COMPONENT 2: Exploring Economic Behaviour

MARK 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 learner 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 suggests the range of economic concepts, theory, issues and arguments which might be included in learners' answers.

1.   Eurotunnel in fight to control the English Channel

Q.	Mark scheme	Total
1 (a)	**Using Figure 2, calculate the 2013 index for total ferry crossings, using 2012 as the base year.** **AO2: 2 marks 1a** Award **2** marks Accept: 119, 119.1 or 119.11 Award **1** mark for correct calculation of absolute difference (2 318) but incorrect final answer.	**2**

| Q.1(b)	With the aid of an appropriate diagram, explain how Sea France's profits had turned to losses by 2008 (paragraph 2). [6]		
Band	AO1 1b	AO2 1b	AO3
	2 marks	2 marks	2 marks
	Is the diagram correct?	Is the data well used?	Is it clear why losses have come about?
2	**2 marks** Diagram is essentially completely correct (or 2 separate diagrams) – see below.	**2 marks** Learner makes effective use of data, identifying the exact losses (3m euros per month) and identifying the reasons for this (falling passenger numbers and declining freight traffic).	**2 marks** Learner explains carefully why losses are being made. It is clear that they understand that because demand has fallen, AR is now below AC, meaning that TC is now below TR.
1	**1 mark** Diagram has original normal or abnormal profit shown correctly and shifts demand inwards. Loss is shown (AC>AR) but MR may not have been shifted, and/or profit maximising output might not be correct.	**1 mark** Learners understand that demand is falling, but fail either to (i) identify the reasons for it or (ii) identify the scale of the losses.	**1 mark** Learner explains that the fall in demand means that revenue has fallen, but does not explicitly link their analysis back to losses – does not make it clear that a loss is made because AR is now below AC.
0	**0 marks** Only the original profit is correctly shown (or worse).	**0 marks** Learner simply states that demand is lower – purely theoretical answer.	**0 marks** No logical chain of argument.

Indicative content

Losses have occurred because of falling passenger and freight numbers. This has shifted the demand curve to the left.

A diagram will be drawn showing a firm making normal or abnormal profits and then losses following a shift of the demand curve and MR to the left.

Ideally this will be all on one diagram but possibly on two separate diagrams.

The learner will explain the diagram.

A demand and supply diagram has a maximum level 1 answer.
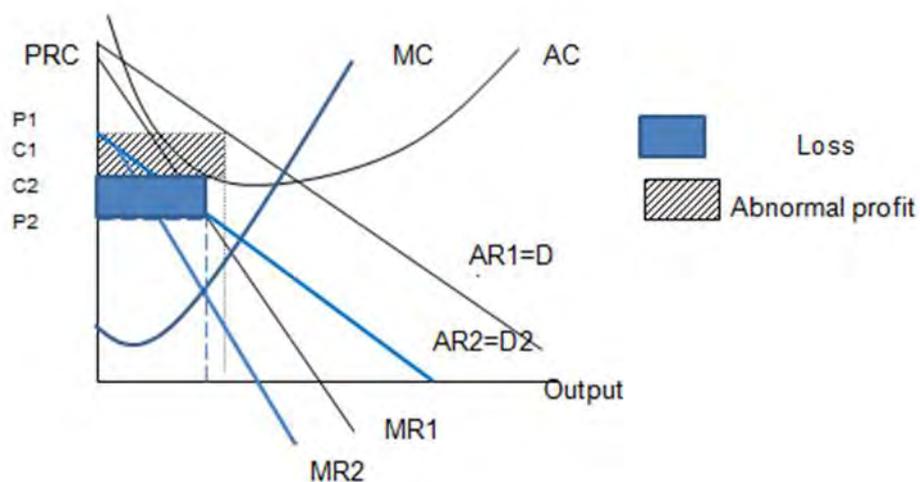
Q.1(c)	Using the data, consider the extent to which the Dover-Calais cross channel market might be considered to be an oligopoly.[8]			
Band	AO1 1a	AO2 1a	AO3	AO4 1abc
	2 marks	2 marks	2 marks	2 marks
	What are the characteristics of an oligopoly?	Are the characteristics applied to the cross channel market?	How well does the learner explain why characteristics indicate an oligopoly?	How good is the judgement of the arguments made?
2	**2 marks** Learner has a good understanding of oligopoly, identifying 3 or more theoretical characteristics.	**2 marks** Learner applies the characteristics of oligopoly effectively to the case – at least 3 of the theoretical characteristics have been developed in the context of the cross-channel market.	**2 marks** Learner is clear about why the characteristics identified in AO1 make a market oligopolistic – learner explains, for example that interdependence is a hallmark characteristic of this market because there are few enough firms to interact. Overall, learner produces a well-argued case as to why the market is an oligopoly. Answers in this band might contrast with other market structures to make their case.	**2 marks** Learner effectively qualifies at least some of their arguments in coming to a final conclusion about whether the market is an oligopoly. Good use of the data. Probably the most likely discussion will be over the extent to which the market is really a monopoly, especially now Eurotunnel has launched MyFerryLink, giving it 56.1% of the passenger market and 48.4% of the freight market. Answers in this band might also highlight differences between the freight and passenger market, arguing that the freight market is more of a three-way split than the passenger market.
1	**1 mark** Learner has some understanding of an oligopoly, but can identify only 2 key characteristics.	**1 mark** Learner only manages to apply 1 or 2 characteristics closely to the case.	**1 mark** Learner has only partially explained why the characteristics of the market they have identified make it an oligopoly. Learner is unlikely to contrast with other market structures, but is able to show why at least some of the characteristic identified are unique to markets with a small number of players.	**1 mark** Learner has qualified at least some of their arguments, probably mainly arguing that the market is more of a monopoly, however, the answer probably does not make use of the data effectively to support this view. There is some sensible questioning of the idea that the market is a classic oligopoly, but the answer is unlikely to come to a clear conclusion.
0	**0 marks** Learner can identify only 1 or 0 key characteristics.	**0 marks** Purely theoretical response.	**0 marks** Response not credit worthy or not attempted.	**0 marks** No developed qualification shown

