



---

# **GCE AS MARKING SCHEME**

---

**SUMMER 2023**

**AS  
ECONOMICS - COMPONENT 2  
B520U20-1**

## **INTRODUCTION**

This marking scheme was used by WJEC for the 2023 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

## GENERAL MARKING GUIDANCE

### Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of economics concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level-based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

## EDUQAS GCE AS ECONOMICS - COMPONENT 2

## SUMMER 2023 MARK SCHEME

1. (a) (i)	<b>Define the meaning of a subsidy.</b>	<b>2</b>
	<b>AO1: 2 marks</b>  Point marked  A subsidy is an amount of money provided to firms by government (1) to help reduce production costs (1)  or increase supply (1) which can then be passed on as lower prices to encourage demand (1)	

1. (a) (ii)	Using the data and a diagram, outline the likely impact of the subsidy on biofuel on the producer and consumer. <span style="float: right;">[6]</span>	
Band	<b>AO1</b>	<b>AO2</b>
	4 marks	2 marks
	<i>Is the diagram correct?</i>	<i>Is the diagram supported by the context?</i>
<b>3</b>	<p style="text-align: center;"><b>4 marks</b></p> <p>Excellent understanding</p> <p>A diagram showing an increase in supply due to the subsidy and the identification of the producer and consumer incidence in their correct relative positions at the new equilibrium price</p> <p>Or consumer and producer surplus</p>	
<b>2</b>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good understanding</p> <p>A diagram showing an increase in supply due to the subsidy and the identification of the producer OR consumer incidence in their correct relative positions but at the initial equilibrium <b>or</b> consumer or producer surplus correct</p> <p>Bottom of band, diagram will lack accuracy with an attempt at consumer incidence/producer incidence/surplus but the wrong way round or wrong positions</p> <p><b>or</b> be a correct text description of impact on consumer/producers</p>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good application</p> <p>Good use of the context to support the diagram</p>
<b>1</b>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited understanding</p> <p>Most likely a diagram showing an increase in supply due to the subsidy.</p> <p>Or outlining how a subsidy works</p>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited application</p> <p>Limited use of context to support the diagram</p>
<b>0</b>	<p style="text-align: center;"><b>0 marks</b></p> <p>No diagram or totally incorrect diagram</p>	<p style="text-align: center;"><b>0 marks</b></p> <p>No valid application</p>

## Indicative content

### AO2

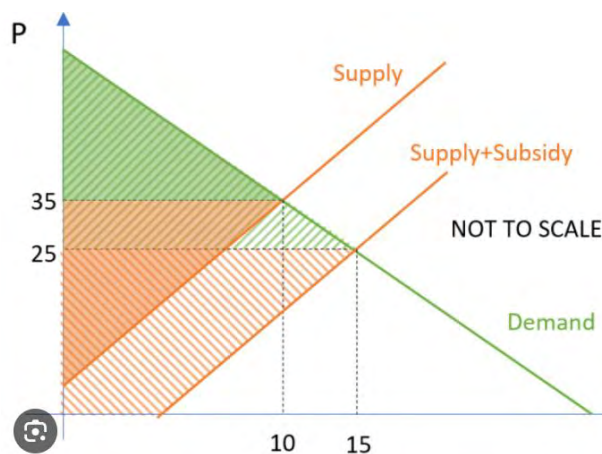
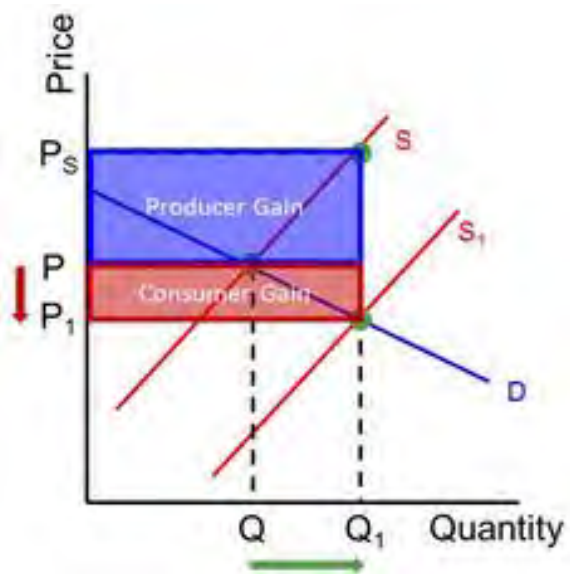
Demand for biofuels in the EU is price elastic due to its substitutes thus a decrease in price will lead to a greater % change in quantity demanded benefiting the producer more.

PES of palm oil may be inelastic due to production time.

Other relevant information in regards biofuel and the trade dispute with EU.

### AO1

Subsidy will therefore benefit the producer more than consumer (linked to surplus on diagram).



1. (b)	Explain a possible external benefit of agricultural production. [4]	
Band	A01	A03
	2 marks	2 marks
	<i>Is understanding of theory of an external benefit shown?</i>	<i>Is the benefit explained?</i>
2	<p><b>2 marks</b> Good understanding</p> <p>A full understanding of the concept of an external benefit</p>	<p><b>2 marks</b> Good analysis</p> <p>Developed lines of analysis making use of economic theory to explain the external benefit consequence on the 3<sup>rd</sup> party</p>
1	<p><b>1 mark</b> Limited understanding</p> <p>Partial understanding of the concept of an external benefit</p>	<p><b>1 mark</b> Limited analysis</p> <p>There is a chain of reasoning, but it is superficial</p>
0	<p><b>0 marks</b> No understanding shown</p>	<p><b>0 marks</b> No valid analysis</p>
<p><b>Indicative content</b></p> <p><b>A01</b> An external benefit is the benefit gained by an individual or firm as a result of an economic transaction but where they are not directly involved in the transaction, ie they are a 3<sup>rd</sup> party.</p> <p><b>A03</b> Retail or service businesses may benefit from higher demand as the labourers in farms receive increased private benefit of higher wages, they then spend these on other firms not initially connected to the initial transaction.</p> <p>The government may receive higher tax revenue from the income of the labourers at the farms through income tax, improving the budget deficit and lowering any opportunity cost of interest.</p> <p>Award any other reasonable external benefit e.g. from Tourism or environmental benefits to a 3<sup>rd</sup> party</p>		

