



GCE A LEVEL MARKING SCHEME

AUTUMN 2021

**A LEVEL
ECONOMICS - COMPONENT 3
A520U30-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2021 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

AUTUMN 2021 MARK SCHEME

1. (a)	Using examples, explain how internal and external economies of scale are both able to reduce a firm's unit costs. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	<p>5-6 marks Excellent knowledge.</p> <p>A strong knowledge of both internal and external economies of scale with appropriate examples.</p>	
	<p>3-4 marks Good knowledge.</p> <p>Strong knowledge of one of internal or external economies of scale with appropriate examples.</p>	<p>3-4 marks Good analysis.</p> <p>Clear explanation of how both internal and external economies of scale will reduce unit costs.</p> <p>Well-developed chains of reasoning are present with good use of economic theory.</p>
1	<p>1-2 marks Limited knowledge.</p> <p>Some knowledge of internal and/or external economies of scale, but examples are weak.</p>	<p>1-2 marks Limited analysis.</p> <p>Either clear explanation of how one of internal and external economies of scale will reduce cost or a more limited explanation of both.</p> <p>Chains of reasoning may not be fully developed.</p> <p>Use of economic theory is more limited.</p>
	<p>0 marks No knowledge or understanding is present.</p>	<p>0 marks No valid analysis.</p>

Indicative content:**AO1**

Internal economies of scale:

Show the reduction in unit costs as a result of an increase in scale. Scale implies that all FoPs have been increased and that the organisation's capacity has risen. As a result the organisation (provided output has also increased) may be able to generate cost advantages.

Examples:

Technical/Physical economies (Increasing returns to scale). Include automation, mechanisation, area-volume relationships and so on.

Managerial economics: doubling scale doesn't require double managerial overhead. Larger organisations may be able to employ specialists in areas such as Finance and HR who more than repay their salaries.

Financial: Larger organisations generally have more collateral/trading history and consequently a better credit rating. Therefore finance costs may be lower (lower i/r or access to more sophisticated forms of finance such as IPOs).

Monopsony power over suppliers and workers may allow purchase of lower cost inputs from suppliers or give the firm stronger bargaining power over workers.

External economies of scale

Result from an increase in the scale/size of the industry/industrial expansion.

Note external economies of scale are **not** just any external factor that reduces costs (e.g. a fall in oil prices), it is a factor that derives from the expansion/scale of the industry that a firm is in.

Examples

Specialist suppliers: When an industry reaches a particular scale, it becomes profitable for firm in other industries to specialise in making components for the larger one. As a result, all firms in the larger industry benefit from lower input costs (brake disks and windscreen wipers in the car industry).

Specialist workforce: When an industry becomes large enough, workers may begin to build/develop their own skills to be able to get a job. Universities may start to offer specialist courses which mean that firms can then recruit part-trained employees, reducing their costs.

Locational factors: These are linked to agglomeration, but it may mean that an area attracts skilled workers (making hiring easier) or suppliers (reducing transport costs)

Governmental factors: When an industry has large enough scale, governments may give it preferential treatment - if it is agglomerated, the area may get priority for infrastructure upgrades, for example, which reduce the costs of doing business.

Specialist finance: Similar to specialist suppliers, but banks and financial institutions may come to understand the needs of the sector better allowing specialist and lower cost financial packages.

AO3

Impact on costs.

The key here is that in the case of each factor it is shown how unit costs will be reduced, rather than simply an assertion that it will be so.

A standard example might run something like: Buying in bulk allows the firm to put pressure on its suppliers because the firm is such an important customer. As a result, because so many units are being bought, the firm may get to buy supplies at a lower cost. This means that as the firm's scale increases, it can reduce the cost of production per unit - AC will be reduced.

