



GCE A LEVEL MARKING SCHEME

SUMMER 2017

**A LEVEL (NEW)
ECONOMICS - COMPONENT 3
A520U30-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2017 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 economic 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 A LEVEL ECONOMICS - COMPONENT 3 (NEW)

SUMMER 2017 MARK SCHEME

1 (a)	Explain the factors determining the elasticities of demand and supply of labour.		[10]
	AO1	AO3	
Band	6 marks	4 marks	
	Is there an understanding of factors affecting the elasticities of demand and supply of labour demonstrated?	Is there clear analysis of how the elasticities are determined?	
3	<p align="center">5-6 marks</p> <p>Excellent understanding of the determinants of the two elasticities.</p> <p>More than one factor identified and developed for either elasticity of demand or supply. At least one for each.</p> <p>Possible use of labour market diagrams which support the explanations.</p>		
2	<p align="center">3-4 marks</p> <p>Good overall understanding of the determinants of the two elasticities' or limited understanding of one and an excellent understanding of the other.</p> <p>At least one factor identified and developed for both elasticity of demand and supply.</p> <p>Possible use of labour market diagrams which support the explanations.</p>	<p align="center">3-4 marks</p> <p>Good clear analysis.</p> <p>Each of the two elasticities is explained in detail with analysis in each case of why elasticity of demand and supply may be elastic or inelastic.</p>	
1	<p align="center">1-2 marks</p> <p>Limited understanding of the determinants of the two elasticities.</p> <p>Definitions of the elasticities and/or diagrams may be given although they may not be completely accurate and there is a lack of clear understanding in the explanations.</p>	<p align="center">1-2 marks</p> <p>Limited analysis.</p> <p>Only one of the two elasticities (demand or supply) is well explained in terms of why elasticity may be elastic or inelastic.</p>	
0	<p align="center">0 marks</p> <p>No knowledge or understanding shown.</p>	<p align="center">0 marks</p> <p>No valid analysis present.</p>	

Indicative content:

Definitions of elasticities of demand and supply of labour. Possible use of diagrams.

Elasticity of demand for labour determined by:

Labour costs as a % of total costs if these are high demand is more elastic.

The ease and cost of factor substitution - if easy to substitute capital for labour more elastic.

The price elasticity of demand for the final output produced by a business - if elastic then the demand for labour is more elastic.

Time – short run more inelastic than long run.

Elasticity of supply of labour determined by:

Training and qualifications: the length of training required and level of qualifications needed.

The need to meet certain government regulations, i.e. lorry drivers need an HGV licence.

The mobility of labour: how easy is it to move from one job to another (occupational and geographical mobility).

Differences between elasticity of supply for a job and total labour force elasticity.

In the short run labour is said to be inelastic as it's difficult to increase the supply in the short run.

The tax and benefits system.

Migration.

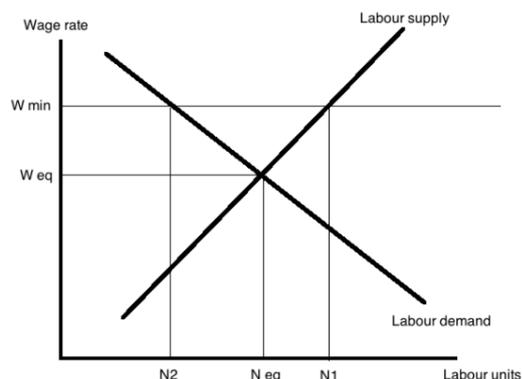
Prestige of the job.

Level of danger involved in the job.

(b)	With the aid of a diagram, evaluate the likely impacts of statutory minimum wages in labour markets. [20]		
	AO1	AO3	AO4
Band	6 marks	6 marks	8 marks
	Is a good understanding shown of possible impacts of minimum wage controls?	How good is the theoretical linkage back to the impacts of minimum wage controls?	How good is the judgement as to whether the impacts are positive or negative?
3	<p>5-6 marks</p> <p>Excellent understanding of the effects of a NMW.</p> <p>Diagram is accurate and integrated into the text of the answer.</p> <p>A clear understanding of the effects of a NMW is shown.</p> <p>At least 2 impacts identified.</p>	<p>5-6 marks</p> <p>An excellent analysis of the impact of a NMW.</p> <p>Candidate has a clear line of argument explaining the impacts on labour markets.</p> <p>There are clear theoretical links with possible effective use of the diagram.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation of each impact identified.</p> <p>The answer shows an ability to qualify each point rather than just give a list of positive and negative impacts.</p>
2	<p>3-4 marks</p> <p>A good understanding of the effects of a NMW.</p> <p>There will be a well-drawn diagram which illustrates potential effects of a NMW.</p> <p>There may be minor errors in the diagram/minor errors or gaps in the understanding of the effects of a NMW.</p>	<p>3-4 marks</p> <p>A good analysis of the impact of a NMW on labour markets.</p> <p>Candidate will refer to several impacts of the NMW and possibly uses the diagram effectively.</p>	<p>3-5 marks</p> <p>Good evaluation.</p> <p>Answers clearly identify positive and negative impacts of statutory wage controls on labour markets.</p>
1	<p>1-2 marks</p> <p>Limited understanding of the effects of a NMW.</p> <p>The diagram has errors and the response has assertions without explanations.</p>	<p>1-2 marks</p> <p>A limited analysis of the impact of a NMW.</p> <p>Analysis is limited to possibly referring to the diagram showing a rise in unemployment.</p>	<p>1-2 marks</p> <p>A limited evaluation of the policy to introduce a NMW.</p> <p>A superficial attempt is made to qualify impacts.</p>
0	<p>0 marks</p> <p>No understanding shown.</p>	<p>0 marks</p> <p>No valid analysis present.</p>	<p>0 marks</p> <p>No valid evaluation present.</p>