1. (c)	<b>Analyse how a decrease in the price of tradeable pollution permits could lead to increased carbon dioxide (CO<sub>2</sub>) emissions. [5]</b>	
<b>Band</b>	<b>A01</b>	<b>A03</b>
	3 marks	2 marks
	<i>Is understanding of how tradeable pollution permits shown?</i>	<i>Is how lower price impacts on carbon dioxide emissions explained?</i>
<b>3</b>	<p style="text-align: center;"><b>3 marks</b></p> <p>Excellent understanding</p> <p>A full understanding of the concept of tradeable pollution permits</p> <p>Likely to be focused on how businesses that can decrease pollution for less than the value of the permit are incentivised to do so &amp; then sell permits, to profit maximise</p> <p>Inverted: (less incentivised to invest/be more efficient as no need to buy permits at a higher price than cost to decrease pollution and so cheaper to buy than invest and less incentive to sell them to profit maximise)</p>	
<b>2</b>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good understanding:</p> <p>A good understanding of the concept of tradeable pollution permits: tradeable - they can be bought or sold</p> <p>Likely to be focused on higher costs of production and so invest thus limit on quantity of permits bought</p> <p>Inverted: (lower costs if price falls and so less need to invest and more quantity able to be afforded/bought)</p>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good analysis</p> <p>Developed lines of analysis making use of economic theory to explain how a decrease in price of permits leads to increased carbon dioxide emissions</p>
<b>1</b>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited understanding</p> <p>Partial understanding of the concept of tradeable pollution permits: allow pollution</p> <p>Likely to be focused on a limit on quantity of pollution produced due to needing permits to pollute</p> <p>Inverted: (lower costs/more quantity can be gained if price falls)</p>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited analysis</p> <p>There is a chain of reasoning on increased CO<sub>2</sub>, but it is superficial</p>
<b>0</b>	<p style="text-align: center;"><b>0 marks</b></p> <p>No understanding shown</p>	<p style="text-align: center;"><b>0 marks</b></p> <p>No valid analysis</p>



**Indicative content****AO1**

Pollution permits involve giving firms a legal right to pollute a certain amount e.g. 100 units of carbon dioxide per year.

If the firm produces less pollution it can sell its pollution permits to other firms. However, if it produces more pollution it has to buy permits from other firms or the government. This creates a market for pollution permits with the price set by demand and supply. If the price is low, there is less incentive to decrease pollution and sell permits to profit maximise. If price is high there is more incentive to buy permits and pollute.

The aim of pollution permits is to provide market incentives for firms to reduce carbon dioxide emissions.

Businesses will buy permits initially off the government/regulatory body. This increases their costs providing an incentive to decrease emissions to ensure higher profits due to less costs.

If the cost of decreasing pollution for a business of innovating and installing new capital that produces less emissions is less than the value of the permit, then profit maximisers will look to invest in this new capital, so they can sell their permit and create financial contributions that decreases the cost of their pollution they produce.

**AO3**

Lower prices of permits means that there are less firms that find financial benefits of lower pollution and sell their permits to profit maximise.

As prices are lower for the tradeable pollution permits there is less incentive to lower pollution, firms will have less incentive to introduce new technology that produce less emissions.

At lower prices, it is cheaper to buy permits to enable pollution and still make profit so quantity of emissions increase.

Therefore, the emissions would not be lowered as greatly as if the price of the permit was higher, therefore more carbon dioxide released into the atmosphere than otherwise.

1. (d)	<b>Consider whether converting up to 70% of Indonesia's remaining forest into palm plantations is an efficient allocation of resources. [8]</b>		
<b>Band</b>	<b>AO2</b>	<b>AO3</b>	<b>AO4</b>
	3 marks	2 marks	3 marks
	<i>Is the answer in context?</i>	<i>Is reasoning explained?</i>	<i>Is the answer debated and judged?</i>
<b>3</b>	<p><b>3 marks</b> Excellent application</p> <p>Case <b>and</b> data is used very effectively to support arguments on the conversion of the remaining forest being an efficient use of Indonesian resources/factors of production</p> <p>Answer is thoroughly embedded in the context/data</p>		<p><b>3 marks</b> Excellent evaluation</p> <p>Comes to a reasoned judgement as to the extent to which the conversion of the remaining forest is an efficient use of Indonesian resources/factors of production</p> <p>The evaluation is clearly set in the context</p>
<b>2</b>	<p><b>2 marks</b> Good application</p> <p>Case <b>or</b> data is used effectively to support arguments on the conversion of the remaining forest being an efficient use of Indonesian resources/factors of production</p>	<p><b>2 marks</b> Good analysis</p> <p>Developed lines of analysis explaining how the conversion of the remaining forest is an efficient or inefficient use of Indonesian resources/factors of production</p>	<p><b>2 marks</b> Good evaluation</p> <p>Counter arguments are present and developed</p>
<b>1</b>	<p><b>1 mark</b> Limited application</p> <p>Case <b>or</b> data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence</p>	<p><b>1 mark</b> Limited analysis</p> <p>There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Counterpoints are present, but none of them are well-developed or the evaluation is superficial</p>
<b>0</b>	<p><b>0 marks</b> No valid application</p>	<p><b>0 marks</b> No valid analysis</p>	<p><b>0 marks</b> No valid evaluation</p>

## Indicative content

### AO2

Inefficient due to negative externalities:

Half of Indonesia's rainforest, the third largest in the world, has been felled in a few years and burnt to make way for the oil palm tree plantations.

Approximately 11.3 million tons of carbon dioxide, exceeding the 8.9 million tons of daily carbon dioxide emissions.