Indicative content

- Oligopolistic market: a few large firms/high level of market concentration. In this case the cross channel market has three dominant firms, but Eurotunnel has 56.1% of the passenger market and 48.4% of the freight market once the ferry and rail arms are considered together, making the market perhaps closer to a monopoly.

- Low levels of contestability/high entry and exit barriers. Could refer to costs of acquiring ferries, existing customer loyalty and so on.

- Interdependence: firms react to the price/non price decisions of others. Some implication that pricing decisions are interdependent in the case study.

- Firms try to anticipate the next move of other rivals. Could argue that the use of the Competition Commission itself is a form of interdependence.

- Uncertainty – firms do not know how other firms will respond to their own strategic moves.

- Oligopolies are often characterised by occasional price wars, which appears to be the case here, although learners might argue that price stability is also normal, perhaps in this case prices being low and stable.

- Possibility of collusion.

- Oligopolies are also often characterised by non-price competition and there is clear reference to quality of service in the context.

- Reference to more sophisticated concepts such as game theory might well be used to illustrate interdependence.

Q.1(d)	Consider the extent to which the Competition Commission was correct in banning Eurotunnel from operating cross channel ferry services. [12]		
Band	AO2 1b	AO3	AO4 1abc
	4 marks	4 marks	4 marks
	How well has the case been used?	How well have the arguments been developed?	How good is the judgement of the arguments made?
2	**3-4 marks** Clear reference to the case study – at least 3 relevant pieces of evidence are used to support arguments on one side or the other. Arguments are related clearly to the CCs decision to ban Eurotunnel.	**3-4 marks** Learner makes decent arguments on both sides of the debate, using economic theory. Probably at least 2 solid lines of discussion on each side of the case (or 3-1, if the learner skews their answer one way or the other). Clear chain of argument is present outlining both sides of the case study.	**3-4 marks** The evaluation is well-explained. The learner gives a balanced argument. Learners try to qualify the arguments that they make. The answer will probably have a final judgement which has support. Lines of evaluation are well-developed.
1	**1-2 marks** Limited use made of the case study. The case is used, but references are sporadic, perhaps picking just 1 or 2 points of interest, which are not well developed in the context. Answer feels like it is theoretical with examples tacked on rather than the response really focussing on the context.	**1-2 marks** Learner's answer covers only one side of the debate, or covers both sides without much analytical depth – diagrams may be present, but they are not well integrated and chains of argument are generally short.	**1-2 marks** The evaluation is either one-sided or two-sided with limited qualification. Evaluation is not well-developed – explanation is weak and the answer is unlikely to have a well-reasoned final conclusion.
0	**0 marks** Learner only occasionally uses the data, and when they do it is only appended as "e.g. x".	**0 marks** Learner makes scattered points on either or both sides of the debate, which are generally not well-developed.	**0 marks** Learner does not qualify arguments and the answer is likely to be at best purely for and against.