Indicative content:

Definition of a minimum wage with a diagram.



Reduction in the demand for labour, increase in supply of labour excess supply of labour, unemployment increases. Relate to the diagram.

Wage differentials are affected causing wage push in higher income positions.

Negative effect on prices for products and services in labour intensive industries.

Cost push inflationary effects which damage international competitiveness.

May have negative effect on inward FDI.

BUT

Effects vary in different labour markets – main effects are in low skill/low wage occupations.

Depends on how high the NMW is set/the state of the economy/elasticity of demand and supply of labour.

Are the minimum wage controls national or regional? (Possibility of increased devolved powers to national assemblies in Wales and Scotland).

NMW may encourage employers to increase the training of low paid workers to increase their productivity.

NMW will increase incentives to work/reduce exploitation of non-unionised workers/reduce power of monopsonistic employers.

Firms find ways to prevent a rise in wage costs e.g. employ younger workers, reduce overtime rates etc.

Increase workload of workers reducing the labour force by redundancies or natural wastage. Possible substitution of workers with new technology.

May reduce the amount paid out by the government in work benefits (tax credits).

Reduction in income inequality.

NMW will increase consumer spending and AD in the economy.

2 (a)	Explain why firms may not aim to maximise profit and instead pursue other objectives.		[10]
Band	AO1	AO3	
	6 marks	4 marks	
	What other objectives might firms pursue?	Why might firms not aim to maximise profit?	
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent understanding of non-profit maximising objectives is shown.</p> <p>At least two alternative objectives are covered and a clear rationale for why each one might be pursued is given.</p> <p>A larger number of objectives covered in slightly less detail is fine here as long as each one is justified.</p>		
2	<p style="text-align: center;">3-4 marks</p> <p>Good understanding of non-profit maximising objectives is shown.</p> <p>Objectives other than profit maximisation are identified and some development is given, but the explanation as to why a firm might be pursuing them is not entirely convincing.</p> <p>Hence understanding is present, but not as full as it could be.</p>	<p style="text-align: center;">3-4 marks</p> <p>Good chain of argument as to why firms might not aim to maximise profit covering the idea that firms might not want to maximise profit or that they might not be able to maximise profit, although a well-developed set of arguments explaining why it will be difficult is also valid.</p>	
1	<p style="text-align: center;">1-2 marks</p> <p>Limited understanding of non-profit maximising objectives is shown.</p> <p>Candidate lists a number of alternative objectives, but does not show understanding of why a firm might want to pursue them.</p> <p>Hence answers may identify objectives such as sales revenue maximisation, perhaps even drawing diagrams, but does not explain why they would be followed rather than profit maximisation.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited development and analysis covering the above issues superficially.</p> <p>Answer focuses more on what the other objectives are likely to be more than why firms might not aim to maximise profit.</p>	
0	<p style="text-align: center;">0 marks</p> <p>No understanding shown.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis.</p>	

Indicative content:

Why firms might not maximise profit

SR/LR: short-run profit maximisation might be destructive to long term success if short-run maximisation results in cost cutting or exploitative behaviour or bad press.

Divorce of ownership from control – shareholders may be unable to control managers:

- Inadequate information – AGMs, shareholders reports
- Lack of day to day access to managers, lack of executive power
- Principal-Agent issues
- Difficulty in co-ordinating action, especially for small shareholders
- Apathy or lack of knowledge amongst shareholders

Profit maximisation in its narrowest sense ($MC=MR$) may simply be impossible - because it is not always possible to calculate precisely both MR and MC?

Organisations are too complex to maximise anything, hence satisficing.

Firms don't wish to maximise profits because it could attract entrants.

Minimising tax liability by practices such as transfer pricing.

Reducing profit by lowering price to remove entrants (predatory pricing) or to deter potential entrants (limit pricing).

Alternative objectives:

Revenue – likely in commission based organisations such as real-estate, car sales, and financial products (miss selling to achieve revenue maximisation). Output and price where $MR = 0$

Sales – Maximisation of the volume of sales ($AR=AC$)

Market share – organisations that put short term growth ahead of profits. Could be prestige (hence vanity mergers) or more long term platform building (Google, Amazon). Also increased market share tends to be associated with monopoly creation.