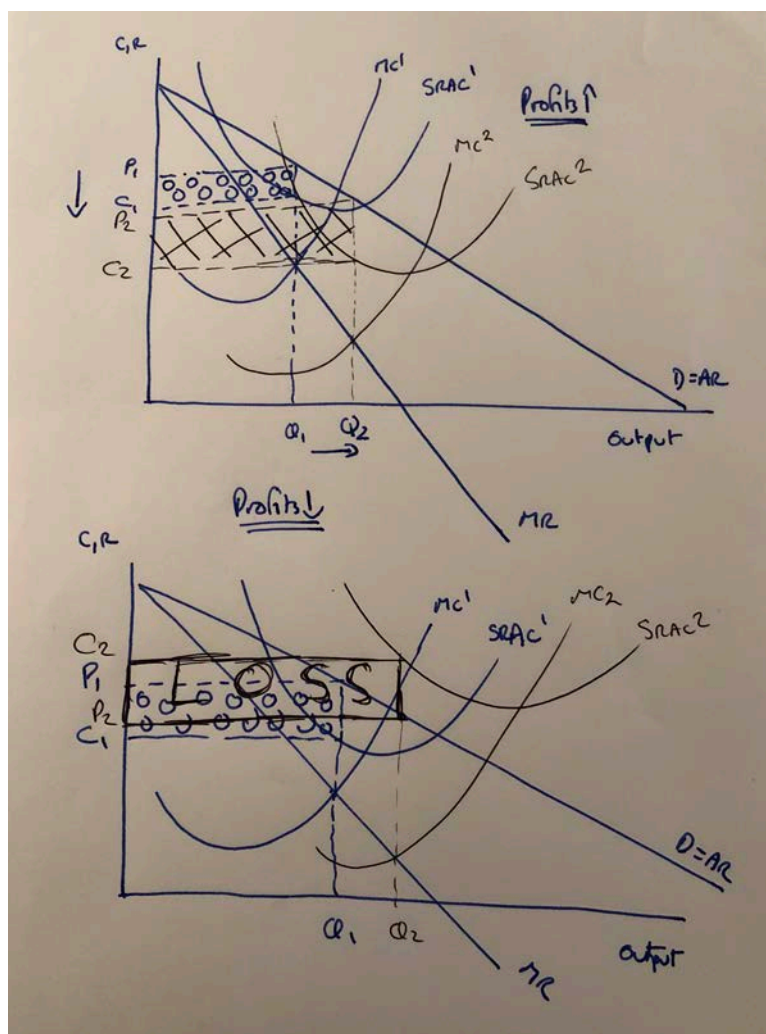
1. (b)	Using diagrams, discuss whether an increase in scale for firms in oligopolistic markets is more likely to increase or to reduce their profitability levels. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks Excellent knowledge.</p> <p>Diagrams are fully accurate and show clearly how a change in scale might affect profitability (rather than just cost)</p>	<p>5-6 marks Excellent analysis.</p> <p>An excellent analysis of how a change in scale can increase a firm's profitability levels.</p> <p>Good use of both cost and revenue concepts to explain why profits could be higher (but emphasis on costs).</p> <p>Strong use of terminology and clear chains of reasoning are present and economic theory is well used.</p> <p>Diagrams are well-integrated.</p>	<p>6-8 marks Excellent evaluation.</p> <p>Strong two-sided answer that comes to an overall judgement supported by the underlying discussion.</p> <p>Evaluation is clearly present either in well-integrated judgements or a well-judged final overview.</p> <p>Factors that it depends on are likely to have been explored.</p>
2	<p>3-4 marks Good knowledge.</p> <p>Good diagrams are used to show the effects of a change in scale, but do not show the effects on profit clearly and accurately.</p> <p>The effect on profit may be inferred rather than shown (Good economies and diseconomies of scale diagrams will be in this band).</p> <p>Answers which make a good attempts at showing profit but are weaker on scale will be in this band.</p>	<p>3-4 marks Good analysis.</p> <p>Chains of reasoning exist between the impact of scale on costs and profits, but there are gaps in the logic.</p> <p>Diagrams may be less well integrated, but the increase in profits is explained.</p>	<p>3-5 marks Good evaluation.</p> <p>Strong counter-arguments are made with chains of reasoning existing between the impact of scale on costs and profits.</p> <p>Some evaluative points may lack development and the answer lacks a reasoned judgement OR evaluation is not integrated.</p>

<p>1</p>	<p>1-2 marks Limited knowledge.</p> <p>Diagrams are weaker but have some merit in answering the question.</p> <p>Answers which only shift AC vertically will be in this band (because they do not show the effect of a change in scale)</p>	<p>1-2 marks Limited analysis.</p> <p>There is a link between a fall in costs and an increase in profits, but technical detail is weak or absent.</p>	<p>1-2 marks Limited evaluation.</p> <p>Some counter-arguments are made but chains of reasoning may not be fully developed. Technical detail is weak or absent.</p>
<p>0</p>	<p>0 marks No knowledge or understanding shown.</p>	<p>0 marks No relevant analysis.</p>	<p>0 marks No valid evaluation present.</p>

Indicative content:

AO1

A version of one of these should be excellent AO1. Both of them would be full marks on AO1. Errors might drop them into Good AO1, but good AO1 is also for standard economies and diseconomies of scale diagrams.



AO3

The actual theory:

Internal economies of scale should result in a reduction in marginal and average costs for the firm. The SRAC curve should shift right and down. The reduction in MC will mean that the profit maximising output is at a higher level of output, entailing a lower price to sell it.

At this higher output, total costs might or might not be higher but unit costs are lower. When coupled with an increase in TR (MR is positive) profits will rise overall. TR will rise because demand is price elastic at all profit maximising outputs (MC will cross MR where MR is positive, which is in the upper part of the D/AR function, hence PED will be in the -1 to $-\infty$ **range**).

This is not what is expected for 'excellent' AO3 - it is too demanding at this level. Strong answers will make use of the diagram, but will also blend this with real world analysis:

Economies of scale mean that the cost per unit is lower, most likely increasing the firm's profit per unit. Since the increase in scale probably means that the firm has a higher market share, profits overall are likely to have risen.

Good but weaker analysis may make less use of the diagram, but explain carefully why large firms in the real world have higher profits than smaller ones as a consequence of the combination of higher revenue and lower costs. The diagram has already been awarded as part of AO1 so do not double penalise, although making strong use of the diagram is a good way of generating high quality analysis.

AO4

This is likely to centre around diseconomies of scale, which if well explained (even without a good diagram) and linked back to lower profits can be credited as good AO4. Stronger answers will argue about what makes an increase or reduction in profits more or less likely:

An increase in scale will only be beneficial if the firm is also able to increase sales to make effective use of higher scale. Failure to do so will actually reduce profit because fixed costs will increase without a corresponding increase in revenue.

Diseconomies of scale are not inevitable. Well-managed firms have in place strategies to avoid the classic problems with demotivation, co-ordination, control and communication such as decentralised management structures (which come with their own issues, but...), performance related pay, workplace design, empowerment and so on.

