference up to a maximum of 2 marks, included as part of, but not in addition, to the analysis.**

MAXIMUM FOR PART 05: 10 MARKS

06 **Extract F** (line 1) states: 'Deflation is the new economic menace threatening European economies including the UK.'

Using the data and your knowledge of economics, evaluate the view that deflation in the EU's economies would inevitably be damaging to the UK's macroeconomic performance.

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

Introduction	- Deflation - The EU - Macroeconomic performance indicators.
Developing the response to the question (Application)	Drawing on information in the extracts: - Central banks' ability to respond (**Extract E**) - Eurozone 'one size fits all' vs UK's and others ability to respond (**Extract E**) - Delaying spending (**Extract F**) - Effects on debtors (**Extract F**) - Effects on tax revenue (**Extract F**) - Reduced production costs/productivity (**Extract F**) - Improving competitiveness (**Extract F**) - Deterring investment (**Extract F**).

Analysis	**Arguments as to how deflation in the EU may benefit the UK economy:** • Effects on competitiveness if UK also experiences deflation • Benign inflation due to improved productivity helping growth and maintaining low prices • Long run, sustainable economic growth achieving deflation • UK's low stable inflation causing stability in comparison to deflation • Deflation in other economies may make UK a relative safe haven for firms from abroad considering FDI • Microeconomic effects such as benefits to first time buyers of possible falling house prices. **Consideration of how deflation in the EU may damage the UK economy:** • If EU experiences deflation and UK doesn't then UK may become less competitive in relative terms • EU deflation delaying spending and causing a fall in UK exports • Lack of FDI across the EU due to uncertainty • Damaging tax revenues in the UK which may reduce ability of UK Government to meet targets • Possibility that QE and other policy responses by the ECB and European economies as a result of deflation may give boosts to these economies. • Microeconomic effects such as falling house prices causing negative equity.
Evaluation	• The UK as part of the EU possibly suffering deflation • The duration of deflation having a major impact • The cause of deflation being vital to understanding the effects • Benign vs malign arguments • The UK's ability to avoid deflation in comparison to other economies • The relative difficulty of combatting inflation when the causes are external in a globalised economy. *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.*
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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 06: 25 MARKS

SECTION B

Essay 1   **Total for this essay: 40 marks**

In 2014, George Osborne revived the idea of 'full employment' as a macroeconomic goal but what is actually meant by full employment is often debated by economists.
07   Explain the factors which might determine the natural rate of unemployment.
[15 marks]

For defining/explaining: • Unemployment • Voluntary unemployment, eg structural or frictional • Linking the natural rate to the concept of equilibrium • Linking to NAIRU (a different concept but closely linked).	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

Award 1 mark for each step in a logical chain of reasoning.

For example: Due to individuals having trained in specific areas **(1 mark)** if they are made redundant and jobs that are currently available do not match their skill set **(1 mark)** then they may choose to remain unemployed **(1 mark)** as the wages that they could gain from taking a different job **(1 mark)** are significantly lower than what their expectations of a wage are **(1 mark)** which may further be exacerbated by the tax and benefits system **(1 mark)** where individuals may fall into the unemployment trap **(1 mark)** as it would mean that gaining employment may be less financially viable than remaining unemployed **(1 mark)** as the effects of a loss in benefits such as housing benefit **(1 mark)** would lead to the individual being worse off than in employment **(1 mark)**. **Other examples could include:** Issues such as the tax/benefit system, structural changes in the economy, geographical/occupational immobility or trade union power.	**Up to 15 marks**
Use of diagrams to help support explanations, eg long-run Phillips curve or supply and demand of labour.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

MAXIMUM FOR PART 07: 15 MARKS

08	Evaluate the view that reducing unemployment inevitably has trade–offs with other macroeconomic objectives.

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

Introduction	- Unemployment - Macroeconomic objectives - Trade-offs.
Developing the response to the question (application and analysis)	- The nature of the cause of unemployment - Short-run trade-offs - Different policies which can be used to reduce unemployment - Some objectives are compatible objectives, eg reduced unemployment and growth - Objectives of different policies, ie monetary focusing on inflation targets and more recently, growth - Supply-side policy achieving goals simultaneously in theory - Long-run compatibility of objectives - The UK's experiences in recent times (low inflation with growing employment) - External shocks affecting objectives beyond the control of the economy.
Evaluation	- Short-run vs long-run considerations - The idea that it may be impossible to avoid conflicts in reality but possible in theory - The acceptability of compromise between objectives – control rather - than complete avoidance - The intensity of any problems arising from conflict - Time lags in the effects of supply-side policy working - Limitations of the effects of policy instruments

	• Targets of governments may change, and focus may shift between governments depending on ideology • Consideration of the term 'inevitable'. *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.*
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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 3 & 4
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 08: 25 MARKS

Essay 2   **Total for this Essay: 40 marks**

Globalisation and outsourcing of manufacturing provides several potential benefits to economies. However, some countries, such as the UK, continue to suffer persistent trade deficits but are unable to resort to import controls.