Survival – focus on cash flow rather than profit, especially in an economic downturn – goal to be one of the firms that can profit from the upturn by surviving that long.

Social and community objectives. May be genuine or just a ploy. Plenty of examples of organisations that seem to be pursuing this – fair-trade coffee, M&S Plan A etc. CSR policies.

Satisficing - maximising benefits to all stakeholders.

Public sector firms have other objectives set by the government/regulators e.g. Network Rail. Allow other plausible objectives.

Industry specific objectives – load factor (airlines) occupancy rates (hotels).

Cost minimisation – budget airlines.

(b)	Markets dominated by large firms, such as Google, Facebook, Apple and Amazon can deliver huge benefits to consumers. To what extent should economists be concerned by highly concentrated markets such as these? [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
	Is a good understanding shown of the problems (or otherwise) associated with concentrated markets?	How good is the theoretical linkage back to whether economists should be concerned?	How good is the judgement of the extent to which economists should be concerned about concentrated markets?
3	<p style="text-align: center;">5-6 marks</p> <p>Good understanding of the issues surrounding concentrated markets is shown.</p> <p>It is likely that answers in this band will have looked at both efficiency and consumer issues at the very least.</p>	<p style="text-align: center;">5-6 marks</p> <p>Excellent analysis as to why the points raised in AO1 are (or are not) <i>of concern</i>.</p> <p>The answer effectively links points to economic outcomes (either positive or negative).</p> <p>Efficiency points may link to welfare loss or waste of FoPs. Consumer points may link to welfare and so on.</p> <p>Answers in this band will have either a very strong technical understanding of the issues of monopoly or will have a really well-developed range of real-world examples which highlight the circumstances in which economists should or should not be concerned.</p>	<p style="text-align: center;">6-8 marks</p> <p>Excellent evaluation of the extent to which economists should be concerned about concentrated markets.</p> <p>There is a well-balanced assessment as to the extent to which economists should be concerned, focusing on the circumstances under which concentrated markets are likely to be more or less problematic.</p> <p>Answers in this band directly answer the question (although this is not sufficient by itself).</p>
2	<p style="text-align: center;">3-4 marks</p> <p>Limited understanding of a good range of the issues surrounding concentrated markets.</p> <p>Answers in this band are likely to have a fair range of points, but these points are not well developed – the depth of understanding is not present that will allow a band 3 answer.</p> <p>Alternatively, the answer may be very narrow, showing a strong understanding of a narrow area such as efficiency, but not looking much outside it.</p>	<p style="text-align: center;">3-4 marks</p> <p>Good analysis of the issues.</p> <p>The answer contains some technical analysis, but is lacking either breadth or depth.</p> <p>Economic theory is analysed or examples are used, but either the analysis lacks depth or there are significant areas which have not been covered.</p>	<p style="text-align: center;">3-5 marks</p> <p>Good evaluation.</p> <p>Answers in this band are good two sided responses giving a full set of arguments on both sides of the debate.</p> <p>It is likely that examples have been used on both sides, although a very strong technical analysis will also be credited.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited understanding.</p> <p>Several advantages and disadvantages of concentrated markets are identified, but understanding is not well demonstrated – the answer is primarily knowledge based.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited analysis.</p> <p>Analysis tends to be superficial with explanations as to why economists should be concerned tending towards less technical areas such as lack of choice or higher prices.</p> <p>Little in the way of sophisticated technical analysis of the issues.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited evaluation.</p> <p>Some counter-arguments are present, but they tend to be asserted rather than analysed. Hence the depth of explanation that is required for a higher band is absent.</p>
0	<p style="text-align: center;">0 marks</p> <p>No understanding shown.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis.</p>	<p style="text-align: center;">0 marks</p> <p>No relevant evaluation.</p>

Indicative content:

Efficiency

Concentrated markets are likely to be inefficient in a number of ways. Both Oligopoly and Monopoly markets are likely to be allocatively inefficient (because they have producer sovereignty and price setting power) meaning that price will be above the free market level resulting in a welfare loss.

Likewise the lack of competitive pressure is likely to lead to productive and X inefficiency, each meaning that units are produced at higher unit cost than is necessary, meaning that FoPs are being wasted, which is bad for society as a whole.

However, shareholder activism, contestability and regulation may all work to reduce the level of inefficiency in the market.

On the other hand, dynamic efficiency is possible. Firms have abnormal profits because of barriers to entry and may have an incentive to use them to innovate either because they do face some competition or they are trying to consolidate their position (barriers to entry, long run profit maximisation). Hence the stage of monopoly power may be important – firms in newly concentrated markets (e.g. Amazon and Google) tend to be more innovative than long in the tooth leviathans.

