



A-LEVEL

Economics

Unit 4 The National and International Economy
Mark scheme

2140
June 2016

Version: 1.0 Final

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 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**

- 0 1** Using the data in **Extract A**, calculate (to one decimal place) the percentage change in the exchange rate between the **US dollar** and the **Chinese yuan** between 1 August 2015 and 13 August 2015 **and** identify **one** significant comparison between the exchange rates of the US dollar and the UK pound sterling with the Chinese yuan over the period shown.
- [5 marks]**

The calculation $6.4 - 6.21 = 0.19$ $0.19 / 6.21 \times 100 = 3.059\%$ therefore **3.1% to 1 d.p.**

At its extremes the calculation could be $6.41 - 6.21 = 0.20$ $0.20 / 6.21 \times 100 = 3.22$ **3.2%**
 Or $6.4 - 6.22 = 0.18$ $0.18 / 6.22 \times 100 = 2.89$ **2.9%**

If the answer is done in reverse please allow an answer of **2.8%** but this must clearly indicate that it started **2.8% lower**.

For the correct answer 3.1% or any answer between 2.9% to 3.2% The 'unit', (%) must be shown and to one decimal place.	3 marks
For the correct answer without a unit shown or not to one decimal place.	2 marks
For showing the correct method but arriving at an incorrect answer. ie: [(6.4-6.21)÷6.21] x 100 = incorrect answer	1 mark

Identifying one significant comparison

For identifying a significant comparison (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:

- Both the dollar (\$) and pound (£) appreciated against the yuan (¥) over the period. The dollar rose from ¥6.21 to ¥6.37 and the pound rose ¥9.72 to ¥9.78.
- Both the dollar (\$) and pound (£) peaked against the yuan (¥) on almost the same day. On August 24th/25th the dollar reached ¥6.42 and the pound reached ¥10.10.
- One pound (£) could always buy more yuan (¥) than one dollar (\$) could buy over the period shown. On August the 9th the pound reached its lowest value against the yuan (¥9.61), however, this was higher than the dollars highest value (¥6.42) on the 25th of August.

Please allow a tolerance of 2 days and 0.02 with the currency figures in the comparison but do not allow the candidate to claim the dollar reached ¥6.2.

MAXIMUM FOR PART 01: 5 MARKS

0 2 **Extract B** (lines 12–14) states: ‘the devaluation of the exchange rate in China may also threaten the economic growth of many developed economies such as the UK and USA.’

Explain the phrase ‘devaluation of the exchange rate’ **and** analyse how a devaluation of the Chinese currency (the yuan) may affect economic growth in the UK.

[10 marks]

Explanation

For a relevant explanation of a devaluation of the exchange rate: An exchange rate is the value of one currency in terms of another (2 marks) and a devaluation is when a currency is lowered in value against another (2 marks) this usually occurs in a fixed exchange rate system unlike a depreciation which is in a floating exchange rate system (2 marks) .	Up to 4 marks
Numerical example of a devaluation	Up to 2 marks

Maximum of 4 marks for the explanation

Analysis

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

For example: As China devalues its currency, the value of the yuan falls in relation to the pound (1 mark, but do not reward if used in definitions) therefore one pound buys more yuan (1 mark) this makes imports from China relatively cheaper (1 mark) and exports from the UK to China relatively more expensive (1 mark) thus the value of imports rises (1 mark) and the value of exports fall (1 mark) which are both components of aggregate demand (1 mark) causing aggregate demand to fall (1 mark) therefore reducing real national output (1 mark) and create negative short-run economic growth. Other examples could include effects on investment or business confidence.	Up to 8 marks
Use of appropriate diagrams, eg AD/AS, currency 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

<p>0 3 Extract C (lines 2–4) asks: ‘Is it time the UK considered manipulating its currency directly and managing its exchange rate in order to reduce the ever-increasing trade deficit and help improve its performance?’</p> <p>Using the data and your knowledge of economics, evaluate the view that the UK should focus its monetary policy on managing the exchange rate in order to improve macroeconomic performance.</p> <p style="text-align: right;">[25 marks]</p>
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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 <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"> • Monetary policy • Exchange rates • Macroeconomic performance
Developing the response to the question (Application)	<p>Drawing on the information in the extracts:</p> <ul style="list-style-type: none"> • Currency wars and potential retaliation (Extract B) • Investor confidence (Extract B) • Competitiveness of exports (Extract B) • Threats to economic growth in the UK and USA (Extract B) • Effects of interest rates on exchange rates (Extract B) • Methods of reducing trade deficits (Extract C) • Effects on other Monetary Policy instruments and targets (Extract C) • Problems that Switzerland faced in a fixed system (Extract C) • Effects on trade and stability due to stable exchange rates (Extract C)

