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**General Certificate of Education
June 2010**

ECONOMICS

ECON4

The National and International Economy

Mark Scheme

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

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' 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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Advanced Level Economics Unit 4

General Instructions

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

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

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

- (i) **An issue based approach.** The mark scheme for questions **01, 02, 04, 05** and the first part of **Section B** adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.
- (ii) **A levels approach.** This approach is used for questions **03, 06** and the second part of **Section B**. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (e.g. 14 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

THE LEVELS MARK SCHEME FOR A2

Level Descriptions

In questions **03, 06** and the second part of **Section B**, 40% of the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 15 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer

Few, if any, relevant issues are recognised. Descriptions and explanations lack clarity. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. There might be some evidence of organisation in the answer but generally it fails to answer the question. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. Descriptions and explanations are sometimes hard to follow. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. There is some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. There is some limited logic and coherence in the organisation of the answer. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

7 to 11 marks

Mid-Point 9 marks

Level 3: An adequate answer with some correct analysis but very limited evaluation

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. There is some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some use of specialist vocabulary which is applied appropriately.

12 to 16 marks

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate

demonstrates some ability to synthesise the arguments presented and come to some relevant conclusions although these might not always be based on evidence presented. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. A wide range of specialist vocabulary is used with facility.

17 to 21 marks

Mid-Point 19 marks

Level 5: Good analysis and evaluation

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate demonstrates the ability to synthesise the arguments presented and come to conclusions which are based on the evidence presented. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. A wide range of specialist vocabulary is used with facility.

22 to 25 marks

Mid-Point 24 marks

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.
- A** 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.

1 THE GLOBAL CONTEXT**Total for this question: 40 marks**

- 01** Using **Extract A**, identify **two** main features of unemployment rates for October 2007 and October 2008. *(5 marks)*

Award one mark for each valid point made and two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- Only in Germany is the 2008 figure lower than that for 2007 (7.0% compared to 8.1%)
- The USA shows the greatest increase over the two years (4.8% to 6.4%)
- Only France for 2008 and Germany for 2007 show unemployment rates above 8%
- The euro area is showing higher unemployment than the EU as a whole in both years (2007: 7.2% compared to 7.0%; 2008: 7.6% compared to 7.1%)
- The UK economy has the lowest rate of unemployment for 2008 of the economies shown (5.7%)
- The UK and US rates of unemployment are lower than in the EU or the euro area (eg the UK 5.7% in 2008, 7.1% in the EU)

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one valid point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

Award only **1 mark** for supporting references to the data if the % sign is missing.

Accept +/- 0.2 variation in any % figures quoted.

MAXIMUM FOR PART 01: 5 MARKS

02 **Extract B** (lines 5-8) argues: “It now seems unlikely that economic ‘powerhouses’ such as India and China will provide support for the global economy through trade and investment. Such support might have helped avoid world recession and restored economic growth.”

Explain the term ‘world recession’ **and** analyse how **both** trade **and** investment can help to bring about economic growth. (10 marks)

For candidates who:

Define trade, investment, economic growth or any other relevant term except recession.

up to 2 marks per definition to a maximum of 2 marks

Explain the concept of world recession, eg

- define ‘recession’ or ‘world recession’ (one definition would be the UK official definition applied to the global economy of two successive quarters of negative GDP growth)
- explain likely features of recession such as lower investment, higher unemployment, lower inflation or deflation (do not credit in such an explanation reference to negative GDP growth if this has already formed part of a definition, unless some points are added in order to provide an explanation)
- comment on ‘world’, perhaps suggesting that it may be a term used when only some key areas of the global economy are in recession; referring to how a key area such as the US might draw other parts of the global economy into recession; make reference to the global nature of the recession of recent years

up to 2 marks per definition or explanation to a maximum of 6 marks (including diagrams)

Analyse how trade and investment might help cause economic growth, eg

Trade:

- a country’s improved export performance (1 mark) can help create growth by output being increased to meet higher overseas demand (1 mark) and this then stimulating a multiplier effect (1 mark) which will lead to higher output and employment beyond the export sector itself (1 mark)
- trade as a stimulant to innovation
- trade as a stimulant to investment
- trade as an incentive for a range of supply-side reforms
- trade encouraging competition, so providing a possible stimulant to static and dynamic efficiency
- any other valid point

up to 4 marks for an analysis of a link between trade and economic growth (1 mark for identification and up to 3 marks for analysis)