The forest decline is impacting the most threatened species in the world, including the orangutan.

Decreased access to land and resources which might have been more efficiently used for other output.

Efficient due to:

Use of labour that might otherwise be unemployed as it employs nearly 5 million labourers in Malaysia and Indonesia, with a further 11 million habitants in related industries, which lowers unemployment (lessens an inefficient use of labour)

If palm oil is replaced it will require larger amounts of land resource allocated, by much larger areas of rapeseed, soy or sunflower fields. Palm oil only needs 0.25 hectares for 1 tonne produced compared to 1.25 rapeseed, 1.43 sunflower and 2 soybean.

This may mean there is a greater amount of different species that may suffer, increasing the external costs from overproduction/misallocation of resources.

Use of GDP, unemployment and trade data if used to support an efficient or inefficient allocation of resources.

### AO3/AO4

#### Inefficient

A diagram could be used to indicate market failure and the over production of palm oil (not a requirement but should be rewarded).

Given the negative externalities produced it could be argued that too much of the land is being allocated towards the production of palm oil and so supply is too great given the negative impacts being caused.

Given the increasing size of the industry, it could be argued that too much labour or enterprise is being allocated towards the production of palm oil, when the skills and expertise of labour could be more suitable for different output.

### AO4/AO3

#### Might not be inefficient and might actually be efficient

However, palm oil is only responsible for 0.4% of global deforestation, which suggests it is not a major inefficient allocation of resources.

However, if it is replaced by much larger areas of rapeseed, soy or sunflower fields, a greater amount of different species may suffer. Palm oil only needs 0.25 hectares for 1 tonne produced compared to 1.25 rapeseed, 1.43 sunflower and 2 soybean.

However, if palm oil didn't exist you would still have the same increasing global demand for vegetable oils. If palm oil production was decreased in Indonesia, it will still have to be produced somewhere else.

It is a more efficient use of labour than might be without the industry as it employs nearly 5 million labourers in Malaysia and Indonesia, with a further 11 million habitants indirectly. If the industry did not exist there could be unemployment and so therefore an inefficient use of labour (pareto inefficient).

It's a more efficient use of land as it can be used for production and allows an increase in quantity and quality of the factors of production, thus increased PPF.

Specialisation allows for comparative advantage and use of resources efficiently for trade benefits.

Answer is reversible

1. (e)	<b>Discuss whether sustainability regulations for palm oil should be made compulsory rather than being left to voluntary schemes such as the RSPO. [6]</b>		
<b>Band</b>	<b>AO1</b>	<b>AO2</b>	<b>AO4</b>
	1 mark	2 marks	3 marks
	<i>Is regulation understood?</i>	<i>Is the answer in context?</i>	<i>Is the answer debated and judged?</i>
<b>3</b>			<p><b>3 marks</b> Excellent evaluation</p> <p>Comes to a reasoned judgement on whether sustainability regulations for palm oil should be made compulsory</p> <p>The evaluation is clearly set in the context</p>
<b>2</b>		<p><b>2 marks</b> Good application</p> <p>Case is used effectively to support their argument</p> <p>The data is well-used to support an argument in their debate</p>	<p><b>2 marks</b> Good evaluation</p> <p>Counter argument(s) are present and developed</p>
<b>1</b>	<p><b>1 mark</b> Understanding of regulation</p>	<p><b>1 mark</b> Limited application</p> <p>Case is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Counterpoints are present, but none of them are well-developed or the evaluation is superficial</p> <p>or Strong 1-sided response making a judgment</p>
<b>0</b>	<p><b>0 marks</b> No understanding</p>	<p><b>0 marks</b> No valid application</p>	<p><b>0 marks</b> No valid evaluation</p>

## Indicative content

### AO1

Regulation is broadly defined as imposition of legal rules/restrictions enforced by government, backed by the use of penalties that are intended specifically to modify the economic behaviour of individuals and firms in the private sector.

### AO2

Yes, as various certification schemes have been set up in recent years to make oil palm cultivation more sustainable by imposing clear standards and criteria for rainforest clearance and human rights.

Sustainable practices are important as land continues to be cleared for palm oil plantations, causing negative impacts on biodiversity and the atmosphere/environment.

35% of palm growers that are members of the Roundtable on Sustainable Palm Oil are certified by the RSPO, meaning the other 65% are "second class" members which could mean that they don't follow the standards and criteria in their growing practices. If you made compulsory regulation compulsory this would be less likely to occur.

The certification inspections are taken by independent inspectors, but this could mean that as they are not part of the RSPO organisation and as ethical as they are or diligent in checking. If you made compulsory regulation compulsory this would be less likely to occur.

Certification is not legally required, so although there are certification schemes a large number of palm oil producers may have not opted in, making them less effective to control growing practices, so in fact the government should make the regulation compulsory.

There appears to be a large number of schemes, so may depend on the membership and engagement of producers with those schemes but if the RSPO is the largest and most popular and they have a small number who are members that follow the rules, it does not appear that they would be very effective currently, so making regulation schemes compulsory could be beneficial.

### AO4

But Inspectors can check on if standards are being met and since they are independent, they could be trusted, making the system more likely to be effective. Even with government inspectors there may be the potential for corruption in the inspections.

But full members of the Roundtable on Sustainable Palm Oil (RSPO) have opted into by the businesses and so businesses are more likely to motivated to abide by the standards.

But certified members currently may benefit from selling to businesses who have high standards of ethics which is becoming more important as customers increasingly demand goods from ethical businesses, so no need for the regulation to be made compulsory.

Due to the large number of different schemes, it would be difficult for the government to enforce all of the different schemes, as such the government would need to choose one scheme to make compulsory. This could be difficult to choose.

It appears the problem is out of control and so regulation could be beneficial, however the government may benefit from palm oil plantations, so may have trouble regulating the industry.

Answer is reversible.