Analysis	<p>Arguments why managing the exchange rate may be beneficial:</p> <ul style="list-style-type: none"> • Stability leading to investment • More certainty regarding export revenue for firms • More certainty regarding import prices for firms • Consumers benefitting from stable prices • Possible avoidance of deflationary pressure if revalued • Improving competitiveness of firms if devalued • Increased trade flows with the EU due to increased transparency in prices if fixed to Euro. <p>Arguments why managing the exchange rate may not be beneficial:</p> <ul style="list-style-type: none"> • Loss of ability to use interest rates effectively • May be expensive for government • Loss of BoE's independence and use of policy instruments • Conflicts and trade-offs with other macroeconomic objectives • Potential of choosing "the wrong rate" to fix at • The UK's historical experience with the ERM • Loss of automatic adjustment or stabilisation
Evaluation	<ul style="list-style-type: none"> • The relative success or lack of success in the use of interest rates in the past • The possible success or lack of success in the use of quantitative easing in the past • The relative importance of the trade deficit in terms of other macroeconomic goals, is it more important to focus on domestic consumption? • Can the government afford to prop up the currency if needed or does this contradict aims to reduce the budget deficit? • Is the currency the major problem with the UK's export competitiveness or is it due to structural problems and a lack of productivity? • Would fixing the exchange rate low lead to a "race to the bottom" with other currencies? <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>
Also give credit for:	<ul style="list-style-type: none"> • 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**

0 4 Using the data in **Extract D**, calculate (to the nearest whole number) the real GDP per capita in Spain for 2014 **and** identify **one** significant comparison between the unemployment rate and real GDP over the period shown. **[5 marks]**

Calculation $\text{€}1058\text{bn}/46.5\text{m} = \text{€}22752.6882 = \text{€}22753$ to nearest whole number

For the correct answer $\text{€}22753$ The 'unit' (€) has to be shown.	3 marks
Any other answer between $\text{€}22752$ to $\text{€}22753$, regardless of decimal places or if the unit (€) is not shown.	2 marks
For showing the correct method but arriving at an incorrect answer, ie $\text{€}1058\text{bn}/46.5\text{m} =$ incorrect answer	1 mark

Identify one significant comparison

For identifying a significant comparison (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:

- Unemployment rate peaked in 2013 at 26.1% whereas real GDP peaked in 2010 at $\text{€}1081\text{bn}$
- Unemployment rate started lower and ended higher over the period 19.9% in 2010 to 24.4% in 2014 whereas real GDP started higher and ended lower $\text{€}1081\text{bn}$ in 2010 to $\text{€}1058\text{bn}$ in 2014
- The lowest level of real GDP occurred in the same year that the unemployment rate was highest. In 2013 unemployment stood at 26.1% whereas the real GDP was at $\text{€}1049\text{bn}$
- There appears to be an inverse relationship between real GDP and unemployment over the period. Real GDP fell from $\text{€}1081$ at the start to $\text{€}1058\text{bn}$ at the end whereas 19.9% at the start to 24.4% at the end.

MAXIMUM FOR PART 04: 5 MARKS

0 5 **Extract E** (lines 1–2) states: ‘The Spanish economy has been benefiting from an upturn in the economic cycle within the Eurozone.’

Explain the term ‘upturn in the economic cycle’ **and** analyse why this may have caused Spain’s unemployment rate to fall.

[10 marks]

Explanation

For a relevant explanation of an upturn in the economic cycle: An economic cycle shows the fluctuations in an economy’s economic activity over time (2 marks) and an upturn usually refers to a recovery after a recession or slump (2 marks) and indicates that real national income is on the increase (2 marks) .	Up to 4 marks
For an accurate diagram of the trade cycle clearly indicating an upturn as a feature. These can be awarded in addition to those available in analysis.	Up to 2 marks

Maximum of 4 marks for the explanation

Analysis

Award 1 mark for each logical link in the chain of reasoning

For example: If there is an increase in economic activity, it signals that firms are beginning to increase production (1 mark) which may lead to increased business confidence (1 mark) and could lead to increased investment (1 mark) due to the accelerator (1 mark) seeing as though investment is a component of aggregate demand (1 mark) this will cause aggregate demand to rise (1 mark) and due to the fact that firms will be producing more output, they will need to hire more workers as labour is a derived demand (1 mark) which will reduce cyclical unemployment (1 mark) leaving consumers with more disposable income (1 mark) and further rises in consumption (1 mark) further reducing unemployment.	Up to 8 marks
Use of appropriate diagrams, eg AD/AS, demand for labour, economic cycle (however this should not be rewarded if already allocated marks in the explanation).	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/Spain or other EU 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

0 6 **Extract F** (lines 4–6) states: ‘some are now arguing that further improvements in the unemployment statistics can only be gained through improvements in the supply-side of the economy, rather than relying on demand.’