Indicative content

Competition Commission was correct

- ET is using MyFerryLink as a loss leader (evidence from the case - £16m loss while offering cut-price deals). Consumers will lose out in the long term as the number of players in the ferry market is reduced to two (DFDS is threatening to withdraw).

    o **But** ET's losses may simply be penetration prices – once established, things may return to normal, allowing all three operators to continue.

- ET already has a 40% market share and the acquisition of three ferries will consolidate this position further. The CC was right to view the market as cross-channel travel, not as two separate markets. If DFDS left the Dover-Calais route, prices would rise further in the long term.

    o **But** there is no guarantee that price will rise in the long term – ET might have economies of scale, the market could be regulated.

- ET has been accused of buying the ferries only to prevent other firms from doing so.

    o **But,** a firm can only enter the market if they buy some ferries.

- ET is cherry-picking – they are operating only the Dover-Calais route, therefore undermining the socially desirable possibility of full ferry services on other routes (because of the losses that P&O and DFDS would make).

    o **But** *ET may not be cherry-picking – this may only be the start of further expansion plans*.

- ET's entry will reduce profits for all, reducing the possibility of further investment and dynamic efficiency.

    o **But** as a big operator, ET has more potential to invest, and its services are already highly rated.

Competition Commission was incorrect

- ET may be able to generate scale economies by combining the two services, hence resulting in lower prices for consumers.

    o **But** economies of scale are not really that likely – rail and sea services are quite different.

- ET is increasing competition on the Dover-Calais route, which had become a duopoly, hence expanding choice for passengers and resulting in lower prices.

    o **But** with shrinking passenger numbers, ET's entry is clearly an attempt to destroy one of the other firms.

- ET's actions are no different from those of the mainstream airlines which opened their own low-cost operations to compete with EasyJet and Ryanair.

- ET's cross-channel services are highly regarded by consumers as providing a good quality service. If DFDS is driven out, then it is their own fault and customers will be better off with the two remaining firms – certainly they will be no worse off than with the two firms that existed before.

  - **But,** Eurotunnel will then clearly be much larger than the one remaining operator, and, with the possibility to cross-subsidise from the rail services, it may be able to establish a complete stranglehold over the quick crossing market.

Overall evaluation

It is too late – ET has bought ferries now, so it is unfair to stop the company from using them.

It is only one of the routes to France – there are many others. Even if ET monopolise this route, there will still be competition on Portsmouth-Cherbourg etc.

CC has created uncertainty in the market therefore deterring investment and other new entrants.

Ultimately ET's entry has made all firms loss-making, therefore the decision was a correct one – the market simply isn't big enough for three firms.

It is a free market – ET has made an investment that they believe will be ultimately profitable. It is the nature of conglomerates to use profits from one part of the business to support others (Jaguar Land Rover?). Quality is rising and customers are satisfied. Therefore CC was wrong.

Q1(e)	**Assess the pricing and non-pricing strategies cross channel operators might use to increase their profits.** [12]		
Band	AO2 1c	AO3	AO4 1abc
	4 marks	4 marks	4 marks
	How well has the context been used?	How well have the strategies been developed?	How good is the judgement of the arguments made?
2	**3-4 marks** Strategies are clearly anchored into the context of the case – strategies apply well to ferries, not just generic 'increase quality' or 'advertise' – answers feel clearly travel related. At least 2 of the strategies identified are clearly developed in the context of this specific market.	**3-4 marks** Learner shows clearly why a given strategy will lead to an increase in profits. Theory of the firm diagrams are likely to be used to support this, but it is not essential – a strong explanation based around revenue and costs could gain full marks in this band. Learner will need to cover both price and non-price strategies.	**3-4 marks** At least 3 strategies have been qualified in terms of whether or not profits will actually increase in the context of the situation given. Evaluation is in context and applies the strategies well to the market in a qualified fashion.
1	**1-2 marks** Strategies refer to oligopoly and are appropriate to an oligopoly structure, but do not have enough specific reference to the ferry market. At most 1 strategy is well contextualised.	**1-2 marks** Strategies are not clearly anchored back to profits – may explain how the firm will 'benefit', (might increase revenue, demand or market share), but does not make the final link to profitability. Learner might deal only with price or non-price strategies.	**1-2 marks** Strategies have been qualified, but: Only 1 or 2 have been qualified, or the qualifications feel rather abstract – they have not been put fully into the context of the market.
0	**0 marks** Answer is purely theoretical and could be talking about any market at all.	**0 marks** Strategies are identified, but there is no explained linkage through to demand, revenue and so on – linkages are simply asserted.	**0 marks** Strategies have not been qualified.