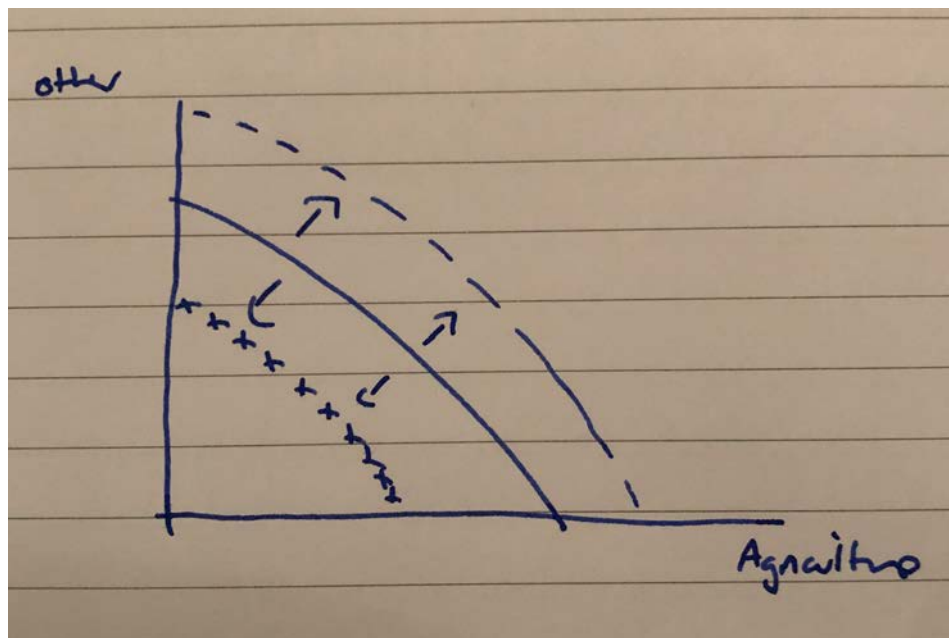
It is also possible that an increase in output resulting from an increase in scale would take the output of non-profit maximising firms into the inelastic part of the demand function (any profit maximising firm wouldn't do this because MR would need to be positive). Firms prioritising growth or market share might therefore experience a short term reduction in profitability as the sought to maximise the market share opportunities that larger economies of scale might give.

These are all hall marks of excellent AO4, although there are other ways of getting there.

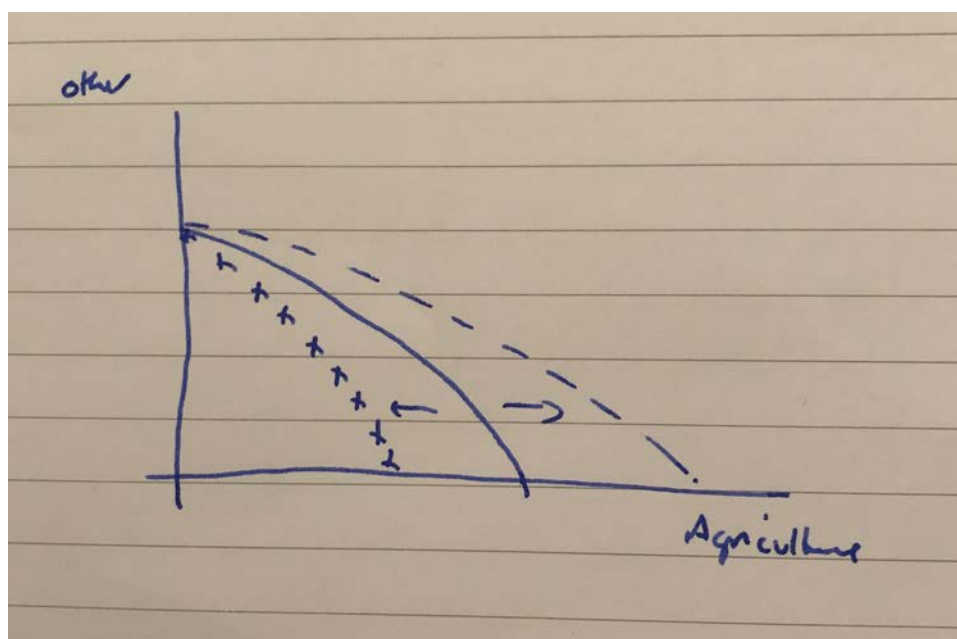
2. (a)	Using diagrams explain, in each case, how changes in population and agricultural productivity may affect an economy's Production Possibility Frontier (PPF). [10]	
Band	AO1	AO3
	6 marks	4 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent knowledge.</p> <p>Good diagram or diagrams that show parallel and non-parallel PPF shifts are shown.</p> <p>Clear implicit knowledge of the meaning of productivity and population growth is shown.</p>	
	2	<p style="text-align: center;">3-4 marks</p> <p>Good knowledge.</p> <p>Good diagram or diagrams showing either positive changes in both population or productivity.</p> <p>Or positive and negative changes in one of the two with the other being done incorrectly.</p> <p>Or Diagrams have sufficient range for Band 3, but quality is very poor.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited knowledge.</p> <p>Some attempt at PPF diagram(s) is made, but only positive or negative changes in one of the two factors is shown.</p> <p>Or Diagrams have sufficient range for Band 2, but quality is very poor.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited analysis.</p> <p>Well-developed chains of reasoning between either population growth or productivity and the PPF are present, making good use of economic theory.</p> <p>Or both have some chains of reasoning which are not fully developed. Use of economic theory is more limited.</p>
0	<p style="text-align: center;">0 marks</p> <p>No knowledge or understanding is present.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis.</p>

Indicative content:**Population:**

Rises in population growth mean that in total the economy has a larger number of factors of production. As a result, the possible output of all sectors in the economy is higher. A fall in population will mean the reverse.