Investment:

- investment is a component of AD (1 mark) so higher investment might produce higher actual growth (1 mark) but it is also a supply-side determinant of growth in that it helps create higher output (1 mark) through increased rates of innovation and labour productivity (1 mark)
 - investment producing growth-inducing structural change
 - investment producing growth-inducing infra-structure developments
 - investment in human capital
 - any other valid point
- up to 4 marks for an analysis of a link between investment and economic growth
(1 mark for identification and up to 3 marks for analysis)
(an answer confined to demand or supply is perfectly acceptable)**

make use of diagrams in the analysis

**up to 2 marks per diagram (1 mark for labelling, 1 mark
for correct information shown) to a maximum of 3 marks**

Reward references to the UK/other economies

A candidate can be awarded a maximum of **6 marks** if only the explanation or the analysis is attempted and a maximum of **8 marks** if only trade or only investment is considered.

MAXIMUM FOR PART 02: 10 MARKS

03 Extract B (lines 35-37) concludes: ‘Globalisation must surely have played its part in the success of the UK economy...whatever problems it may also have created.’

Using the data and your economic knowledge, to what extent do you agree with the view that globalisation has been of benefit to UK macroeconomic performance? (25 marks)

It is hoped that candidates will show their understanding of the term ‘macroeconomic performance’ and then assess the impact of globalisation in the light of performance criteria in order to arrive at a reasoned judgement.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

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

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- explanation of globalisation
- how benefit can be measured
- macroeconomic performance criteria

Developing a response to the question:

- economic growth
- employment/unemployment
- inflation/price stability/deflation
- trade flows
- investment flows
- balance of payments
- competitiveness
- any other valid issue

Evaluation:

- not knowing what might have happened to the UK economy had globalisation not become so evident
- the assessment may depend on the view taken of how significant or essential globalisation has been in bringing about various domestic supply-side reforms
- whether cyclical factors have sometimes prevented the UK from obtaining the full benefit of globalisation

Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of globalisation. However, this must be considered as low-level evaluation and awarded accordingly.

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART 03: 25 MARKS

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

- 04** Using **Extract C**, identify **two** main features of the exchange rate of the pound sterling against the euro for the period January 2008 to December 2008. *(5 marks)*

Award one mark for each valid point made and two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- The pound has fallen against the euro over the period ($\text{€}1.35 = \text{£}1.00$ to $\text{€}1.02 = \text{£}1$)
- The pound-euro exchange rate is volatile when the year is taken as a whole, e.g. October – November $\text{€}1.30$ to $\text{€}1.20 = \text{£}1$
- The year has some periods of relative stability, e.g. May – July around $\text{€}1.25 = \text{£}1$
- October to December shows the steepest decline in the value of the £ against the euro ($\text{€}1.30$ to $\text{€}1.02 = \text{£}1$)
- January 2008 shows the pound at its strongest against the euro ($\text{€}1.32$ to $\text{€}1.35 = \text{£}1$)
- 31 December 2008 shows the pound at its weakest against the euro ($\text{€}1.02 = \text{£}1$)

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one valid point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

Award only **1 mark** for supporting references to the data if the unit (£ or €) is missing.

MAXIMUM FOR PART 04: 5 MARKS

05 **Extract D** (lines 13-14) argues that it ‘is not difficult to understand why the pound has fallen against the euro and other currencies’.

Explain what is meant by ‘the pound has fallen against the euro and other currencies’ **and** analyse **two** determinants of such a fall. (10 marks)

For candidates who:

define any relevant term

**up to 2 marks per definition
up to a maximum of 2 marks**

explain

- “the pound has fallen against the euro and other currencies”, perhaps by defining and comparing various exchange rates;
- use the term depreciation and/or devaluation and compare to appreciation/revaluation;
- use recent real world values to help illustrate the phrase; the impact on export/import prices; the potential impact on the economy

**up to 2 marks per definition or explanation to a
maximum of 6 marks (including diagrams)**

analyse two determinants of such a fall, e.g.