Indicative content

Pricing strategies might include

- predatory pricing (must be linked to increased long run profits)
- limit pricing (must be linked to increased long run profits)
- profit maximisation (MC=MR assuming the firms were not operating at profit maximisation beforehand)
- price discrimination
- collusion (this could be used as a pricing or non-pricing strategy)

Non-pricing strategies might include

- improving quality (more ferry crossings/comfort/catering)
- advertising
- loyalty schemes
- mergers and acquisitions

Reward the use of game theory to explain strategies.

Evaluation might include

- why strategies might not increase profits in the short or long run, e.g. a price war might develop

- the use of game theory

- action of the competition authorities, e.g. fines or imprisonment for anti-competitive practices

- advertising could be ineffective/costly; other firms might retaliate

- improving quality increases costs and can reduce profit

- loyalty schemes cost money to set up/other firms retaliate, thus profits do not increase

2.   **Are Abe's arrows hitting the mark?**

Q.	Mark scheme	Total
2 (a) (i)	**With reference to the data and Figure 1, explain:** **What is meant by an exchange rate index;** **AO1: 2 marks 1a** Award **2** marks for a full definition and a clear understanding of what is meant by an exchange rate index – in particular learners understand that it is a weighted average. Award **1** mark for an incomplete definition of an exchange rate index such as it is calculated against a number of different currencies. **Indicative content** The exchange rate index, is compiled as a weighted average of exchange rates of home versus foreign currencies, with the weight for each foreign country equal to its share in trade. It is expressed as an index number, so that it can be compared with the value in a base year.	**2**
2 (a) (ii)	**With reference to the data and Figure 1, explain:** **Why a fall in the Yen might increase the profits of Japanese firms.** **AO1: 2 marks 1a** Award **2** marks for an understanding that links back to profits. Award **1** mark for a basic understanding that export prices fall. **Indicative content** Learner understands that the falling Yen reduces the price of Japanese exports in foreign currency terms, hence sales and revenue will rise.	**2**

Q.2(b)	Explain how the first arrow of Abenomics might have helped to end deflation in the Japanese economy. [6]		
Band	AO1 1a	AO2 1a	AO3
	2 marks	2 marks	2 marks
	What are the elements of the first arrow?	How well have the elements been applied to Japan?	How good is the explanation of the process through which deflation might end?
2	**2 marks** Learners identify the 2 elements and understands how they work.	**2 marks** Clear reference how the elements helped to end deflation in the Japanese economy with direct reference to the case/data.	**2 marks** Learner links the policy back to inflation with a clear chain of argument.
1	**1 mark** Learners identify at least 1 appropriate element but offers limited or no explanation.	**1 mark** Limited reference to the Japanese economy showing only superficial understanding.	**1 mark** Learner is able to link the policy back to rising inflation with limited development and explanation.
0	**0 marks** Response not credit worthy or not attempted.	**0 marks** Response not credit worthy or not attempted.	**0 marks** Response not credit worthy or not attempted.

Indicative content

The first arrow involves monetary expansion and has two key elements:

- An increase in the inflation target which should increase inflationary expectations, therefore feeding through into the pay bargaining and financial systems.

- An asset purchase scheme (in this case 50tn Yen of government bonds). This has pushed up the value of the stock exchange, creating wealth effects and driving down bond yields. Hence demand would be expected to rise, pushing up inflation.
A secondary effect has been to push down the value of the Yen, which apart from making Japanese goods look more attractive has driven up import prices, especially energy.