**Productivity:**

Productivity measures output per input (often output per worker). In this case, it is only agricultural productivity that is affected. For a positive change, this will mean that more agricultural output is possible, **with other sectors being unaffected**. Therefore, the PPF will pivot outwards. For a negative change, the PPF will pivot inwards for the same reasons



2. (b)	Evaluate the impacts of an increase in immigration on labour markets. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks Excellent knowledge.</p> <p>Excellent knowledge of the effects of the immigration on labour markets.</p> <p>The answer shows an awareness of a number of points on either side of the question some positive some negative.</p>	<p>5-6 marks Excellent analysis.</p> <p>Excellent analysis of how immigration affects labour markets either positively or negatively.</p> <p>Clear line of argument and strong chains of reasoning.</p>	<p>6-8 marks Excellent evaluation.</p> <p>Well- developed two sided answer that looks at the relative merits of immigration on labour markets.</p> <p>The answer comes to a reasoned judgement as to the extent to which the effects of immigration are likely to be positive or negative.</p>
2	<p>3-4 marks Good knowledge.</p> <p>Good knowledge of the effects of immigration on labour markets some positive some negative.</p> <p>Range on one type may be limited.</p>	<p>3-4 marks Good analysis.</p> <p>A good analysis of how immigration affects labour markets either positively or negatively.</p> <p>There is a good line of argument but overall analysis and the chain of reasoning may lack detail and/or clarity.</p>	<p>3-5 marks Good evaluation.</p> <p>A strong two-sided answer with effective points on both sides of the argument, but which never directly answers the question set in terms of coming to a reasoned conclusion.</p> <p>A good analysis of the other side of the case (to AO3) is present or points are very well qualified.</p>
1	<p>1-2 marks Limited understanding.</p> <p>A limited knowledge of the effects of the immigration on labour markets.</p> <p>The points made are superficial and range is limited on both sides.</p>	<p>1-2 marks Limited analysis.</p> <p>A superficial analysis of the positive or negative effects which lacks detail and a clear chain of reasoning.</p>	<p>1-2 marks A limited evaluation.</p> <p>Evaluation is very limited. A few evaluative points are made but merely as assertions.</p> <p>Or Counterarguments (negatives or positives - the opposite of AO3) are present, but the points made are not developed and superficial.</p>
0	<p>0 marks No knowledge or understanding shown.</p>	<p>0 marks No relevant analysis.</p>	<p>0 marks No valid evaluation present.</p>

Indicative content:**Positive impacts**

Increase in labour supply means that there may be reductions in skills shortages in the economy. This may mean that firms' costs are held down reducing inflationary pressure and helping to increase real wages in the economy as a consequence.

Skills increases in key areas in the economy may be essential to support the UK's export performance or to ensure that bottlenecks in other key areas (such as house construction) do not occur.

Although much will depend on the type of worker that comes to the UK - there are greater shortages in some sectors than others.

Increased immigration is likely to increase Aggregate Demand, meaning an increase in the demand for labour in some sectors. This may increase employment and wage rates in the sectors in which demand rises.

The impact on wages will depend on the balance between the sectors into which migrant workers join the labour force and those in which demand rises. There is no guarantee that these will be the same, meaning that there will be winners and losers.

Migrant workers are often younger than the population as a whole, which may offset the effects of an ageing population on firms, increase the tax base and make state pension payments more affordable.

Although this assumes that migrant workers are actively seeking employment. If not, there is a risk that the burden on taxpayers might increase.

Negative effects

In some sectors, the increase in the supply of labour might drive down wages, resulting in lower living standards in some sectors.

However, the presence of minimum wage legislation in many countries may limit the impact on low income groups. In higher skilled areas, the impact is likely to be less noticeable as value added is higher. Likewise, rising demand in some sectors (partly caused by higher demand from migrant workers) may offset falls in wages. Likewise, in general wages are sticky downwards and firms may be reluctant to cut wages for existing staff. The impact, if any, is more likely to reduce the rate of wage growth and therefore cut real wages over time.

U/e is a risk especially in sectors where the minimum wage is relevant. If the increase in labour supply doesn't drive down wages, then there is a risk of permanent excess supply in some sectors.

Much will depend on the sectors into which migrants enter the labour force. There is little danger of unemployment in the health sector or finance and IT. Much will also depend on the underlying state of the economy. Migration is far less likely to cause unemployment when the economy is growing than when it is in recession.

Pressure on resources is a risk - demand for housing may drive up house prices further in some areas, reducing geographical mobility of labour. Likewise, increased class sizes and impact on health services may have detrimental longer term effects on the labour market in some parts of the country if migration is regionally concentrated.

However, if migration is more spread, the tax base should increase allowing more resources to be put into these areas, although there is an inevitable lag effect.

Workers who themselves are migrants are more likely to suffer because the skills-sets of incoming migrants are more likely to be substitutes for their own skills sets than complements to them.

Overall

Much will depend on the extent to which the skills of migrants are complements or substitutes for the skills of the existing labour force. If workers are substitutes then in the short run, negative effects are more likely. If skills are complementary, however, then all sectors may experience increases in productivity and corresponding increases in wage rates.