1. (f)	To what extent do you think the EU's move to reduce its use of palm oil will harm Malaysian GDP, employment and trade? [9]		
Band	AO2	AO3	AO4
	3 marks <i>Is the answer in context?</i>	3 marks <i>Are the consequences explained?</i>	3 marks <i>Is the answer debated and judged?</i>
3	<p><b>3 marks</b> Excellent application</p> <p>Case <b>and</b> data is used very effectively to support arguments on possible harm to Malaysian GDP, employment and trade</p> <p>Answer is thoroughly embeded in the context/data</p>	<p><b>3 marks</b> Excellent analysis</p> <p>Detailed lines of analysis explaining the possible harm to Malaysian GDP, employment and trade</p> <p>Likely to look at all three consequences</p> <p>All stages in the process are fully explained</p>	<p><b>3 marks</b> Excellent evaluation</p> <p>Comes to a reasoned judgement as to the extent they agree that there would be harm to the Malaysian GDP, employment and trade. The evaluation is clearly set in the context</p>
2	<p><b>2 marks</b> Good application</p> <p>Case or data is used effectively to support arguments on possible harm to Malaysian GDP, employment and trade. Clear reference to the data or case</p>	<p><b>2 marks</b> Good analysis</p> <p>Developed lines of analysis explaining possible harm to at least two of Malaysian GDP, employment and trade</p> <p>Or all three less detailed</p>	<p><b>2 marks</b> Good evaluation</p> <p>Counter argument(s) are present and developed</p>
1	<p><b>1 mark</b> Limited application</p> <p>Learner makes limited reference to the data or case</p> <p>Case or data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence</p>	<p><b>1 mark</b> Limited analysis</p> <p>Limited development of possible harm to Malaysian GDP, employment and trade</p> <p>There is a chain of reasoning, but its use of economic theory is underdeveloped</p> <p>Explanations are superficial</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Counterpoints are present, but none of them are well-developed or the evaluation is superficial</p> <p>or Strong 1-sided response making a judgment</p>
0	<p><b>0 marks</b> No valid application</p>	<p><b>0 marks</b> No valid analysis</p>	<p><b>0 marks</b> No valid evaluation</p>

**Indicative content:****AO2**

In Malaysia, it represents around 4% of annual GDP.

Nearly half of all agricultural output (Malaysian Department of Statistics) and agriculture output as a % of GDP is 9%.

The extra 70% of remaining forest to be converted could further increase the contribution of palm oil to GDP.

5 million labours in both Malaysia and Indonesia receive wages from employment.

11 million more are affected indirectly as suppliers and other businesses benefit from the income generated from the palm oil production.

The EU is banning palm oil from biofuels in 2020, which would eliminate around half of EU palm oil imports, a significant amount.

The EU is Malaysia's third-largest market for palm oil exports after India and China, meaning this could have a significant effect.

**AO3**

If the EU decreases their use of palm oil, there would be reduced imports from Malaysia, leading to lower exports from Malaysia. Lower exports would affect the net trade balance.

As a consequence of the negative impact on the net trade balance, it would worsen aggregate demand as  $AD = C+I+G+X-M$ , leading to lower GDP growth.

As palm oil makes up 4% of GDP, then lower exports will lead to lower GDP. With lower output then palm oil businesses will require less workers and so make redundancies and lead lower employment.

With decrease in income from Palm oil a negative multiplier effect could occur with dropping in confidence in the supply chain, and lower employment levels leading to an even greater decrease in GDP and increase in unemployment.

**AO4**

However, palm oil production is only 4% of GDP, industry output is 38% and services 53% of GDP. As such appears to be a small amount: although some of the industry output could be from palm oil processing.

The data of employment and value is for Malaysia and Indonesia combined, it may depend on how much of these figures are directly related to Malaysia.

Malaysian Government have threatened that free-trade negotiations may be threatened, therefore this could decrease the EU's interest to decrease their use of palm oil. Although the EU free-trade zone is larger market and Malaysia is probably more interested in gaining access than vice a versa.

Threats to buy weapons from other countries is likely to be a more successful negotiation tactic, although this may not be enough to convince the EU to change their decision. May depend on the size of the arms order and how reliant Malaysia is on European weapons.



Malaysia appears well connected with other emerging and growing economies and the TPP which could lead to other trade opportunities, helping to lessen the negative economic impact of the loss of exports to the EU.

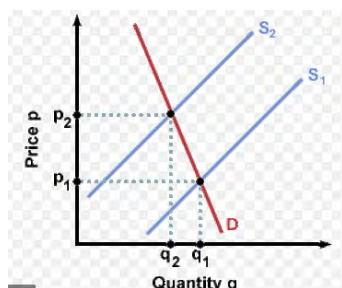
It may harm GDP, employment and trade at least a little in the short run, though there are still a large number of growing markets accepting of products containing palm oil.

<b>2. (a)</b>	<b>Explain one reason for a drop in investment by utility firms during Kirchner's presidency.</b>		<b>[3]</b>
<b>Band</b>	<b>A01</b>	<b>A03</b>	
	1 mark	2 marks	
	<i>Is a factor affecting investment understood?</i>	<i>Is the reason explained?</i>	
<b>2</b>		<b>2 marks</b> Good explanation Reason is fully explained	
<b>1</b>	<b>1 mark</b> Understanding of a factor	<b>1 mark</b> Limited explanation  Reason is identified and briefly explained	
<b>0</b>	<b>0 marks</b> No valid understanding	<b>0 marks</b> No valid explanation	
<b>Indicative content</b>			
<b>A01</b>			
Knowledge of a factor that affects investment such as			
Profit as a source of finance			
Return on investment / financial returns			
Business confidence			
Business failure			
<b>A03</b>			
Stopping price rise of gas, electricity and water in 2002, would lead to lower profits.			
Private sector investment is often made in order to achieve profits as a justification for the spending on expensive capital.			
Profits are used as a source of finance for business capital investment.			
Interest rates are high, higher costs to invest, so makes new projects less financially viable/profitable and so investment in expensive capital is avoided.			