- Overseas investors become less confident about an economy because it may be showing signs of entering a recession (1 mark), so they begin to withdraw their funds and sell the currency of that economy (1 mark) while potential new investors, deciding not to invest, bring about a reduction in demand for pounds (1 mark), causing the currency to depreciate (1 mark).
- Relative interest rates
- Government policies, e.g. increased borrowing
- Speculation against a currency
- Capital flows
- Trade flows
- Loss of business and consumer confidence as economic forecasts worsen
- Any other valid determinant

**up to 4 marks for an analysis of each of two determinants
(1 mark for identification and up to 3 marks for analysis)**

use supply and demand analysis to explain the determination of a fall but does not mention specific determinants such as trade or investment flows

up to 4 marks

Make use of diagrams in the analysis

up to 2 marks per diagram
(1 mark for labelling, 1 mark for correct information shown)
to a maximum of 3 marks

Reward references to the UK/other economies

A candidate can be awarded a maximum of **6 marks** if only the explanation or the analysis is attempted and a maximum of **8 marks** if only one determinant is considered.

MAXIMUM FOR PART 05: 10 MARKS

06 Extract D (lines 32-33) concludes that ‘UK adoption of the euro at such an economically unstable time remains highly unlikely, whatever the potential benefits’.

Using the data and your economic knowledge, to what extent do you agree with the view that the UK economy would benefit if the euro were to be adopted by the UK at some point in the future? (25 marks)

It is hoped that candidates will be able to show some awareness of the introduction of the euro into parts of the EU and then assess the UK’s potential for benefiting from the adoption of the euro so that a final judgement can be arrived at.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

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

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- the euro
- the euro area, perhaps in relation to the EU
- the pound sterling

Developing a response to the question:

- the experience of euro area members over the last ten years
- the current problems such as Greece or Spain
- the UK economy over the last ten years
- the potential impact on economic growth
- the potential impact on employment
- trade flows/the Single European Market
- inward investment
- price transparency
- one-size-fits-all monetary policy
- the cost of conversion
- economic sovereignty
- Gordon Brown’s 5 principles
- any other valid issue

Evaluation:

- any assessment can be criticised because we cannot tell what would have happened to the economy if we had not adopted the euro
- cyclical trends can mean that the euro may not be given a fair chance to prove itself were it to be adopted or its perceived benefits for the UK may take longer to become apparent
- the difficulty of giving values to particular costs and benefits when trying to assess the impact so that assessment becomes quite subjective
- whether or not entry takes place once Gordon Brown's 5 principles have been fulfilled

Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of the adoption of the euro. However, this must be considered as low-level evaluation and awarded accordingly.

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART 06: 25 MARKS

SECTION B

3

Total for this question: 40 marks

07 Explain how monetary policy might be used to prevent a period of deflation. (15 marks)

For candidates who:

define/explain:

- deflation
- monetary policy, e.g. interest rates, money supply control, exchange rates
- in the current (2010) climate, refer to the liquidity trap in explaining the possible limitations of interest rate policy (examiners should not expect use of the term 'liquidity trap' specifically since this is not in the specification)

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

explain how monetary policy might be used to prevent a period of deflation, eg

- interest rates (1 mark) will help determine the use of credit by consumers (1 mark) and the level of business borrowing for investment (1 mark). The Monetary Policy Committee sets Bank Rate (1 mark) and by doing so is indicating its wish that other financial institutions follow suit (1 mark). Both consumption and investment are components of aggregate demand (1 mark). Assuming no reduction in the other components of AD (X – M, G) (1 mark) a fall in interest rates, for example, will lead to higher AD (1 mark) which may lead to a rise in the general price level (1 mark) assuming that AS does not increase to meet the higher AD (1 mark)
- the use of exchange rate policy to influence export and import demand and generate an export-led multiplier
- increases in money supply (note the current policy of 'quantitative easing') with an explanation, perhaps including a reference to the Quantity Theory of Money

Up to 10 marks per explanation**(1 mark for identification and 9 marks for the explanation)**

use relevant diagrams to help the explanation

up to 2 marks per diagram**(1 mark for labelling, 1 mark for correct information shown)****to a total of 4 marks**

Reward references to the UK economy

MAXIMUM FOR PART 07: 15 MARKS

08 Assess the impact on UK macroeconomic performance of a prolonged period of deflation. <i>(25 marks)</i>
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It is hoped that candidates will provide a balanced assessment of the impact of deflation by considering consumers, businesses and the wider economy, and thereby arrive at a justified final judgement.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- deflation v inflation
- criteria for assessing the economic impact of deflation
- the relevance of the issue to the last few years

Developing a response to the question:

- the shorter term benefits in terms of consumer demand for goods and services falling in price
- competitiveness
- impact on profits and hence possibly on investment and on sustainability of businesses
- the impact on confidence, especially where deflation is a feature of a recession
- economic growth
- employment
- trade flows and the impact on the balance of payments on current account
- inward investment
- UK experience
- the potential impact on consumer demand
- the impact on the real value of debt, important particularly in light of high UK home ownership
- the impact on the exchange rate
- any other valid issue

Evaluation:

- whether or not deflation has set in worldwide or just nationally
- the extent of the deflation
- the duration of the deflation

- the flexibility/resources the government/central bank has to deal with the problem
- the extent of damage to consumer and business confidence
- how much it impacts on profits
- whether deflation causes consumers to keep delaying purchases hoping for even lower prices

Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of deflation. However, this must be considered as low-level evaluation and awarded accordingly.

Also give credit for:

- relevant use of evidence and examples from other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART 08: 25 MARKS

09 Explain the main economic determinants of a country's demand for imports. (15 marks)

For candidates who:

- define imports;
- relate import performance to export performance, perhaps with an invisible/visible reference;
- explain imports in the context of the balance of payments on current account, perhaps referring to imports explicitly as a debit item;
- put imports into the context of the circular flow of income

**up to 2 marks per definition/explanation
to a maximum of 4 marks**

explain determinants of a country's demand for imports, eg

- income (1 mark) which allows consumers to demand more goods and services (1 mark), assuming disposable income also increases with gross income (1 mark). Some will be purchased from overseas sources (1 mark), given that UK consumers traditionally display a high propensity to import (1 mark). This may be for reasons such as consumer preference (1 mark), as characteristics such as quality and after-sales service are seen to be stronger in imports (1 mark) or because the goods or services in question are no longer produced/supplied in the domestic economy (1 mark).
- relative prices (terms of trade)
- protectionist policies
- cheaper credit helping to finance purchases
- deindustrialisation
- raw material, component and energy requirements
- the impact of the Single European Market
- exchange rate trends
- cyclical factors, e.g. recession
- a change in comparative advantage

**up to 8 marks
(1 mark for identification and 7 further marks for explanation)
per determinant explained**

use relevant diagrams to help the explanation

**up to 2 marks per diagram
(1 mark for labelling, 1 mark for correct information shown)
to a total of 4 marks**

Reward references to the UK economy

MAXIMUM FOR PART 09: 15 MARKS

- 10** Evaluate the significance for the UK balance of payments on current account of increased use of protectionist policies around the world. *(25 marks)*

It is hoped that candidates will be able to place answers into the context of an on-going threat to free trade brought about by the world recession before assessing how the UK balance of payments on current account might be affected and arriving at a final judgement.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- protectionism v free trade
- the UK balance of payments on current account
- the work of GATT/WTO
- the Doha Round of talks
- types of protectionism

Developing a response to the question:

- an overview of UK exports/imports; manufactures v services
- competitiveness of exports, e.g. productivity trends, innovation, design, other non-price factors which might compensate for increased protectionism or mean that we are at a greater disadvantage if these factors remain weak
- the potential significance of the exchange rate
- supply and demand elasticity conditions as far as exports and imports are concerned
- the danger of further deindustrialisation and the consequent impact on the balance of payments on current account
- the potential significance of the EU trade bloc and whether even more of our trade is with the EU as protectionism elsewhere increases
- consideration of the different parts of the current account in the context of impediments to trade of various kinds
- any other valid issue

Evaluation:

- the impact on the balance of payments may depend on the extent of the increased protectionist policies
- the impact may depend on the level of protectionism which existed before the further increase in trade barriers

- the degree of impact may depend on the flexibility of the supply-side of the UK economy to take appropriate action given the specific nature of increased protectionism
- the economic conditions in which the strengthening takes place around the world will be significant
- given that the UK may be part of the process of strengthening, it will have to consider the impact on import flows compared to the impact on export performance
- of some importance will be the particular elasticity conditions for exports and imports
- the different parts of the current account might be affected in different ways

Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of protectionism. However, this must be considered as low-level evaluation and awarded accordingly.

Also give credit for:

- relevant use of evidence and examples from other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART 10: 25 MARKS

11 Explain possible economic reasons for changes in the level **and** distribution of government expenditure. **(15 marks)**

For candidates who:

- define government expenditure;
- place expenditure into the context of the Budget and hence taxation;
- explain the difference between ‘level’ and ‘distribution’ of government expenditure
**up to 2 marks per definition/explanation
to a maximum of 4 marks**

explain reasons for changes in the level of expenditure, e.g.