To what extent do you agree that a further reduction in the UK’s unemployment rate is most likely to be achieved by improvements in the supply-side rather than the demand-side of the economy? Using the data and your knowledge of economics, 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**.

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 <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"> • Unemployment • Demand-side/Supply-side • Types of unemployment
Developing the response to the question (Application)	<p>Drawing on information in the extracts:</p> <ul style="list-style-type: none"> • Labour market reforms (Extract E and Extract F) • EU possibly recovering (Extract E and Extract F) • Supply-side reforms (Extract E) • Effects on firms/workers (Extract E) • Comparisons with other EU countries (Extract E) • The current state of the UK labour market and wage growth (Extract F) • Subsidies/training/introduction of living wage (Extract F) • Benefits cap and limiting JSA (Extract F)

<p>Analysis</p>	<p>Arguments as to why demand-side factors may cause further falls:</p> <ul style="list-style-type: none"> • Rising real incomes in the UK • Increased confidence • Possible increases in domestic investment • Possible increases in FDI • Multiplier effects • Improved export opportunities (if the EU grows) <p>Arguments as to why supply-side factors may cause further falls:</p> <ul style="list-style-type: none"> • Consideration of the “voluntary” nature of some types of unemployment • Changes to incentives • Changes to benefits forcing people into low paid jobs • Consideration that living wage may actually entice more people into jobs market • So called “carrot and stick” approaches • Changes to structural unemployment • Improvements to mobility (occupational and geographical) • The UK’s experiences under the “Work Programme” and government policy • Focus on particular groups, such as the 16-24 age group or the long term unemployed.
<p>Evaluation</p>	<ul style="list-style-type: none"> • The UK could be approaching NRU/NAIRU/full capacity, the supply-side may be vital in order to gain further improvements • Both approaches are not mutually exclusive, improvements could be made on both at the same time • Some factors may be beyond the control of the UK, eg external demand in the EU, is trade a significant issue? • Consideration of regional aspects – unemployment rates mask a regional issue which is very difficult to solve with policies which aren’t targeted • Consideration that more jobs may be created but the incomes or conditions provided by those jobs maybe are not as good as others <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>
<p>Also give credit for</p>	<ul style="list-style-type: none"> • 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 06: 25 MARKS

SECTION B

Essay 1

Total for this essay: 40 marks

‘George Osborne talks about boosting exports and rebalancing the economy, but the Chancellor is not nearly as worried about the trade deficit as he is about the budget deficit.’

Source: The Guardian, Economics Blog, 30th June 2015

07 Explain the factors which are likely to cause a large budget deficit. **[15 marks]**

<p>For defining/explaining</p> <ul style="list-style-type: none"> • Budget deficit • Government spending/Taxation • Fiscal policy 	<p>Up to 2 marks per definition or explanation to a maximum of 4 marks</p>
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Award 1 mark for each step in a logical chain of reasoning

<p>For example: As an economy goes into recession (1 mark) there may be decreased investment (1 mark) as firms have spare capacity (1 mark) which will lead to reduced purchases of capital goods (1 mark) which reduces firms outputs (1 mark) and also creates a rise in unemployment (1 mark) as labour is in derived demand (1 mark) which increases government spending on JSA (1 mark) and also provides reduced revenue in the form of decreased income tax (1 mark) which may cause a fall in consumption (1 mark) which means fewer goods and services would be sold (1 mark) which reduces indirect tax revenue in the form of VAT (1 mark) and possibly firms profits reducing corporation tax (1 mark).</p> <p>Other examples include: Increased reliance on public services/social provision, discretionary government spending, increased cost of government borrowing due to loss of credit rating, nationalisation/re-nationalisation, economic shocks, fiscal mismanagement.</p>	<p>Up to 15 marks</p>
<p>Use of diagrams to help support explanations, AD/AS, trade cycle</p>	<p>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.</p>
<p>Reference to the UK and/or other economies.</p>	<p>1 mark per reference to a maximum of 2 marks</p>

MAXIMUM FOR PART 07: 15 MARKS

0 8 To what extent do you agree that a persistent trade deficit is more damaging to the UK's macroeconomic performance than a persistent budget deficit? 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**.