Q.2(c)	With reference to the data and Figure 2, discuss the ways in which GDP growth and deflation might be linked. [8]		
Band	AO2 1a	AO3	AO4 1ab
	2 marks	4 marks	2 marks
	Is the chart used effectively to support the answer?	How good is the explanation of the links between growth and inflation?	How well is the strength/causation of the relationship judged?
2	**2 marks** Learner understands the links between growth and deflation and demonstrates an understanding that both are percentage changes. Raw data is used to illustrate the relationship with named years, or at least there are clearly identified periods of key trends.	**3-4 marks** Understand that changes in GDP affect inflation and will be able to explain: • how the low and negative growth in the 00s led to deflation in most years. • how deflation, once established may continue to push down AD (as explained in the passage) hence contributing to low or negative growth. Top end answers (4 marks) will have a good command of the theory and may support their answers with an appropriate diagram. Generally a top end answer (4) will have a good understanding of the data, will have used specific examples and will have clearly explained 1 direction of causation between GDP and deflation. 3 mark responses may have less depth on one of the directions of causation or may make only superficial use of the data.	**2 marks** Learner is aware that the data is a mixture of causations and other factors and that it is not easy to be clear from the data exactly what the relationship is going to be. They need to be clear that any given time-frame has both effects going on, or that a specified third factor (e.g. global recession) may mess up the relationship. To be in band 2 learners need to support their evaluation with evidence from the data – e.g. rapidly rising inflation in late 2008 had little to do with GDP growth – as it was caused by global commodity shock. **Or** Learner is aware of and points to anomalies within the data that do not fit the expected causation – 2000, late 2005, 2008, 2010 and comes up with a plausible hypothesis as to why such an anomaly might be occurring.

Q.2(c) (cont)	With reference to the data and Figure 2, discuss the ways in which GDP growth and deflation might be linked. [8]		
Band	AO2 1a	AO3	AO4 1ab
	2 marks	4 marks	2 marks
	Is the chart used effectively to support the answer?	How good is the explanation of the links between growth and inflation?	How well is the strength/causation of the relationship judged?
1	**1 mark** Identifies links between growth and deflation, but does not demonstrate understanding that the idea that both charts are % change graphs and will talk about GDP and price levels rising and falling, when in fact this may not be the case.

Or, understanding of percentage change is present, but the data is used in only a superficial manner. | **1-2 marks** Learner is likely to have analysed the linkages in only 1 direction (falling GDP leads to falling prices, or falling prices leads to falling GDP).

2 mark answers will have a clear and well developed line of reasoning and may use a diagram to support the analysis.
1 mark answers will tend to assert causations, or may have missing links in the chain of argument.

Alternatively, they may have identified links in both directions, but there is not enough analysis to be worthy of band 2. | **1 mark** Learner is aware that the data is a mixture of causations and other factors and that it is not easy to be clear from the data exactly what the relationship is going to be.

To be worthy of credit, they need to be clear that any given time-frame has both effects going on, or that a specified third factor (e.g. global recession) may mess up the relationship.

Or

Learner is aware of and points to anomalies within the data that do not fit the expected causation – 2000, late 2005, 2008 and 2010 but does not come up with a plausible hypothesis as to why. |
| **0** | **0 marks** Response not credit worthy or not attempted. | **0 marks** Response not credit worthy or not attempted. | **0 marks** Response not credit worthy or not attempted. |

Indicative content

GDP growth may affect deflation

- Falling GDP growth may lead to deflation because firms come under pressure to reduce costs in response to falling AD. By cutting workforce and other costs, it may be possible to reduce prices to stay competitive with other firms in the market.

- Falling GDP growth weakens the wage-price spiral by increasing competition in product markets and weakening the negotiating power of workers (because of fears over job losses and long-term unemployment).

Deflation may affect GDP growth

- Falling prices deter consumers from spending because prices will be lower in the future, hence reducing AD and growth.

- Falling prices increase the real value of debt, meaning that households will be more likely to try to pay off some of the capital they owe, reducing consumption in the short run, hence cutting AD.

- Once inflation becomes negative, real interest rates start to rise and central banks can't cut nominal interest rates below zero, possibly creating a deflationary monetary policy spiral.

- The rising value of debt may deter firms from investing, hence again putting further downward pressure on demand and growth.

Data

- There are some clear links – between 1998 and 2007, Japanese growth never exceeds 2% and in most years prices are falling. Shortly before the credit crunch, inflation does surge (associated with a commodity price boom globally), but the relationship generally continues after that. In 2013, the Japanese economy seems to have entered a period of positive inflation, although growth remains low.

- Good data use will tend to use the raw data, although good trend-style descriptions may be just as effective.