<b>2. (b)</b>	<b>Using a diagram, explain the likely impact of the Argentinian drought on the price of processed plums and peaches. [4]</b>		
<b>Band</b>	<b>AO1</b>	<b>AO2</b>	<b>AO3</b>
	2 marks	1 mark	1 mark
	<i>Are diagrams correct?</i>	<i>Is answer applied to the data?</i>	<i>Is the impact explained?</i>
<b>2</b>	<p><b>2 marks</b> Good understanding</p> <p>Diagram showing a good understanding with supply decreasing leading to an increase in price</p> <p>Diagram is integrated into answer</p>		
<b>1</b>	<p><b>1 mark</b> Limited understanding</p> <p>Diagram showing limited understanding</p> <p>Diagram will either have a labelling error or not be integrated into answer</p>	<p><b>1 mark</b> Application</p> <p>Answer is applied to drought in 2018 &amp; how a drought can decrease supply in agriculture</p>	<p><b>1 mark</b> Explanation</p> <p>There is a chain of reasoning explaining impact on prices – they increase</p>
<b>0</b>	<p><b>0 marks</b> No diagram or totally incorrect diagram</p>	<p><b>0 marks</b> No valid application</p>	<p><b>0 marks</b> No valid explanation</p>

### Indicative content

#### AO1



#### AO2

2018, a drought affected some of Argentina's main exports due to a smaller harvest/yield reducing production of processed plums and peaches

#### AO3

Drought decreases supply from  $S_1$  to  $S_2$  due to a lack of output produced, and so less available at any given price level.

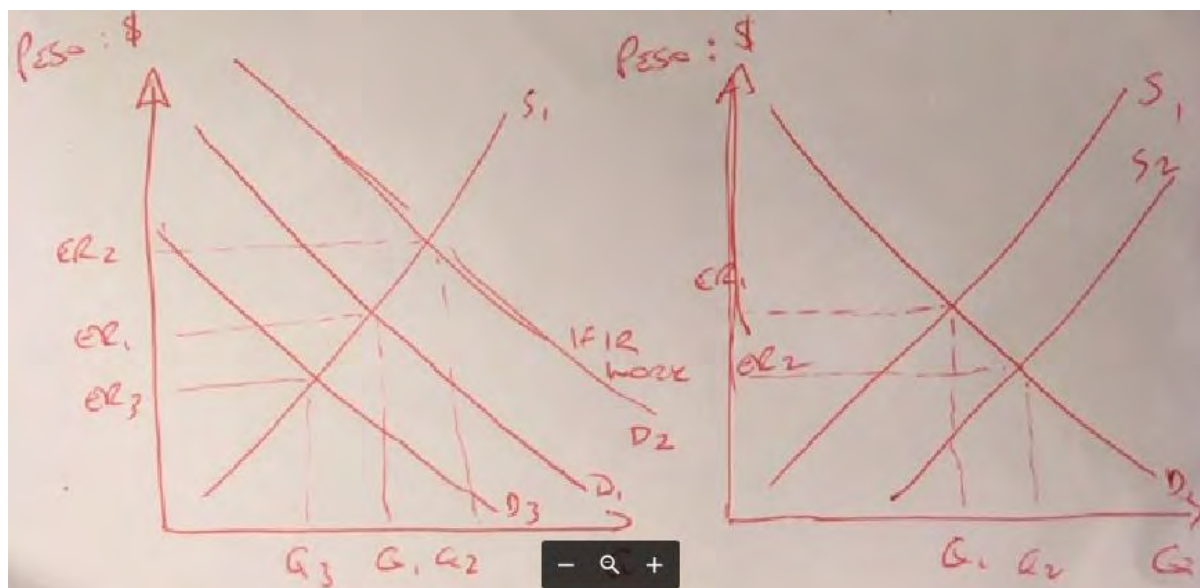
This causes excess demand or supply deficient at the original price level  $P_1$ . The excess demand causes a pressure on prices to rise with the excess in demand reducing as prices rise until demand equals supply at the new equilibrium  $P_2 Q_2$ .

2. (c) (i)	<b>Explain the impact of a decrease in the exchange rate of the peso against the US dollar on the cost of Argentina's public sector debt. [4]</b>	
<b>Band</b>	<b>AO1</b>	<b>AO3</b>
	2 marks	2 marks
	<i>Is understanding of exchange rate's clear?</i>	<i>Is the impact on the cost of public sector debt explained?</i>
<b>2</b>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good understanding</p> <p>A full understanding of the concept of changing exchange rates</p>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good explanation</p> <p>Developed lines of analysis making use of economic theory to explain how a change of exchange rates can lead to a change in the cost of public sector debt in terms of more peso's to pay it back/it costs</p>
<b>1</b>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited understanding</p> <p>Partial understanding of the concept changing exchange rates</p> <p>Understanding of what an exchange rate is</p>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited explanation</p> <p>imoact identified and there is a chain of reasoning, but it is superficial.</p> <p>Or focuses on budget deficit</p>
<b>0</b>	<p style="text-align: center;"><b>0 marks</b></p> <p>No understanding shown</p>	<p style="text-align: center;"><b>0 marks</b></p> <p>No valid explanation</p>
<p><b>Indicative content</b></p> <p><b>AO1</b> An exchange rate is the price/cost of buying one country's currency in terms of another.</p> <p>A depreciation in the peso is when more pesos are required to purchase £US dollars. An appreciation in \$US dollars means that it purchases more peso.</p> <p><b>AO3</b> When the dollar rises against the peso, the cost of servicing that debt goes up as it costs more peso to buy a dollar,</p> <p>The interest charged on the government debt/bond with be charged in US dollars.</p> <p>When the currency depreciates, more of your currency needs to be given up to purchase the other currency as such the cost of the interest charged in dollars will become more expensive in peso.</p> <p>Although the following is not required, an example can be used to answer the question</p> <p>For example, if an extra estimated \$100bn borrowing in dollars and the peso losing 1/5<sup>th</sup> of its value, the public sector debt of £100bn was at 5% = \$5bn interest.</p> <p>If the exchange rate was 1 peso to 1 \$US then the \$5bn interest would cost 5bn peso</p> <p>If the exchange rate loses a 5<sup>th</sup> of the value then 1.2 peso to 1\$US then the \$5bn interest would cost 6bn peso.</p>		