Likewise, efficiency can be argued to be relative. Firms in highly concentrated markets (where those markets are themselves large) may have internal economies of scale, which will allow lower costs, prices and higher welfare than a market dominated by smaller firms operating 'efficiently'. The extreme example of this would be a natural monopoly, where high levels of concentration are desirable from a cost minimisation perspective.

Consumer

Consumers tend to suffer as a result of higher prices and the risk that quality will suffer. The possibility of collusive behaviour in highly concentrated oligopoly markets may also be a factor here.

On the other hand, firms seeking to consolidate their power may innovate and set prices low (limit pricing). Likewise price discrimination may benefit some groups.

Successful regulation may protect consumers eg EU Competition Commission with Google.

Economy

Again much will depend on the nature of the concentrated market. In some, the drive for future success (as indicated by the firms in the stem) may lead to rapid growth, downward pressure on inflation, rising exports and job creation. However such benefits are not guaranteed, and some dominant firms may prefer simply to profit take, in which case the macroeconomic benefits will be lower (although strong dividend payments may be good for pensioners and governments may still benefit from corporation tax receipts).

Other

Suppliers may or may not benefit depending on the nature of the relationship – larger firms can bully suppliers into accepting lower prices (plenty of cases in the news) as a result of their monopsony buying power, but can work alongside suppliers to support them in other cases.

Workers similarly may benefit from the fringe benefits associated with working for big firms (Google's assorted HQs are good examples of this) or may be exploited by their monopsony power (some newspaper reports of Amazon workers allegedly having their toilet breaks timed).

Overall

Depends on the firm's stage of development, the level of concentration in the industry, the effectiveness of regulation, the role of shareholders, the degree of contestability and the actual objectives of firms.

3 (a)	Explain why recent UK governments have generally been concerned about high levels of public sector debt. [10]	
	AO1	AO3
Band	6 marks	4 marks
	Is there an understanding of the concerns associated with public sector debt?	Is there clear analysis as to why government have these concerns?
3	5-6 marks Excellent understanding of the concerns arising from high public sector debt. Explanations are detailed and comprehensive.	
2	3-4 marks Good understanding of the concerns arising from high public sector debt. Some explanations may lack detail or a narrower range of concerns are identified.	3-4 marks Good clear analysis. The reason for each concern is explained in detail with a clear chain of argument and showing an awareness of contemporary economic issues.
1	1-2 marks Limited understanding of the concerns arising from high public sector debt. A few concerns may be identified. Candidate makes only assertions with little or no explanations.	1-2 marks Limited analysis. Superficial explanation as to why high debt is a concern. There may be a lack of clarity in the analysis. There is little or no link to contemporary economic issues.
0	0 marks No knowledge or understanding.	0 marks No valid analysis.

Indicative content:

High levels of public sector debt are a concern because:

High interest payments – claim on future tax revenue/less money available for future government spending programmes.

Crowding out – resource and financial crowding out.

Overseas held debt – claim by foreigners on UK resources/interest payments form a drain on the balance of payments.

Instability and uncertainty - high debt levels can cause an outflow of hot money and may deter FDI. Also outflows from the economy can impact on the exchange rate.

Fiscal targets set by the government for the budget/fiscal deficit and national debt are threatened. In the past the importance of EMU fiscal targets to meet the membership criteria for the single currency.

Internal confidence issues may reduce both consumption and investment.
Loss of confidence by the markets/loss of rating by agencies.

(b)	Evaluate the use of supply side reforms in reducing unemployment in the UK. [20]		
	AO1	AO3	AO4
Band	6 marks	6 marks	8 marks
	Is there a good understanding of supply side policies in this context?	Is there a clear analysis as to how the policies should reduce unemployment?	Is there an effective discussion as to how effective policies are likely to be?
3	<p>5-6 marks</p> <p>Excellent understanding of how supply side policies can reduce unemployment.</p> <p>At least 2 key policies are identified and explained.</p> <p>The policies have depth to them and there is a clear understanding as to how they would be intended to operate in reducing unemployment.</p>	<p>5-6 marks</p> <p>An excellent analysis of why supply side policies will impact on unemployment.</p> <p>Candidate has a clear line of argument to explain how policies will reduce unemployment.</p> <p>It is likely that at least 2 different policies will be analysed and it will be very clear exactly why each policy reduces unemployment.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation.</p> <p>Candidate comes to a clear view as to the circumstances under which supply side policies either do not work or have limitations.</p> <p>Evaluation is an integral part of the answer throughout.</p>
2	<p>3-4 marks</p> <p>Good knowledge and understanding of how supply side policies can reduce unemployment.</p> <p>At least 2 appropriate policies are identified and an attempt is made to show how they would be intended to reduce unemployment.</p> <p>The explanation as to how each policy is intended to operate is not fully developed, meaning that full understanding is not really demonstrated.</p>	<p>3-4 marks</p> <p>A good analysis of why supply side policies will impact on unemployment.</p> <p>Answer may be strong on only 1 policy with limited development of others.</p> <p>Alternatively the answer may attempt to explain the links between the policy and unemployment, but may not be fully detailed in terms of its approach.</p>	<p>3-5 mark</p> <p>A good evaluation.</p> <p>Answers in this level have qualified arguments but the answer lacks a fully rounded approach with the evaluation appearing as fragmented.</p> <p>Evaluation is not in evidence throughout the answer.</p>
1	<p>1-2 marks</p> <p>Limited knowledge and understanding of how supply policies can reduce unemployment.</p> <p>1 or 2 policies are identified.</p> <p>Assertions are made but there is no real explanation which would demonstrate an understanding of how these policies are meant to operate.</p>	<p>1-2 marks</p> <p>A limited analysis of why supply side policies may impact on unemployment.</p> <p>Analysis is limited possibly to a diagram based assertion in which the impact of the policy is shown.</p>	<p>1-2 marks</p> <p>A limited evaluation.</p> <p>A basic attempt to show that supply side policies to lower unemployment may not work/ take time to work/have other limitations.</p>
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No valid analysis.</p>	<p>0 marks</p> <p>No valid evaluation.</p>