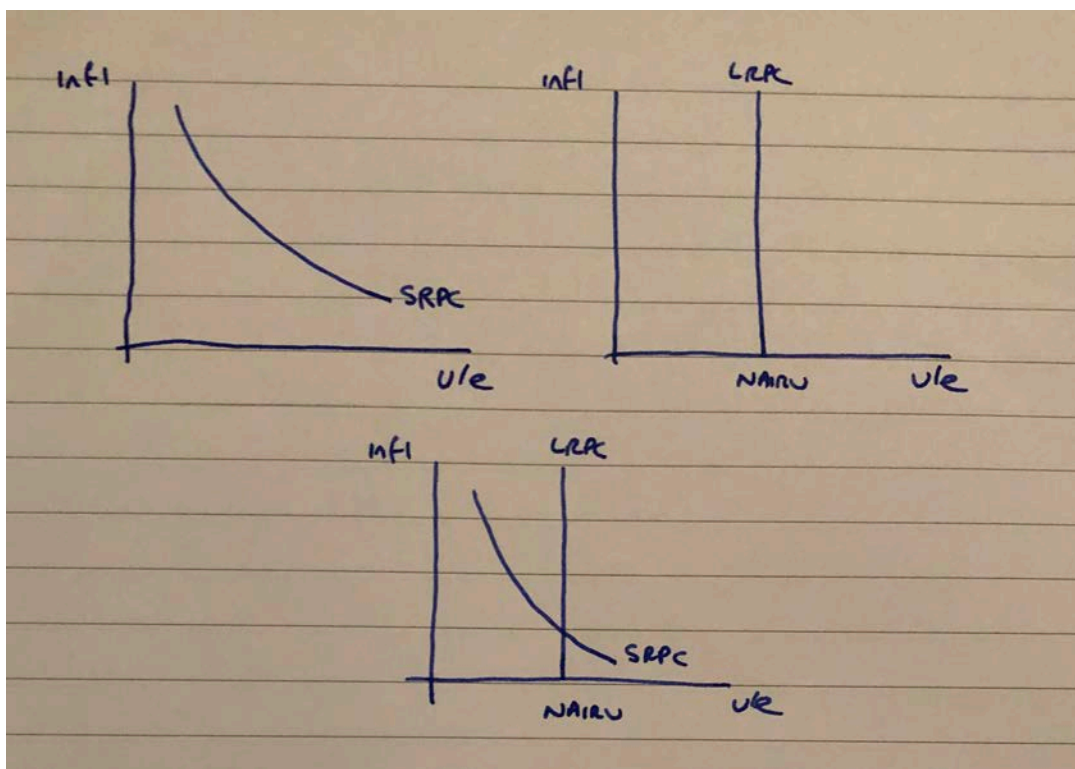
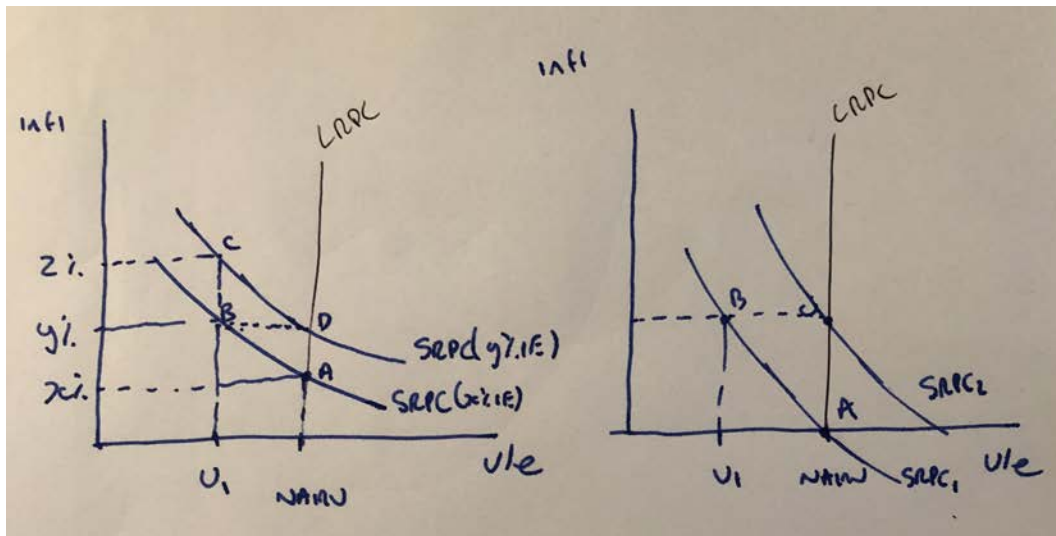
The state of the economy is very important - labour markets adjust much more quickly during periods of strong growth than during recession.

3. (a)	Explain, using a diagram or diagrams, why some economists argue that the long run Phillips curve is vertical but that the short run Phillips curve is not. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent knowledge.</p> <p>Diagram or diagrams that show downward sloping SRPC but vertical LRPC are drawn accurately.</p> <p>Knowledge of the reasons that the gradients of each are different is shown.</p>	
	2	<p style="text-align: center;">3-4 marks</p> <p>Good knowledge.</p> <p>Diagram or diagrams that show downward sloping SRPC but vertical LRPC are drawn accurately.</p> <p>Knowledge of the reasons for the gradients of one of them.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Limited knowledge.</p> <p>Some attempt at SR/LRPC diagrams is made.</p> <p>Some knowledge of the reasons for the gradient of one of them is shown, but may be unclear.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited analysis</p> <p>Either one of the two is explained well and the other one is not, or both have some chains of reasoning which are not fully developed.</p> <p>Use of economic theory is more limited.</p>
0	<p style="text-align: center;">0 marks</p> <p>No knowledge or understanding is present.</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis.</p>

Indicative content:

AO1

There will be a range of approaches to the diagrams. Some possible interpretations are shown below:



Understanding that in the short run, reductions in unemployment lead to an increase in inflation because of higher AD but that in the long run there is no correlation - the economy returns to an equilibrium level of unemployment with any level of inflation.

There is no requirement for an explanation of any of these processes for AO1.

AO3

This is the explanation of why the PCs slope the way they do and the processes involved - chains of reasoning.

SRPC

Reductions in unemployment result in workers having more bargaining power, making it easier to push for a real wage increase. Firms face less competition (because AD is higher) and can therefore pass any wage increases on to consumers in the form of higher prices (higher AD creates demand pull inflation is part of AO1)

In the long run the SRPC is not stable because of inflationary expectations. When u/e is below the NAIRU, in the short run, workers suffer from money illusion and think that they have received a real pay rise when in fact rising inflation has wiped out these gains. When they realise, they will negotiate for yet-higher real wages, which trigger yet-higher inflation. Eventually the economy will self-stabilise and return to the NAIRU, but with whatever level of inflation is now expected in the system. Therefore, the LRPC is vertical.