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	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"> • Budget deficit • Trade deficit • The Balance of Payments
Developing the response to the question (application and analysis)	<p>Arguments why a trade deficit is more damaging than a budget deficit:</p> <ul style="list-style-type: none"> • Could indicate lack of productivity • Could cause depreciation of currency • Could cause problems for a country's reserves • A surplus on the financing section of the balance of payments increasing international indebtedness • Deflationary pressure • Could indicate structural weaknesses • Effects on jobs such as structural unemployment <p>Arguments why a budget deficit is more damaging than a trade deficit:</p> <ul style="list-style-type: none"> • Crowding out • Loss of credit status leading to increased costs of government borrowing • Future generations footing the bill (vertically inequitable) • Possibility of tax rises/cuts in spending • Adds to national debt • Could be inflationary

Evaluation	<ul style="list-style-type: none"> • Both issues are not mutually exclusive, an improved supply-side performance could help both. • The UK's ability to attract FDI will help finance the capital account and may off-set any problems on the trade deficit, however this may also benefit the UK's budget deficit in terms of job creation and generating tax revenue. • Deficits on both may be necessary and advantageous, they may both benefit living standards in terms of more goods being consumed or boosting AD. • Consideration that trade-offs may take place with the other macroeconomic goals, for example reducing the budget deficit may reduce the trade deficit but at the same time harm unemployment or create deflation. <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>
Also give credit for:	<ul style="list-style-type: none"> • 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

After a period of inflation below the target rate, the CPI inflation rate was recorded as –0.1% in early 2015. The Governor of the Bank of England wrote: ‘A temporary period of falling prices, driven by large adjustments in a few specific components of the CPI, is a fundamentally distinct phenomenon from ‘deflation’...The UK is not experiencing ‘deflation’.’

Source: Bank of England, Mark Carney, Letter to the Chancellor, 12th February 2015

09 Explain the possible causes of deflation in an economy.	[15 marks]
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<p>For defining/explaining:</p> <ul style="list-style-type: none"> • Deflation/Inflation • Malign/Benign deflation • Methods of measurement (CPI/basket of goods) 	<p>Up to 2 marks per definition or explanation to a maximum of 4 marks</p>
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Award 1 mark for each step in a logical chain of reasoning:

<p>For example: The use of supply-side policies (1 mark) such as subsidies for research and development (1 mark) may lead to the creation of improved efficiency in production techniques (1 mark) which may lead to improvements in productivity (1 mark) and therefore increase the output per worker (1 mark) which may mean fewer workers are needed to produce the same amount of goods (1 mark) which will reduce the average unit cost (1 mark). This may be passed on to customers in the form of lower prices (1 mark) will lead to a fall in cost-push inflationary pressure (1 mark) and potentially benign deflation (1 mark).</p> <p>Other examples include: Falling oil and other commodity prices, any component of aggregate demand falling for a reason such as high interest rates affecting consumption, lack of confidence reducing investment, increased international competition, government attempts to reduce the budget deficit by spending cuts or recession in the Eurozone damaging exports.</p>	<p>Up to 15 marks</p>
<p>Use of diagrams to help support explanations, eg AD falling, SRAS increasing, LRAS increasing</p>	<p>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.</p>
<p>Reference to the UK and/or other economies</p>	<p>1 mark per reference to a maximum of 2 marks</p>

MAXIMUM FOR PART 09: 15 MARKS

10 Evaluate the possible consequences for the performance of the UK economy of the actual rate of inflation being below the Monetary Policy Committee's (MPC's) target rate. **[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	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"> • Inflation/deflation • MPC/target rate • Monetary Policy • Macroeconomic performance
Developing the response to the question (application and analysis)	<p>Arguments why a low inflation rate may be damaging:</p> <ul style="list-style-type: none"> • Indication that an economy may be stagnating and subsequent lack of confidence • Effects on jobs/growth if it is stagnating • Difficulties of policy response to low levels of inflation • Possible damage to investment if firms don't see rising prices • Possible effects on inflationary expectations of low rates of current inflation • Wages may not rise causing problems in the labour market • Inflation may be below target of 2% but still within the boundary of acceptable figures 1-3% • The possibility that very low inflation could lead to deflation and the consequences. <p>Arguments why a low inflation rate may be beneficial:</p> <ul style="list-style-type: none"> • In relative terms it may boost competitiveness if the inflation rate is lower than in other countries and should benefit the current account of the balance of payments • The ability to maintain low interest rates and as a result, the effects on consumer expenditure, employment and economic growth. • The ability to maintain low interest rates and as a result, the effects on investment, employment and economic growth.