Indicative content:

Brief explanation of the meaning of supply side policies with examples of those relevant to the labour market, i.e. training and education, tax and benefit reform, trade union reform, reduce information gaps/failure in the labour market. Infrastructure (roads/rail/broadband)

Explanation of how these policies will reduce natural unemployment – impact on the LRAS or LRPC.

Possible use of diagrams – AD/AS, Laffer Curve.

Successful supply side reform attracts FDI.

Successful supply side policies will also increase potential growth and reduce inflation as well as unemployment.

BUT

Time for policies to become effective.

Potential for government failure/unintended consequences.

Ineffective when unemployment is demand deficient – possible use of an AD/AS diagram.

Cost to the government – higher government spending.

Cost to firms – apprenticeship levy.

Labour market more flexible but less secure with short term/zero hours contracts.

Weakness of organised labour reduces pay and conditions/growth in income inequality/increase in poverty.

4 (a)	Explain some of the policies that could be used to try to increase investment in the UK economy at the present time. [10]	
Band	AO1	AO3
	6 marks	4 marks
	Is an understanding of factors affecting investment demonstrated?	Is it clear why investment in the UK might be increased as a result of the policies that are implemented?
3	<p>5-6 marks</p> <p>Excellent understanding of a good range of factors that might affect investment is demonstrated.</p> <p>It is likely that at least 2 factors will be identified and linked back to investment.</p>	
2	<p>3-4 marks</p> <p>Good understanding of factors.</p> <p>A narrower range of factors is identified or they are lacking in depth. Nevertheless, answers in this level will have some development – it is more than just a list of factors with a brief sentence after them.</p>	<p>3-4 marks</p> <p>Good, clear chain of argument as to how investment might be raised in the UK at the present time, showing an awareness of contemporary economic issues.</p> <p>Answers will probably take factors explained under AO1 and then contextualise them.</p>
1	<p>1-2 marks</p> <p>Limited understanding of factors.</p> <p>A set of factors that affect investment is identified, but understanding is limited.</p> <p>Factors may not be well linked to government policy, being more of a generic answer.</p>	<p>1-2 marks</p> <p>Limited analysis.</p> <p>There is some attempt to suggest policies that are relevant to the UK economy.</p>
0	<p>0 marks</p> <p>No understanding shown.</p>	<p>0 marks</p> <p>No valid analysis.</p>

Indicative content:**Fiscal policy:**

Tax: Reduce and reform corporation tax, tax credits for R&D, tax incentives for (e.g.) film industry. Reduced tax advantages for debt finance over equity.

Spending: Infrastructure projects, education, subsidies for high speed broadband, incentives for business start-ups, etc.

Reduced government debt burden to increase private sector confidence and reduce the risk of crowding out.

Increase AD via G/T changes to boost C and thus I (basic accelerator process).

Monetary policy:

Interest rates,

QE,

Funding for Lending,

State Investment Bank.

Transparent policy framework to boost confidence/macro-economic stability.

Supply side policies

Further labour and product market reforms may be attractive to FDI.

Increased competition in retail banking/further banking reform.

Creation of business bank targeting young, innovative start-ups.

Infrastructure strategy board to advise the government.

Regulatory changes over equity voting rights.

Allow any plausible policy that is linked back to how investment might be boosted.