<b>2. (c) (ii)</b>	<b>Given the increase in interest rates, discuss whether the change in the exchange rate of the Argentina peso in August 2018 is surprising. Use a diagram in your answer.</b> [7]			
<b>Band</b>	<b>AO1</b>	<b>AO1</b>	<b>AO2</b>	<b>AO4</b>
	2 marks	2 marks	1 mark	2 marks
	<i>Is the diagram correct?</i>	<i>Is understanding of interest rates link to exchange rates clear?</i>	<i>Is there reference to the context?</i>	<i>Is the answer debated and judged?</i>
<b>2</b>	<p><b>2 marks</b> Good understanding</p> <p>Accurate exchange rate diagram showing a change in exchange rate due to changes in capital inflows/outflows or change imports or exports</p> <p>There are no meaningful errors</p> <p>Diagram is integrated into answer</p>	<p><b>2 marks</b> Good understanding</p> <p>A full understanding of the link between interest rates and capital flows is indicated, by linking to both capital inflows and / or outflows through hot money</p> <p>Or drop in imports due to consumption effects</p>		<p><b>2 marks</b> Good evaluation</p> <p>Counter argument(s) are present and developed</p> <p>The evaluation is clearly set in the context</p>
<b>1</b>	<p><b>1 mark</b> Limited understanding</p> <p>The diagram is limited in scope or contains significant labelling errors</p> <p>Or Diagram is not integrated into answer</p>	<p><b>1 mark</b> Limited understanding</p> <p>A partial understanding of the link between interest rates and demand or supply of currency</p>	<p><b>1 mark</b> Limited application</p> <p>A link to the case in the context of the exchange rate falling whilst interest rates rose</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Counterargument (s) are present and developed but not in context</p>
<b>0</b>	<p><b>0 marks</b> No diagram or diagram is incorrect</p>	<p><b>0 marks</b> No understanding shown</p>	<p><b>0 marks</b> No valid Application</p>	<p><b>0 marks</b> No valid evaluation</p>

## Indicative content

### AO1



Higher interest rates should lead to higher capital inflows due to “hot money” therefore D1 to D2, so ER1 to ER2.

But the capital inflows might actually decrease D1 to D3 and ER1 to ER3 due to lack of confidence in Argentina and inflation.

Capital outflows may increase as “hot money” leaves the country S1 to S2 as well leading to ER2.

Capital outflows may also increase as speculators sell Peso to buy dollars.

### AO2

Large interest rate increase raising its benchmark interest rate to 60 percent the 4<sup>th</sup> interest rate increase. Large increase since May 2018 when interest rates were 27.5%.

Comparatively high Interest rates compared to the 10% between 2008 and 2013.

government borrowing and capital outflows necessary to service the interest on the increase debt of the estimated \$100bn.

There was a period of relatively moderate inflation in the 2000s. It didn't last, averaged around 10% up to 2014 but rose quickly during the time the interest rate rose.

### AO4

However, the continued government borrowing and capital outflows necessary to service the interest on the increase debt of the estimated \$100bn would lead to expectations by speculators that the exchange rate may fall due to increased supply of the peso (capital outflows) and so therefore do not purchase the peso due to higher interest rates.

Argentina has a history of inflation problems. There was a period of relatively moderate inflation in the 2000s. It didn't last, averaged around 10% up to 2014 but rose quickly during the time the interest rate rose. Speculators believe that high inflation in the Argentina means that Argentinian goods increase in price quicker than foreign goods. Therefore, speculators believe that Argentina goods become less competitive. Demand for Argentinian exports will fall, and therefore there will be less demand for Peso. Believing the currency will not appreciate, speculators do not purchase when interest rates are increased.

Also, speculators believe Argentinian consumers will find it more attractive to buy foreign imports. Therefore, they will supply peso to be able to buy foreign currency and the foreign imports. Speculators believe this increase in the supply of peso will decrease the value of the peso, therefore do not buy when interest rates are increased.

Worries over GDP growth slowing and the increasing inflation may have hurt foreign businesses' confidence of saving in Argentinian banks and so speculators believe the peso will not be demanded as much even with higher interest rates they decide not to buy currency as they do not believe capital inflows might occur.

Limited judgment for generic comments such as: Private banks may not pass on the full interest rate increase from the central bank.

Overall, although the high interest rate is exceptional and should in theory lead to an appreciation, but given the economic headwinds that Argentina appeared to be facing, it is not surprising that the exchange rate continued to fall.

<b>2. (d)</b>	<b>Using the data, consider whether Macri was right to cut government spending in order to improve the budget/fiscal deficit.</b>			<b>[7]</b>
<b>Band</b>	<b>AO2</b>	<b>AO3</b>	<b>AO4</b>	
	2 marks	2 marks	3 marks	
	<i>Is the answer in context?</i>	<i>Are benefits fully explained?</i>	<i>Is the answer debated and judged?</i>	
<b>3</b>			<p style="text-align: center;"><b>3 marks</b></p> <p>Excellent evaluation</p> <p>Comes to a reasoned judgement as to the extent Macri was right to introduce cuts to government spending to improve the budget/fiscal deficit</p> <p>The evaluation is clearly set in the context</p>	
<b>2</b>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good application</p> <p>Case <b>and</b> data is used effectively to support argument</p>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good analysis</p> <p>Developed lines of analysis explaining how it is right to introduce cuts to government spending to improve the budget/fiscal deficit</p>	<p style="text-align: center;"><b>2 marks</b></p> <p>Good evaluation</p> <p>Counter argument(s) are present and developed</p>	
<b>1</b>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited application</p> <p>Case or data is used, but its use is underdeveloped, taking the form of occasional reference rather than forming strong supporting evidence</p>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited analysis</p> <p>There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial</p>	<p style="text-align: center;"><b>1 mark</b></p> <p>Limited evaluation</p> <p>Counterpoints are present, but none of them are well-developed or the evaluation is superficial</p> <p>Or one sided judgement if based on strong analysis</p>	
<b>0</b>	<p style="text-align: center;"><b>0 marks</b></p> <p>No valid application</p>	<p style="text-align: center;"><b>0 marks</b></p> <p>No valid analysis</p>	<p style="text-align: center;"><b>0 marks</b></p> <p>No valid evaluation</p>	