Q.2(d)	Discuss whether Japan's entry into the Trans-Pacific Partnership is likely to be beneficial for the Japanese economy. [10]		
Band	AO2 1ac	AO3	AO4 1ab
	4 marks	2 marks	4 marks
	How well are the positive and negative points applied to Japan?	How well are the arguments explained?	How good is the judgement of the arguments made?
2	**3-4 marks** Good application to the TPP – most points are put into the context of Japan either qualitatively or quantitatively, for example: • Unrestricted access to a market of 650m workers, including the US • 777% Tariff on rice • Japan's strength in consumer electronics • Unproductive agricultural sector • Ageing farmers damaged • Implications of higher short term unemployment on national debt of 240% of GDP	**2 marks** Learner makes sound arguments on both sides of the debate, using economic theory such as comparative advantage, AD/AS analysis or the tariff diagram well. Arguments are well developed with reasonable chains of reasoning.	**3-4 marks** The evaluation of points is well-explained. The learner gives a balanced argument. Learners qualify the arguments that they make. The answer will probably have a final judgement which has at least some support. Lines of evaluation are well-developed.
1	**1-2 marks** The case is used, but references are limited, perhaps picking just 1 or 2 points of interest, which are not well developed in the context. Limited application to the context.	**1 mark** Learner's answer covers only one side of the debate, or covers both sides with limited analytical depth – diagrams may be present, but they are not well integrated and chains of argument are generally short.	**1-2 marks** The evaluation is either one-sided or two-sided with limited qualification. Evaluation is probably not well developed – explanation is weak and the answer is unlikely to have a well-reasoned final conclusion.
0	**0 marks** Very limited use of the data, and when they do it is only appended as "e.g. x".	**0 marks** Learner makes scattered points on either or both sides of the debate, which are generally not well developed. Costs or benefits to the Japanese economy are likely to be asserted rather than explained.	**0 marks** Learner does not qualify arguments.

Indicative content

Beneficial

Unrestricted access to a market of 650m workers, including the US. Given Japan's renowned strength in consumer electronics and manufacturing, this is likely to give a significant boost to the Japanese economy.

Trade agreements are an important supply side reform, which should encourage Japanese firms to invest, innovate and increase productivity/efficiency.

Free trade should lead to falling prices for consumers, especially for agricultural products, which is important given how high tariffs have tended to be (777% on rice).

Generally free trade stimulates growth through increased use of comparative advantage – unproductive agricultural resources can be put to better use in other sectors of the economy.

Learners may support analysis using an AD/AS diagram, to show growth.

Not beneficial

Jobs are likely to be lost in unproductive sectors such as agriculture, putting further downward pressure on prices, possibly recommencing the deflationary spiral.

Vulnerable groups are likely to be hit, increasing inequalities – e.g. ageing farmers as referred to in the passage.

Higher unemployment etc. may worsen the government's finances, which are already in a very poor state – debt 240% of GDP.

Overall

It depends on exactly which other countries are involved – access to the US is good, but Japan might face strong competition from other Asian countries in areas such as agriculture.

May depend on factor mobility within the Japanese economy – how quickly can resources be switched into areas in which Japan has comparative advantage?

Q.2(e)	To what extent do you feel that Abenomics will be effective in creating sustained economic growth in Japan?		[12]
Band	AO2 1ac	AO3	AO4 1abc
	4 marks	4 marks	4 marks
	How well are the arguments applied to Japan?	How well explained are the arguments?	How good is the judgement of the arguments made?
2	**3-4 marks** Good application to Japan, showing a sensitive understanding of how the arrows might or might not be expected to create growth. Relevant points might include: • Current spurt in growth (4%) • 40% surge in the stock exchange • Labour market is tightening (applicant: jobs ratio 1:1) • Infrastructure spending • Falling Yen driving up import costs • Investment in science • Previous white elephants • Ageing population makes SS reforms essential • Pace of SS reforms has been slow A band 2 answer will embed these answers in the context of AO3 – hence they are not simply mentioned, but are used to build and support an argument. An answer in this band is likely to develop 3-4 real-world relevant features, not necessarily constrained to the list above.	**3-4 marks** Answers in this band will anchor the policies clearly back to both actual (AD) and potential (AS) growth. The chain of reasoning from the three arrows to AD and AS is clear and well-developed theoretically. The learner deals with all three elements of Abenomics. They are likely use AD/AS diagrams to support their analysis.	**3-4 marks** Learner's evaluation of points is well-explained. The learner gives a well-balanced argument. Learners qualify the arguments that they make and the qualifications are explained in detail. The answer will probably have a final judgement which has at least some support. Answers in this band will discuss the policies in the context of the Japanese experience.