(b)	Discuss whether an increase in investment is likely to be the most important factor in increasing economic growth in economies such as the UK. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
	Is a good understanding of the factors which drive economic growth in the UK demonstrated?	How well analysed is the link between investment and growth?	How good is the judgement of the importance of investment?
3	<p>5-6 marks</p> <p>Excellent understanding shown of both actual and potential growth and the factors which might drive each.</p>	<p>5-6 marks</p> <p>Excellent analysis as to why higher investment will be likely to increase economic growth.</p> <p>Answer looks at impact of investment on both AD and AS.</p> <p>Answer looks at how investment can impact on potential growth through increased quantity, quality and efficiency of use of FoPs.</p>	<p>6-8 marks</p> <p>Excellent evaluation.</p> <p>There is a well-balanced assessment as to the importance of investment looking at both reasons why investment might or might not be the key.</p> <p>Answers in this band will balance the importance of investment against other factors that are significant in lifting the growth of developed economies.</p>
2	<p>3-4 marks</p> <p>Good understanding.</p> <p>Answers in this band are likely to focus on one type of growth at the expense of another.</p> <p>Good answers focussing on one rather than the other are likely to be here as will answers which show some understanding of each but are not fully convincing.</p>	<p>3-4 marks</p> <p>Good analysis.</p> <p>Answer either looks at impact only on potential growth (with a good analysis) or looks at both actual and potential growth but is unconvincing on the latter.</p>	<p>3-5 marks</p> <p>Good evaluation.</p> <p>Answers in this band are strong two sided approaches which in the end fail to judge the actual importance of investment.</p> <p>They may lack a focus on MEDCs, or may fail to balance investment with other factors.</p>
1	<p>1-2 marks</p> <p>Limited understanding.</p> <p>Answer shows some understanding of growth but probably focuses superficially on some diagrams, lacking explanation, or looks mainly at AD.</p>	<p>1-2 marks</p> <p>Limited analysis.</p> <p>Analysis tends to be superficial probably based around some simple diagrams and lacks explanation as to why growth will be increased.</p>	<p>1-2 marks</p> <p>Limited evaluation.</p> <p>Some counter-arguments are present, but they tend to be asserted rather than analysed. Hence the depth of explanation that is required for a higher band is absent.</p>
0	<p>0 marks</p> <p>No relevant content.</p>	<p>0 marks</p> <p>No relevant content.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>

Indicative content:

Actual growth is based on AD, hence any of the components of it could lead to a rise in actual growth. These could be triggered by a wide range of different factors including investment itself, although consumption is by far and away the biggest component.

Potential growth is based on the quantity, quality and efficiency of use of FoPs (therefore affecting LRAS) and answers may look at several aspects:

Labour market and capital market changes may increase the quantity of FoPs (immigration, better childcare provision, investment itself).

The quality of FoPs may again be investment, training, education and so on.

Efficiency of use will tend to come from greater competition in product markets, globalisation, privatisation, tougher competition laws and regulation and so on.

Rising investment should drive AD (as a component).

In the longer term rising investment should increase the quantity of FoPs, giving a larger capital base, the quality of FoPs – allowing firms to be more efficient in a whole variety of different ways and improving the efficiency of use of other factors of production, hence stimulating growth. Investment can be in a whole range of different areas other than ‘machines’ – for an economy like the UK, R&D investment, investment into process improvement, IT infrastructure and systems are likely to be at least as important as what might traditionally be thought of as investment and are likely to be more significant in terms of driving the potential growth of the economy.

This growth might be in terms of AD as firms become more competitive in the global marketplace and at home, or potential growth as both productivity and the capital stock increase.

Investment is important but it has to be in the right areas (as noted above). Diminishing returns to physical investment are likely (given a relatively static stock of labour), meaning that innovation is going to be critical. Investment in areas like housing, for example, is unlikely to drive growth (although there may be positive spin-offs in terms of labour market flexibility).

In an increasingly knowledge driven economy like the UK, the key to growth is likely to be more sophisticated than simply increasing investment – the nature of the labour force, the education with which they are provided is likely to be at least as important (investment in human capital). Importance of technological change.

Likewise government investment in infrastructure is likely to be important as the UK competes for both domestic and overseas investment, aiming to become an attractive place for businesses to start-up.

In the end, capital investment is only one factor affecting growth and will be unlikely enough in and of itself to permanently increase the rate of trend growth (although conclusions arguing that investment is the key are fine as long as they are supported).

5 (a)	What are the possible causes of a current account deficit on the balance of payments? [10]	
	AO1	AO3
	6 marks	4 marks
Band	Is an understanding of the causes of a deficit demonstrated?	Is it clear why the deficit will increase as a result of these factors?
3	<p>5-6 marks</p> <p>Excellent understanding of the causes of a current account deficit.</p> <p>There are at least 2 potential causes introduced and the answer shows that these are well understood and explained in detail.</p>	
2	<p>3-4 marks</p> <p>Good understanding of the causes of a current account deficit.</p> <p>The answer lacks range or depth, primarily focussing on 1/2 major causes in detail with others dealt with more superficially with a lack of explanation.</p>	<p>3-4 marks</p> <p>Good clear analysis of the causes of a current account deficit.</p> <p>There is a clear link as to why the cause is responsible for the deficit. There is a strong line of reasoning in the analysis.</p>
1	<p>1-2 marks</p> <p>Limited understanding of the causes of a current account deficit.</p> <p>The answer may amount to little more than a number of undeveloped list of causes.</p>	<p>1-2 marks</p> <p>Limited analysis of the causes of a current account deficit.</p> <p>The link between the cause and the deficit may not be made fully clear or undeveloped.</p>
0	<p>0 marks</p> <p>No knowledge or understanding shown.</p>	<p>0 marks</p> <p>No valid analysis.</p>