## Indicative content

### AO2

Energy subsidies to households were paid to households, taking up valuable budget. Large amount of government spending on pensions before Ms Kirchner came to power, social security payouts, including pensions, consumed around one-third of the government's budget. After it consumed nearly half of the budget.

The data suggests that the budget was a budget deficit and increased to -5.4% of GDP by 2015. This dropped to -4.6% after Mr. Macri cut government spending.

National debt rose to 52.6% of GDP by 2015 from 38.9% in 2010, suggesting that cuts of government spending were needed to help keep the increase in national debt under control.

International investors appeared to approve as the government borrowed successfully by issuing bonds in June 2017 with an extended repayment period to finance its budget/fiscal deficit. International investors backed Macri's decisions by buying these government bonds, which was impressive for a country with a reputation for not repaying its public sector debt.

### AO3

The budget deficit is where government spending is greater than taxation.

A decrease in government spending, if taxation remains the same will improve the balance of the budget as there will be less payments by government decreasing G of G-T.

An improvement in budget deficit can lead to a slower increase in national debt as a % of GDP as less is borrowed from lenders by the issuing of government debt bonds.

There are benefits of having less government debt, such as lower opportunity cost of the interest repayments, less crowding out and improvement in credit rating.

### AO4

However, energy subsidies to households ensured that energy could be affordable, maintaining their standard of living/welfare. Without the subsidy this could be harmed. Households with higher energy bills may cut back on consumption of other goods, harming business profits and investment.

Cutting spending on pensions could harm the vulnerable elder population and harm their ability to purchase necessities, hurting consumption and GDP growth.

The budget deficit, after initially improving worsened to -6.1% and then returned to -5.5%, suggesting during a period of economic growth debt continued to worsen so they are right to try to cut government spending but it's not actually helping the budget deficit as a % of GDP.

Debt continued to increase as a % of GDP possibly due to a fall in GDP due to the decrease in government spending, therefore not leading to the intended benefits of lower debt levels.

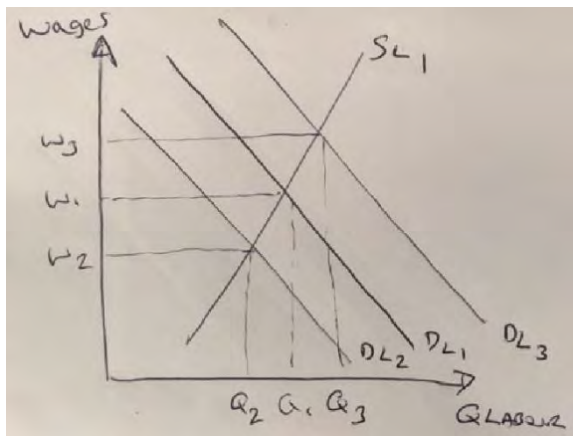
Appears that before Macri, the Argentinian government was spending on what could be perceived as wasteful, cutting the budget/fiscal deficit could have appeared to be sensible, but it could be the cause of some of the later problems the economy has faced.

Answer is reversible.

<b>2. (e)</b>	<b>Using a labour market diagram, discuss the likely impact on wages of reforming labour laws.</b>			<b>[6]</b>
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	<b>AO4</b>	
	2 marks	2 marks	2 marks	
	<i>Is the diagram correct?</i>	<i>Is an impact of reforms on wages explained?</i>	<i>Is the answer debated and judged?</i>	
<b>2</b>	<b>2 marks</b> Good understanding  Accurate use of labour market diagram to indicate likely impact of labour market reforms  There are no meaningful errors  Diagram is integrated into answer	<b>2 marks</b> Good analysis  Developed lines of analysis explaining why reforms are likely to lead to changes in wage levels	<b>2 marks</b> Good evaluation  Comes to a reasoned judgement on the likely impact on wages of labour market reforms  Counter argument(s) are present and developed	
	<b>1</b>	<b>1 mark</b> Limited understanding  Labour market diagram to indicate likely impact of labour market reforms  The diagram is limited in scope or contains significant labelling errors  Or Diagram is not integrated into answer	<b>1 mark</b> Limited analysis  Limited development of why reforms are likely to lead to changes in wage levels  There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial	<b>1 mark</b> Limited evaluation  Counterarguments are present and developed but lacks an overall judgement on the question
<b>0</b>	<b>0 marks</b> No diagram or diagram is incorrect	<b>0 marks</b> No valid analysis	<b>0 marks</b> No valid evaluation	

## Indicative content

### AO1



Also award a change in minimum wage if used (reduction)

Also award a decrease in real-wage (if trade union power decreased)

Also award decreased supply of labour (if labour opts out of market)

Also award increased supply of labour (if reforms involve less qualifications needed)

### AO3

In this case the reforms which aimed to help businesses gain productivity and competitiveness made it easier for firms to sack workers, therefore now there are less penalties for firing workers, businesses are more likely to decrease their demand for workers.

Less demand for workers decrease demand from DL1 to DL2. Therefore there is an excess supply for labour, decreasing wages from W1 to W2.