Q.2(e) (cont)	To what extent do you feel that Abenomics will be effective in creating sustained economic growth in Japan? [12]		
Band	AO2 1ac	AO3	AO4 1abc
	4 marks	4 marks	4 marks
	How well are the arguments applied to Japan?	How well explained are the arguments?	How good is the judgement of the arguments made?
1	**1-2 marks** The learner uses some pieces of supporting data, but not really consistently and development is likely to be limited. May only refer to a small number of pieces of evidence, although these may be developed, or may refer to a wider (4+) number of points which are not really embedded in the answer.	**1-2 marks** The learner may only develop actual or potential growth in detail, giving only cursory development to the other one. Bottom level answers are likely to cover actual and potential growth, but without strong chains of reasoning – hence they may briefly explain why growth is created, but are not convincing in their detail. Alternatively, there may be some depth to the answer, but it may focus on only one of the three arrows.	**1-2 marks** Attempts to qualify some of their points in terms of either effectiveness of creating growth or side effects, but the evaluation is not well-developed. Explanation of the evaluative points is underdeveloped and the answer may have an unsupported final conclusion.
0	**0 marks** Learner only occasionally uses the data (maybe a couple of relevant ideas), and when they do it is only appended as "e.g. x".	**0 marks** Learner makes scattered points on either or both sides of the debate, which are generally not well developed. Costs or benefits to the Japanese economy are likely to be asserted rather than explained.	**0 marks** Learner does not qualify arguments.

Indicative content

Actual growth

Abenomics is producing a clear monetary and fiscal stimulus to the economy.

QE is likely to push down interest rates and is already pushing up share values. This is likely to create wealth effects, and increased confidence. The Yen has fallen, which should in principle increase exports and might encourage FDI.

But there is a risk that the monetary stimulus will be excessive, creating too much inflation and forcing up interest rates. These might increase the cost of financing the huge national debt, forcing Japan to adopt austerity style packages like those seen in Greece and Spain, which could choke off growth.
Rising interest rates might also damage private sector investment, hence undermining both actual and potential growth.

Uncontrolled inflation would also be likely to damage business confidence, which again might restrict business investment.

The falling Yen is driving up import costs, which is a problem in Japan which is so dependent on imports of key natural resources; rising energy costs could trigger cost-push inflation and choke off growth.

The second arrow

Fiscal expansion is proposed in terms of infrastructure projects (repairing roads and schools) and projects in terms of scientific research and sustainable energy. These might both create actual growth through multiplier effects as well as creating potential growth through improved technology and by reducing reliance on foreign energy sources.

But, this has been tried before and has resulted in the construction of large numbers of white elephants in the form of bridges to nowhere and under-used regional airports. The danger is therefore that growth will not be sustained.

Spending of this nature may simply add to government debt, adding to the risk of crowding out private sector investment and damaging business confidence, again slowing growth in the medium term.

The stimulus may help Japan to recover from its slump, but may not lead to a sustained improvement in GDP – hence it may just be a short term shot in the arm rather than a policy which promotes sustained growth.

The third arrow

Labour market reforms are clearly going to be very important with Japan's ageing population. Making it easier to hire and fire may allow productivity improvements to be pushed through – Japan has been lagging behind other G8 countries in recent years due to surplus labour. Increasing female participation will also be important in helping to deal with the costs of an ageing population, costs which might slow down growth due to the high tax burden needed to finance them.

Entry into the TPP forms *part* of these reforms and learners may well re-hash arguments here. If they do, these should be credited if they are targeted on growth specifically and provided the learner looks at the third arrow as a whole. A strong answer here will need to deal with labour market reforms.

Without some form of reform here, Japan may soon run out of steam as the output gap narrows.

But:
There are signs that the reforms may be very slow and that 'the pace of change is extremely slow'. Also increased participation and flexibility in the labour market may depress wages and restart the deflationary spiral.

Japan's labour market remains culturally resistant to change – the fact that unemployment remained so low during the credit crunch indicates this.

Overall

It seems clear that the reforms are producing some sort of stimulus. Growth and inflation have both risen (data use), but this sort of false dawn has been seen before (data use) where a short term stimulus has simply petered away and led to an increase in national debt.

However, the authorities seem to be more determined this time – maybe this sign of backbone will permanently change expectations.

But, sustained growth implies supply side improvement, and here the signs are much more uncertain.