Indicative content:

Possible causes of a current account deficit:

- Loss of comparative/absolute advantage.
- Decline in price/non-price competitiveness.
- Over-valued exchange rate.
- Increase in protectionism against exports.
- Low savings rate – high marginal propensity to consume - often imports.
- High rate of economic growth/High marginal propensity to import.
- High rate of inflation compared to competitors.
- Falling demand/recession in export countries e.g. euro zone for the UK.
- Fall in earnings from overseas assets.
- Fall in direct Investment Income e.g. oil price fall has resulted in less investment income from the UK's ownership of oil assets.
- Lack of government support for exporters.
- High level of foreign ownership of domestic firms.

(b)	To what extent should a government be concerned by a large current account deficit? [20]		
	AO1	AO3	AO4
Band	6 marks	6 marks	8 marks
	Is a good understanding shown of the problems (or otherwise) associated with current account deficits?	How well analysed is the link between the current account deficit and the problems (or otherwise) it might bring to the economy?	How good is the judgement of the extent to which economists should be concerned about current account deficits?
3	<p>5-6 marks</p> <p>Excellent understanding of the problems associated with a current account deficit.</p> <p>At least 2 problems are identified with clear understanding shown.</p>	<p>5-6 marks</p> <p>An excellent analysis of how problems of a deficit impact on the wider economy.</p> <p>Candidate has a clear line of argument to explain how the problems impact on the economy.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation.</p> <p>Each point made has been evaluated with an integrated approach to answering the question. The candidate has shown an ability to critically build an argument and may have produced a well-rounded conclusion.</p>
2	<p>3-4 marks</p> <p>Good understanding of the problems associated with a current account deficit.</p> <p>1 or 2 key problems are identified with understanding shown.</p>	<p>3-4 marks</p> <p>A good analysis of how problems of a deficit impact on the wider economy.</p> <p>Answer may be strong only on some problems identified with a limited development of others.</p>	<p>3-5 marks</p> <p>A good evaluation.</p> <p>Answers in this level may not have integrated their evaluation into their answer throughout.</p>
1	<p>1-2 marks</p> <p>Limited understanding of the problems associated with a current account deficit.</p> <p>1 or 2 issues are identified but they are stated without explanation.</p>	<p>1-2 marks</p> <p>A limited analysis of how problems of a deficit impact on the wider economy.</p>	<p>1-2 marks</p> <p>A limited evaluation.</p> <p>A basic attempt to show circumstances when a current account deficit may not pose problems for an economy.</p>
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No valid analysis present.</p>	<p>0 marks</p> <p>No valid evaluation present.</p>

Indicative content:

Concern:

Demonstrates a lack of competitiveness of goods and services.

Deficits ($M > X$) reduce AD and are a drag on economic growth.

High import penetration leads to loss of employment.

To make the balance of payments balance requires borrowing via the financial account thus foreigners have a future claim on UK assets (reliance on the 'kindness of strangers' – Mark Carney).

Large deficits can lead to a lack of confidence in the economy causing speculative outflows and a collapse of the exchange rate.

Often associated with 'living beyond our means'.

BUT

Is the deficit long term/structural or short term and caused by unusual factors?

The current account deficit can be balanced by a surplus on the financial/capital accounts. If the deficit is financed by inflows of long term capital such as FDI this will benefit the economy.

The deficit may be the result of importing capital goods or raw materials which increase productive capacity and boost economic growth.

If the country has a floating exchange rate the current account should not have a long term deficit – it's a self-correcting mechanism reliant on elastic demand for exports and imports.

A current account deficit provides an outlet for domestic demand and reduces inflationary pressure.

What does large mean? A deficit of 4% of GDP plus is a problem but below that it is arguably manageable.

In the short term a deficit can lead to higher living standards as consumption is outside the PPF.

6 (a)	Explain, using numerical examples, the difference between comparative and absolute advantage in trade.		[10]
	AO1	AO3	
Band	6 marks	4 marks	
3	5-6 marks Excellent understanding. Excellent understanding of comparative and absolute advantage with a clear understanding of the difference between them directly shown.		
2	3-4 marks Good understanding. Good understanding of comparative and absolute advantage, but the differences between them are not shown directly – no comparison between the two is present.	3-4 marks Good analysis. Good use of numerical examples to demonstrate clearly the difference between comparative and absolute advantage. Opportunity costs are calculated correctly to show which country has a comparative advantage in which good. Absolute advantage is explained accurately in terms of output per resource in each country	
1	1-2 marks Limited understanding. Some understanding of comparative and absolute advantage is present, but the difference is unclear and only one of them has been well outlined.	1-2 marks Limited analysis. Limited use of numerical examples. Only one of the two has effective numerical examples to illustrate it.	
0	0 marks No knowledge or understanding shown.	0 marks No valid analysis.	