The very best answers may go further, but there is no need to do so on a part (a).

3. (b) Evaluate the policies that a government could use to shift the long run Phillips curve to the left. [20]			
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks Excellent knowledge.</p> <p>Knowledge of a range of policies that could shift LRPC to the left is shown.</p> <p>Understanding of what those policies are is also made clear.</p>	<p>5-6 marks Excellent analysis.</p> <p>Strong chains of reasoning are present which show exactly how it is possible to reduce unemployment without upward pressure appearing on inflation.</p> <p>The link is made to a leftward shift of the LRPC (and therefore a fall/improvement in the NAIRU)</p>	<p>6-8 marks Excellent evaluation.</p> <p>Strong two-sided answer that comes to an overall judgement as to the extent to which it is likely to be possible to shift the LRPC left.</p> <p>Factors that it depends on are explored.</p>
2	<p>3-4 marks Good knowledge.</p> <p>Knowledge of a range of policies that could shift LRPC to the left is shown.</p> <p>Some understanding of what the policies are is shown.</p>	<p>3-4 marks Good analysis.</p> <p>Chains of reasoning are present which show how it is possible to reduce unemployment without upward pressure appearing on inflation.</p>	<p>3-5 marks Good evaluation.</p> <p>Strong evaluations are made with chains of reasoning explaining why the policies suggested might be ineffective, counterproductive or both.</p>
1	<p>1-2 marks Limited knowledge.</p> <p>Relevant policies are identified.</p>	<p>1-2 marks Limited analysis.</p> <p>There is some explanation of why unemployment might be able to fall without an increase in inflation, but chains of reasoning are under-developed.</p>	<p>1-2 marks Limited evaluation.</p> <p>Some evaluations are made but chains of reasoning are not developed in terms of why policies might be ineffective or counterproductive.</p>
0	<p>0 marks No knowledge or understanding shown.</p>	<p>0 marks No relevant analysis.</p>	<p>0 marks No valid evaluation present.</p>

Indicative content:

Appropriate policies will be supply side policies but some SSPs will be more appropriate to discuss than others. Generally the best ones will be those that increase competition in labour and product markets and therefore reduce the NAIRU (meaning that the economy will self-stabilise to a lower level of unemployment).

All policies have some standard weaknesses such as time and expense, but to gain significant credit there would need to be some sort of policy-specific explanation as to why that would be so. For strong AO4, the evaluation needs to look at the actual policy that has been outlined.

Labour market SSPs

Policies to reduce the negotiating power of workers will mean that unemployment can be reduced without the attendant upward pressure on inflation. Such policies might include:

Reductions on trade union power (in countries where there is still strength). TUs allow workers to negotiate collectively and can ensure that workers are aware of rights, increasing their strength in negotiations. Policies to reduce their power (such as rules on voting, reductions in legal protections for unions and so on) may therefore weaken the power of workers who are members and may also reduce the attractiveness of membership overall.

But trade union power is already weak in large numbers of countries and even if the policy was to work, there might be knock on effects on inequalities and rights.

Deregulation of labour markets to reduce restrictions on hiring and firing, to legitimise zero-hours contracts and reduce the rights of contractors/freelancers mean that such workers have less power to drive up wages. Therefore, even in a tight labour market (when unemployment falls) inflation might not increase.

However, the impact of such policies on inequalities is an issue. Likewise the incentives to gain qualifications and enter the workforce at all could be problematic and lead to negative longer term consequences.

Policies to improve the education and training environment should result in a higher skilled workforce. This both increases productivity (meaning that even if wages do rise there is no net upward pressure on costs) and also increases competition for existing skilled workers, reducing their pay-bargaining power, again allowing u/e to fall without an increase in inflation.

These policies are notorious for having both time lags and a significant risk of government failure (in terms of how effective expenditure is in upskilling at all and whether those skills are in fact relevant).

Policies to reduce replacement rates (the ratio of out of work benefits to pay) and to make remaining out of work less attractive (such as benefit conditionality) may increase competition for those who are in work and therefore weaken their pay-bargaining position, again allowing u/e to fall without an increase in inflation and reducing the NAIRU.

Again implications for those genuinely unable to work and their standards of living. Impact on inequalities.

Product market SSPs

The goal here is to increase competition between firms, so that it is more difficult/less necessary for firms to increase prices when AD rises/u/e falls.

Deregulation of product markets to reduce barriers to entry/increase contestability mean that even when costs increase, firms will find it harder to increase prices. Likewise, competitive pressure (or the threat thereof) may make firms more likely/able to resist pay claims, again reducing the NAIRU.

The question may be whether rules and regulations are eroded so far that final consumers suffer from inadequate products. At the same time, there may be restrictions on how far markets can realistically be further deregulated.

A policy to increase openness to trade (liberalisation of trade) should achieve the same as deregulating product markets.

This will only affect certain markets and there are side effects in terms of whether free trade is necessarily beneficial - standard arguments on dependency, infant industries and so on here.

Policies to encourage small business start-ups should also increase the level of competition between firms, again helping to hold down inflation even if unemployment was to fall.

Easier said than done. Creating an environment that is supportive for small start-ups is notoriously difficult to bring about.

Privatisation can also have a similar effect by imposing market discipline on formerly government-run firms where it is known that there is no sense in which the firm could fail due to the power of the public purse.

Standard issues with privatisation in terms of whether competition is genuinely increased, how much is left to privatise and so on. Plus side effects on consumers.

Many other policies could be suggested, but the key is that they are anchored into the NAIRU/ inflation would be suppressed as a result of a fall in unemployment. There are some generic supply side policies that might be less effective here, or at least will require greater effort to make them relevant.