	<ul style="list-style-type: none"> • The possibility that costs can remain low, and firms do not have to pay higher wages • Cost of living arguments • Possibly allows the government's finances to improve due to not having to raise welfare payments some of which are index linked
<p>Evaluation</p>	<ul style="list-style-type: none"> • The cause of the low rates is vital in ascertaining the potential effects • Low inflation could be beneficial in the short run as cost of living remains low, however this must be weighed up against the growth of wages • A vital aspect is how low is "low"? Low rates that are just under target may be more acceptable than low rates close to zero • The extent to which inflation "greases the wheels" of the economy • The duration of the low levels of inflation. It may be that low levels are good if sustained but a volatile low inflation rate may be damaging • The current state of the economy and the government/MPC's ability to be able to respond with credible policy • The possibility that other countries may be suffering deflation and its potential effects • Does the target rate really matter? <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>
<p>Also give credit for:</p>	<ul style="list-style-type: none"> • 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**

In 2014, the UK's contributions to the European Union (EU) budget rose by £2.7bn, making it the second largest net contributor. However, it is argued that the UK benefits much more from the trade and job creation that EU membership brings.

1 1	Explain how membership of a customs union, such as the EU, affects the pattern and volume of trade between countries.	[15 marks]
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For: Defining/explaining: <ul style="list-style-type: none"> • Customs union/free trade area • Pattern of trade • Volume of trade • Trade or exports/imports 	Up to 2 marks per definition or explanation to a maximum of 4 marks
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Award 1 mark for each step in a logical chain of reasoning.

For example: Due to the membership of the EU, there are no internal tariffs (1 mark) between the UK and the other 27 member states (1 mark) so when trading with another country for example France (1 mark for example) the cost of doing so is lower (1 mark) and firms will experience lower prices if France has exploited its comparative advantage (1 mark) as France has a lower opportunity cost than the UK (1 mark) in for example the production of wine (1 mark for example) which leads to trade creation (1 mark) which increases the volume of imports (1 mark) from other members of the EU which affects the pattern of trade in terms of who trades what with who (1 mark) . Other examples include: Potential for exporting products in which the UK holds a comparative advantage in, economies of scale, potential trade diversion due to common external tariff, retaliation, enforced embargoes.	Up to 15 marks
Use of diagrams to help support explanations, eg tariff diagram, quota diagram, AD/AS, Economies of scale	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

Award a **maximum of 10 marks** if both parts of the question are not attempted i.e. the pattern of trade **and** the volume of trade.

MAXIMUM FOR PART 11: 15 MARKS

1 2 Evaluate the extent to which individuals and firms in the UK benefit from membership of the EU.

[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	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 EU • How benefits to individuals and firms can be measured • Consumer welfare
Developing the response to the question (application and analysis)	<p>Benefits of EU membership on individuals and firms:</p> <ul style="list-style-type: none"> • Job creation in export industries • Increased supply of labour potentially reduces costs for firms • Lower cost labour reduces cost of living therefore improved consumer welfare • Firm's costs are reduced for raw materials from within EU • Economies of scale • Competition drives efficiency in firms • Other benefits e.g. maternity/paternity benefits (Individuals) • Microeconomic effects and effects on individual markets eg CAP • Potentially larger markets for firms • Employment opportunities accessible in other countries <p>Costs of EU membership on individuals and firms:</p> <ul style="list-style-type: none"> • Structural unemployment in certain regions due to free trade • Pressure on public services due to increased population as a result of immigration from other EU countries • Higher taxes on individuals to pay for public services • Increased supply of labour could lower wages for individuals • Higher taxes as a result of EU contributions • Microeconomic effects such as higher agricultural prices due to common external tariff and CAP • EU regulations increasing costs • Competition causing firms to go bust

<p>Evaluation</p>	<ul style="list-style-type: none"> • Benefits to some people such as lower cost for wages for firms may be a problem for others for example low-paid workers • Difficulty of estimating what would have happened had the UK not been in the EU • Different experiences in different regions of the UK, structural unemployment may be exacerbated in some areas • How do we measure benefits? The issues are somewhat subjective • What is the alternative? Potential of “Brexit” <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>
<p>Also give credit for</p>	<ul style="list-style-type: none"> • 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