Indicative content

Comparative advantage means that a country is relatively more efficient than another in the production of a good. This is defined as being able to produce a good at lower opportunity cost than another producer.

Absolute advantage means that a country is more productively efficient at the production of a good than another country. This might mean that it can produce a unit in fewer labour hours (Ricardo's original example) or that with a given set of resources (e.g. one labour hour) the country can produce more of a given good or service than another.

The key difference is that whilst it is possible to have an absolute advantage in both goods, it is only possible to have a comparative advantage in one.

Note absolute advantage is relative to resources – it is not the same as saying that the US has comparative advantage in everything relative to (say) Tonga because it is bigger. Absolute advantage is about efficiency not size.

For example:

Suppose that the UK and France can, with one labour hour produce as follows:

	Wine		Beer
UK	20	or	40
France	100	or	100

France has an absolute advantage in both goods because with one hour it can produce more units of either beer or wine than the UK. However, if we look at the opportunity cost ratios, for the UK it is $1W=2B$ whereas in France it is $1W=1B$. Therefore France can produce wine at lower opportunity cost.

The reverse is true for beer – the UK has an o/c of 0.5 wine per beer whereas in France it is still 1:1, meaning that the UK has a comparative advantage in beer.

(b)	"Trade is better than aid". Discuss the extent to which this is true for less economically developed countries in terms of raising their level of economic development.			[20]
	AO1	AO3	AO4	
Band	6 marks	6 marks	8 marks	
3	5-6 marks Excellent understanding. Excellent knowledge of the costs and benefits of both free trade and aid is shown with a good range of costs and benefits of each.	5-6 marks Excellent analysis. An excellent analysis of the impacts of both trade and aid in terms of increasing the development level of an LEDC making good reference to the real world.	6-8 marks Excellent evaluation. Well-developed two-sided answer that looks at the relative merits of both trade and aid making qualified points about each. Comes to a reasoned judgement as to the extent to which one is better than the other with reference to the real world.	
2	3-4 marks Good understanding. Good knowledge of the costs and benefits of one of free trade and aid is shown with a good range of costs and benefits. Some costs and or benefits of the other are shown, but range is limited.	3-4 marks Good analysis. A good analysis of the impacts of trade and aid in raising the level of economic development of LEDCs, but which lacks reference to the real world.	3-5 marks Good evaluation. A strong two-sided answer with well-qualified points for both trade and aid, but which never directly answers the question set in terms of coming to a reasoned conclusion.	
1	1-2 marks Limited understanding. Knowledge of the costs and benefits of both is shown, but the range is limited for both.	1-2 marks Limited analysis. Some explanation of how trade and aid can be beneficial, but this is not well linked back to the idea of economic development.	1-2 marks Limited evaluation. The answer is two sided and attempts to argue that both have benefits, but qualification is quite limited and underdeveloped.	
0	0 marks No knowledge or understanding is shown.	0 marks No valid analysis.	0 marks No valid evaluation.	

Indicative content

Allow all plausible points, but these may include:

Trade:

- Free trade may allow LEDCs to fully exploit the benefits of comparative advantage. Although there is a risk of reinforcing primary product dependency.
- IMF argues that free trade will increase competition and efficiency, hence leading to faster growth.
- Free trade allows LEDCs to access rich markets, which given low cost bases can support rapid growth.
- Free trade leads to greater economic integration, exchange of ideas and cross-border investment, all of which can support long-term growth.
- Much will depend on whether free trade is reciprocal, or whether it is IMF-style free trade.
- Free trade can enhance political relationships between countries.

Aid:

- Aid provides a financial inflow for low income countries – it helps to overcome the savings.
- Gap/finance shortages of LEDCs stemming from a weak tax base.
- Well directed and targeted aid can enhance a country's growth potential but the effects may not be seen for many years.
- Aid can contribute directly to aggregate demand and increase supply potential depending on the area that aid is targeted at.
- Aid that is designed to improve health and education may have a long term impact on development.
- Different kinds of aid projects can affect growth at different times and to different degrees
- Emergency aid may be essential to save lives but is likely to have less of an impact on longer-term economic development.
- Project aid can fast forward investment in critical infrastructure projects - an increase in the capital stock lifts a country's growth potential.

BUT

- Corruption: In poorly governed countries much of the aid is embezzled and leaves the recipient country.
- Ruling Elites: Aid can act as a barrier to true democracy - politicians pay more attention to aid donors than to their citizens.
- Aid dependency: A dependency culture on aid might be generated - the aid paradox is that aid tends to be most effective where it is needed least. Aid flows are often not dependable.
- Market distortions: Aid for example in the form of food aid in emergencies may lead to a distortion of market forces and a loss of economic efficiency.
- Priorities of donors may be inappropriate for the needs of the country in question.
- Loan based aid can simply increase problems of debt.
- Is free trade always fair trade?
- Access to the SEM involves regulatory barriers.