### AO4

However, one possible outcome could be that before employers were uncertain on employing employees because the labour protection meant employers facing high costs as a result of the strong protection afforded to employees if there was a period of low demand. Due to lower employment costs they might now be willing to hire labour and increase their demand for labour, knowing they can decrease demand if they need to.

Increasing demand for workers, increases demand from DL1 to DL3. Therefore, there is an excess in demand for labour, meaning wages could rise.

The change in wage will depend on the confidence of firms and demand for firms' goods, now that protection for workers is reduced.

Essentially it will also depend on the type and extent of the change in labour laws.

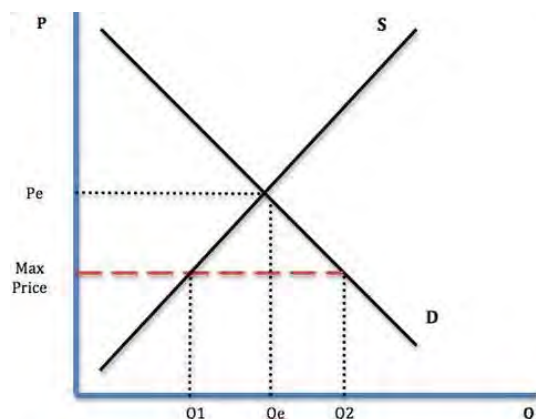
**Markers note** – reforming labour laws could be reformed in favour of the employees or in favour of firms.

Award any relevant argument focused on reforms of labour laws such as minimum wage.

2. (f)	<b>Using a demand and supply diagram, discuss the extent to which price controls on the 60 essential products will be an effective tool to control inflation in Argentina.</b> <b>[9]</b>			
<b>Band</b>	<b>A01</b>	<b>A02</b>	<b>A03</b>	<b>A04</b>
	2 marks	2 marks	2 marks	3 marks
	<i>Is the diagram correct?</i>	<i>Is the answer in context?</i>	<i>Is the link between price controls and inflation explained?</i>	<i>Is the answer debated and judged?</i>
<b>3</b>				<p><b>3 marks</b> Excellent evaluation</p> <p>Comes to a reasoned judgement as to the extent that max price could be effective at controlling inflation</p> <p>The evaluation is clearly set in the context</p>
<b>2</b>	<p><b>2 marks</b> Good understanding</p> <p>Accurate max price diagram accurately labelled</p> <p>Diagram is integrated into answer</p>	<p><b>2 marks</b> Good application</p> <p>Data and case is used effectively to support arguments on how max price may or may not be an effective tool to control prices</p> <p>Clear reference to the data throughout answer</p>	<p><b>2 marks</b> Good analysis</p> <p>Developed lines of analysis explaining how max price could be effective at controlling inflation</p>	<p><b>2 marks</b> Good evaluation</p> <p>Comes to a reasoned judgement of whether max price could be effective at controlling inflation</p> <p>Counter argument(s) are present and developed</p>
<b>1</b>	<p><b>1 mark</b> Limited understanding</p> <p>Weaker use of diagram to illustrate max price</p> <p>The diagram is limited in scope or contains significant labelling errors</p> <p>Or Diagram is not integrated into answer</p>	<p><b>1 mark</b> Limited application</p> <p>Learner makes limited reference to the data</p> <p>Case/Data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence</p>	<p><b>1 mark</b> Limited analysis</p> <p>Limited development of how max price can help control inflation</p> <p>There is a chain of reasoning, but its use of economic theory is underdeveloped</p> <p>Explanations are superficial</p>	<p><b>1 mark</b> Limited evaluation</p> <p>Counterpoints are present, but none of them are well-developed or the evaluation is superficial</p> <p>Or one sided judgement if based on strong analysis</p>
<b>0</b>	<p><b>0 marks</b> No diagram or incorrect</p>	<p><b>0 marks</b> No valid application</p>	<p><b>0 marks</b> No valid analysis</p>	<p><b>0 marks</b> No valid evaluation</p>

## Indicative content

### AO1



### AO2

The price controls have been placed on 60 items necessity (important) items including food, which may stop their prices from rising as greatly as these are likely to be counted in the measure of inflation.

Inflation peaked at just under 60% before the price controls, but the inflation has started to fall (although still high).

Inflation has generally been high since 2010 at 10% or over. (use of the graph)

Interest rates appear to have failed as interest rates have risen greatly but inflation has continued to rise, so therefore another approach is worth trying.

### AO3

The use of max price on essential goods including food will keep prices stable and keep prices below  $P_e$  at maximum price by putting in a price ceiling. Firms cannot legally charge more than  $P_{max}$  and so limits prices to below the equilibrium.

If the prices of goods and services are limited, then inflation pressure will decrease as firms cannot increase the prices of these goods.

Demand pull inflation will be limited due to max price firms decrease supply as they are unable to cover their marginal costs of producing each unit above  $P_{max}$ . Although there is excess demand, businesses cannot increase prices and there is a lack of supply.

Cost push inflation could be limited as businesses that use any of these 60 goods in their supplies/manufacturing will benefit from prices being kept stable and lower than  $P_e$ , thus their costs of production do not rise or may decrease.

**AO4**

May have some effect on controlling inflation as these are 60 goods including food that are likely to be in the inflation measure.

But could depend on how many of these goods are imported. A major cause of the inflation could be the depreciation of the peso. As the currency depreciates imports become more expensive which leads to higher prices for households and business due to cost push inflation.

But could depend on how many other goods are in the measure of inflation, especially as the Government changed their measurements recently. If there are a large number of other goods in the measurement then it is likely that inflation will still rise significantly.

But could depend on if Argentina's harvest in 2019 is better than 2018, this could lead to lower crop prices and so lead to lower cost push inflation for domestic produced food.

There are other factors such as high interest rates which could also be helping to lower inflation.

Prices have been agreed with producers, so therefore more likely to work as possibly less chance of overdemand and black markets to occur.

Either the price controls or other factors appear to be having a small effect, inflation has started to drop.