4. (a)	Explain the factors which may affect the level of investment in an economy. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	5-6 marks Excellent knowledge. Knowledge of a wide range of factors affecting the level of investment is shown. Understanding of what the factors mean is present.	
	3-4 marks Good knowledge. Knowledge of a wide range of factors affecting the level of investment is shown. There may be some gaps in understanding.	3-4 marks Good analysis. There is logical development and clear analysis. There are well developed chains of reasoning between the factor identified and the level of investment.
1	1-2 marks Limited knowledge. Only a basic knowledge of the factors that affect the level of investment is shown. Little understanding is shown.	1-2 marks Limited analysis. Reasoning is generally not well developed but some attempt is made to explain how investment is affected.
	0 marks No knowledge or understanding shown.	0 marks No valid analysis present.

Indicative content:

Interest rates (the cost of borrowing): lower interest rates will encourage firms to borrow money for capital investment. A link to MEC may be shown.

Economic growth (changes in demand): rising AD may encourage firms to invest on the basis that future profitability will rise. A link to the accelerator effect may be shown.

Confidence/expectations: eg animal spirits which refer to the state of confidence or pessimism held by consumers and businesses. Expectations for the future inevitably influence decisions made by firms to commit funds towards capital investment.

Technological developments (productivity of capital/automation/CAD/CAM/ robots/AI): major breakthroughs in technology can encourage investment by firms in order to improve productivity and to remain competitive.

Availability of finance from banks/capital markets: how willing are financial institutions to lend to firms to provide investment funds. A link to the loanable funds theory may be shown.

Government investment in social capital – infrastructure, new hospitals/schools.

FDI: overseas multinationals building and equipping factories and offices.

Inflation: In the long-term, inflation rates can have an influence on investment. High and variable inflation tends to create uncertainty and confusion over investment decisions.

Others (such as profitability, Corporation tax rates, depreciation, cost of labour, government policy such as tax breaks for new investment).

Allow any other plausible factor.

4. (b)	Evaluate the view that high levels of investment by firms and government are always beneficial for the economy. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	5-6 marks Excellent knowledge. Excellent knowledge of the effects of high investment by firms and government.	5-6 marks Excellent analysis. An excellent analysis of how high investment benefits the economy. There is a clear line of argument in the analysis covering both public and private sector investment	6-8 marks Excellent evaluation. A well-developed two-sided answer which looks at the relative merits of investment by firms and government. Learner comes to a reasoned judgment as to the extent to which investment is beneficial to the economy.
	2	3-4 marks Good knowledge. A good knowledge of the effects of high investment by firms or government. Knowledge may be good for one but weak for the other.	3-4 marks Good analysis. A good analysis of how high investment benefits the economy. There is a clear line of argument in the analysis covering public or private sector investment effectively.
1	1-2 marks Limited knowledge. A limited understanding of the effects of high investment.	1-2 marks Limited analysis. A limited analysis of how high investment benefits the economy. Lines of argument show a lack of clarity. There are weak chains of reasoning.	1-2 marks Limited evaluation. Evaluation is very limited. A few evaluative points are made but merely as assertions. The points made are not developed and are superficial.
	0	0 marks No knowledge or understanding shown.	0 marks No valid analysis.

Indicative content:

Benefits of investment:

Component of AD – likely to create jobs in construction and related sectors

Positive impact on potential economic growth/LRAS curve. Shifts PPF and LRAS to the right – possible use of a diagram.

Positive impact on productivity/competitiveness. Reduces unit labour costs and both price and non-price competitiveness.

Increased productivity will impact on real incomes raising living standards.
Investment in robotics/automation/AI may reduce the working week/more leisure time.
Investment is an injection into the circular flow and will increase AD/multiplier effect.

Government investment in public/merit goods/infrastructure will increase productivity/economic growth.

BUT:

Investment can be badly directed/ineffective/law of unintended consequences.

Government investment could be ineffective –potential for government failure.

Examples such as HS2/Crossrail/third runway at Heathrow may be used- possible link to external costs resulting from investment.

Investment can lead to short term unemployment.

SR opportunity cost – higher investment means lower production of consumer goods

High investment when the economy is already at/near full employment can lead to demand pull inflation.

Too a high a level of investment can lead to an unbalanced economy eg China where consumption and imports are too low.

Excessive government investment may lead to increased budget deficits, national debt

This is a reversible answer.

5. (a)	Explain how high levels of government debt might damage the economic growth of a less economically developed country (LEDC). [10]	
Band	AO1	AO3
	6 marks	4 marks
3	5-6 marks Excellent knowledge. Knowledge is shown of a good range of reasons why high government debt might impede growth. Knowledge of the meaning of government debt and economic growth are present.	
	3-4 marks Good knowledge. Knowledge is shown of some reasons why high government debt might impede growth. Knowledge of the meaning of government debt and economic growth are present.	3-4 marks Good analysis. Clear chains of reasoning explaining why government debt can restrict economic growth in LEDCs. Good use is made of economic theory and there is an understanding that economic growth involves expansion of economic potential.
1	1-2 marks Limited knowledge. Knowledge of the meaning of government debt and economic growth are present, but the problems identified are not relevant to growth.	1-2 marks Limited analysis. There is a link made between government debt and economic growth, but chains of reasoning are not well-developed.
0	0 marks No knowledge or understanding is present.	0 marks No valid analysis.

Indicative content:

Government debt is the accumulated borrowing of a state's ruling authorities - the sum of its annual budget deficits. Economic growth can be actual or potential, but in the long run refers to increases in an economy's productive potential.