09   Explain how the UK Government could reduce a balance of payments deficit on the current account, other than through the use of import controls.

[15 marks]

For defining/explaining: • Globalisation • Balance of payments on current account • Trade deficit • Import controls.	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

Award 1 mark for each step in a logical chain of reasoning

For example: By carrying out supply-side policies **(1 mark)** such as training and education **(1 mark for an example)** this would hopefully improve productivity in the domestic market **(1 mark)** which should improve the potential output per worker **(1 mark)** which increases the long run productive potential of the economy **(1 mark).** This could reduce the general price level **(1 mark)** which makes domestic goods and services more competitive abroad **(1 mark)** which may lead to other countries increasing demand for the UK's exports **(1 mark)** such as financial services in which the UK holds a comparative advantage **(1 mark)** and if the value of imports remains the same **(1 mark)** this may reduce the balance of payments on the current account. **Other examples could include**: issues such as exchange rate depreciation, expenditure reducing policies or export subsidies.	**Up to 15 marks**
Use of diagrams to help support explanations, eg LRAS increasing or exchange rate depreciation.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks**.
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

MAXIMUM FOR PART 09: 15 MARKS

10   Assess the view that, for the UK, the economic benefits of globalisation outweigh the costs.

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

Introduction	• Globalisation • UK economy • Stakeholders in the economy, households, firms, government and whole economy.
Developing the response to the question (application and analysis)	**Arguments that the UK benefits from globalisation** • Comparative advantage arguments – job creation in financial services • Endowment of factors of production - access to goods and services difficult to produce domestically • Increased choice • Lower costs of consumer goods/cost of semi-finished goods and commodities • Benefits from transfer of technology • Welfare gains in terms of trade • Economies of scale arguments • Benefits of international co-operation • Increased FDI.

	Arguments that the UK loses out due to globalisation • Outsourcing has led to structural unemployment in regions of the UK • Issues surrounding labour migration • Multinational corporations exploiting tax loopholes • Multinational corporations influence over political decisions • More open to economic shocks elsewhere in the world • Potential for imported inflation • Over-dependence on certain markets/possible strategic markets arguments • Lack of control over markets and goods and services • Environmental issues.
Evaluation	• Benefits and costs depend on viewpoint, eg a firm lowering costs may do so at the expense of an individual's job • Globalisation as a source of competition creating more resilience in UK firms • Short-term benefits in comparison to longer term, for example short-term prices may fall but over-reliance could lead to long term losses • Loss of manufacturing could lead to long-run over-dependence on certain economies • Comparative advantage is dynamic - eg although the UK may benefit in terms of specialising in financial services now, this may not be forever. *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.*
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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 3 & 4
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 10: 25 MARKS

Essay 3   **Total for this Essay: 40 marks**

Savings often provide the funds for investment. In 1997, the UK saving ratio stood at 13%, at the beginning of the financial crisis in 2007 it was only 5% and by 2014 it had risen slightly to 7%.

11   Explain why the saving ratio may fall.

[15 marks]

For **Defining/explaining** • Saving ratio/saving • Marginal/average propensity to save/consume • Income/disposable income.	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

Award 1 mark for each step in a logical link chain of reasoning.

For example: During periods of economic prosperity **(1 mark)**, employment is likely to rise **(1 mark)** which leads to increased disposable incomes **(1 mark)** as individuals have more income, consumption increases **(1 mark)** this often causes a rise in house prices **(1 mark)** which creates the so called wealth effect **(1 mark)** and increases consumption even further as individuals now have increased equity in their homes **(1 mark)** this means that individuals can access more finance due to increased security **(1 mark)** which leads to an increased marginal propensity to consume as individuals become less risk averse **(1 mark)** and as a result a falling marginal propensity to save **(1 mark)** and as such the savings ratio falls. **Other examples could include:** The rate of interest, the demographics of the population, time preference, government legislation or consideration of inflation and the real rates of return of saving.	**Up to 15 marks**
Use of diagrams to help support explanations, eg AD/AS or the trade cycle.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks**
Reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

MAXIMUM FOR PART 11: 15 MARKS

12 Evaluate the likely impact of a fall in the saving ratio on the performance of the UK economy.

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

Introduction	• Saving ratio • Macroeconomic performance.
Developing the response to the question (application and analysis)	• Increased consumption benefiting standards of living • Increased short-run economic growth • Positive multiplier arguments • Increased deficits on the balance of payments on current account • Increased problems of personal debt • Demand pull inflationary pressures caused by too much consumption • Over-reliance on credit • Lack of funds in financial institutions for lending and investment • Lack of funds for long-run growth • Effects on confidence • Paradox of thrift arguments (not in specification) • Effects on employment.
Evaluation	• Is the saving ratio important in an economy or is it a by-product of economic conditions? • Has increased economic integration and international finance diminished the importance of the savings ratio? • Savings creating the condition for investment in the long run • Low savings and the effects of future policy changes • Changes in the saving ratio as an effect of having a strong economy rather than the cause of a problem.

	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.
Also give credit for:	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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 3 & 4
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 12: 25 MARKS