- cyclical (1 mark): in a recession, for example, welfare spending will automatically increase as more of the population become eligible (1 mark), but government may also decide to spend more over and above this in order to minimise the recession (1 mark) and initiate a multiplier effect (1 mark) through capital project schemes (1 mark)
- new decisions made over the provision of merit goods
- new decisions made over the provision of public goods
- to influence the distribution of income
- changed priorities regarding the drive to reduce poverty and the general standard of living of the population
- to underpin key sectors of the economy, e.g. financial services, the car industry
- changing taxation revenue allows an increase in, or makes it necessary to reduce, government spending
- changing views on government borrowing to finance spending plans
**up to 5 marks per determinant explained
(1 mark for identification and up to 4 further marks for the explanation)**

explain reasons for changes in the distribution of government expenditure, e.g.

- changing economic circumstances (1 mark), brought about by changing domestic or international conditions (1 mark), which in addition to changing the level of spending, may cause governments to have to re-distribute spending (1 mark), e.g. reducing defence spending in order to give more support to domestic sectors of the economy, e.g. banks (1 mark) or postponing capital projects in order to increase welfare payments (1 mark)
- the changed priorities of a new government compared to the previous government or a long-standing existing government trying to breathe new life into itself, e.g. action on poverty might cause less spending on transport

- demand-determined items of expenditure (perhaps reference to a cyclical/structural distinction)
- the impact of an ageing population
- changing levels of concern internationally over environmental issues forces the UK government to commit more spending to the problem which could reduce, for example, the government financial support for the arts/culture etc
- public or private sector investigations and reports highlight failings in key parts of the public sector, notably education and the NHS, and these are therefore given priority in spending over defence, for example
- the topical issue of interest payments on the National Debt

**up to 5 marks per determinant explained
(1 mark for identification and up to 4 further marks for the explanation)**

use relevant diagrams to help the explanation **up to 2 marks per diagram
(1 mark for labelling, 1 mark for correct information shown)
to a total of 4 marks**

Reward references to the UK economy

A maximum of **10 marks** may be awarded if a candidate only answers one part of the question. It is perhaps worth emphasising that there must be a genuine, explicit attempt to address what will probably be regarded as the more difficult part of the question regarding distribution. It should be possible for an A-Level student to disaggregate government spending and address the issue of distribution, rather than just consider the level of spending.

MAXIMUM FOR PART 11: 15 MARKS

12 To what extent should government borrowing be a cause for concern? (25 marks)

It is hoped that candidates will be able to strongly relate the issue of government borrowing to the controversy which has surrounded UK government decisions on borrowing in recent years, to present a balanced assessment of borrowing, and to arrive at a final judgement.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- government borrowing put into its fiscal context
- the basic functions of government borrowing, e.g. to finance spending in a way that negates the need to raise taxes or to help supplement the revenue from tax as tax rates are raised
- the recent UK experience and/or that of other countries
- the significance of the Budget and Pre-Budget reports in the UK

Developing a response to the question:

- an outline of the criteria for assessing concern
- the potential impact on inflation/deflation
- economic growth
- employment
- cyclical reasons for borrowing, perhaps argued as essential in the circumstances
- business and consumer confidence
- the exchange rate
- interest rates
- the impact on the private sector, e.g. complacency
- 'crowding-out'
- the potential difficulty of financing a large borrowing requirement
- the possible impact on the money supply
- the potential impact on future tax-payers
- any other valid issue

Evaluation:

- the level of concern/acceptability of borrowing may depend on the economic circumstances at the time
- concern may depend on the actual level of borrowing
- assessment may be coloured by the decisions made by other countries

- borrowing needs to be related to the National Debt to help any assessment
- the uses to which the borrowed money is put
- whether borrowing creates a necessity to raise taxes in the future or to cut spending
- whether it breaks any fiscal rules and, in turn, whether this is seen as important (up to mid-2008 the UK Code for Fiscal Stability and the on-going EU Stability and Growth Pact)

Examiners should note that it may be possible to award some marks for basic evaluation such as a consideration of the advantages and disadvantages of increased spending which has led to the need to borrow more. However, this must be considered as low-level evaluation and awarded accordingly.

Also give credit for:

- relevant use of evidence and examples from other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART 12: 25 MARKS