Government debt creates a number of issues:

- Debt service and repayment costs mean that
 - the government may have to reduce spending in other areas reducing AD (particularly if the debt is external) and LRAS if the spending cuts hit infrastructure spending and so on.
 - The government may need to increase taxes to meet these repayments which can have both negative demand and supply side implications

This is the most obvious point and if well-developed should be able to generate significant numbers of marks.

- High levels of debt may create crowding out of private sector investment. Government borrowing is likely to drive up bond yields which tends to have a knock-on effect on the cost of borrowing for private sector organisations, damaging investment.
- Confidence: Domestic and foreign investors may fear that the government might seek to monetise the debt (triggering inflation) or increase taxes to finance it. Neither of these are likely to encourage investment or FDI.
- High levels of debt create the risk of credit downgrades, which can trigger a spiral of flight to safety as investors sell bonds. This can have a number of effects:
 - Governments may struggle to be able to borrow, meaning that there may need to be dramatic cuts in government spending or IMF involvement (amounting to the same thing). Both of these will be likely to have negative impacts on short term growth.
 - Capital flight might drive down the exchange rate. If debt is dollar denominated, then this will increase debt repayments dramatically, again restricting the government's ability to spend on infrastructure projects.

5. (b)	Discuss the extent to which rapid economic growth in a less economically developed country (LEDC) is likely to lead to an increase in its economic development. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	5-6 marks Excellent knowledge. Good understanding of both economic growth and economic development is shown	5-6 marks Excellent analysis. Strong chains of reasoning are present which show exactly how an increase in economic growth can lead to an increase in economic development. Strong links are made to the key elements of economic development.	6-8 marks Excellent evaluation. Strong two-sided answer that comes to an overall judgement supported by the underlying discussion. Evaluation is clearly present either in well-integrated judgements or a well-judged final overview. Factors that it depends on are likely to have been explored.
	2	3-4 marks Good knowledge. Good understanding of either economic growth or economic development is shown.	3-4 marks Good analysis. Chains of reasoning are present which show how an increase in economic growth can lead to an increase in economic development. The link to economic development is not fully convincing.
1	1-2 marks Limited knowledge. Some understanding of economic growth and/or economic development is shown.	1-2 marks Limited analysis. There is some explanation of how an increase in economic growth can lead to an increase in economic development, but chains of reasoning are under-developed.	1-2 marks Limited evaluation. Some counter-arguments are made but chains of reasoning are not developed in terms of why growth might not lead to development.
0	0 marks No knowledge or understanding shown.	0 marks No relevant analysis.	0 marks No relevant evaluation.

Indicative content:**AO1**

Economic growth refers to an increase in an economy's productive potential over time (and in the short run an increase in real GDP).

Economic development refers to an increase in the economic well-being and quality of life of a nation. This is likely to rest on three pillars: Income (to give access to life sustaining goods and services), education to allow people choices of what to do with their lives and health to again ensure that choices can be made.

At its heart, development comes down to an improvement in the quality of life for all citizens including the most disadvantaged.

AO3

Economic growth can have a significant impact on development:

Increased GDP should increase the government's tax base. This should allow the government to increase spending on health, education, infrastructure, social welfare and so on, which should lead to an improvement in quality of life overall.

Increased GDP, assuming it rises faster than population, should lead to an increase in the disposable income of citizens. This allows people access to more and better goods and services, particularly housing, diet and health and education if not provided by the state.

Economic growth is often characterised by a shift in the structure of the economy away from primary production and towards secondary and tertiary. This will mean a change in the nature of work towards less manual labour and hence an increase in overall quality of life.

Economic growth is associated with technological progress meaning improvements in health-care, labour saving devices and so on. Higher productivity is likely to reduce the length of the working week overall.

Economic growth is generally linked to higher education levels which leads to greater pressure for rights. Likewise governments can afford to pass environmental and safety legislation as productivity grows.

Stronger answers will make effective use of real world examples. This is not required for excellent AO3, but will definitely help.

AO4

There is no guarantee that economic growth will lead to development. It will depend on a number of factors including:

The role of the state - the extent to which governance is strong and the government directs funds into appropriate areas. Both corruption and governance are important here (e.g. funds are misappropriated in the former, but possible misdirected to vanity projects or the military in the latter).

The extent to which inequality rises. If inequality rises rapidly then the benefits of growth will not be evenly distributed and many may not experience an increase in living standards.

Growth may be associated with negative environmental consequences which may limit improvements in living standards.

The impact on development may depend on the nature of economic growth - economic bads, actual vs potential, the extent to which the government can actually raise tax revenue (size of the informal sector and so on).

There may be significant differences between GDP and GNP if growth is driven by FDI.

Resource driven growth might not be sustainable.

Stronger answers will make effective use of real world examples. This is not required for excellent AO4, but will definitely help.

6. (a)	Using diagrams and the concept of comparative advantage, explain how international trade should allow a country to consume outside its production possibility frontier. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	5-6 marks Excellent knowledge. Good diagram or diagrams that show how trade will allow countries to consume outside their PPF. Knowledge of comparative advantage is strong.	
	3-4 marks Good knowledge. EITHER Good diagram or diagrams that show how trade will allow countries to consume outside their PPF. OR Knowledge of comparative advantage is strong.	3-4 marks Good analysis. Well-developed chains of reasoning which show clearly how specialisation in an area in which a country has comparative advantage will allow its post-trade consumption possibilities to be expanded. Diagram is well integrated into the answer.
1	1-2 marks Limited knowledge. Some attempt to use comparative advantage and diagrams is present, but neither is convincing.	1-2 marks Limited analysis There is a line of argument between comparative advantage which shows how trade is beneficial, but the development is weaker in terms of diagrams and reference to consumption.
	0 marks No knowledge or understanding is present.	0 marks No valid analysis.

Indicative content:

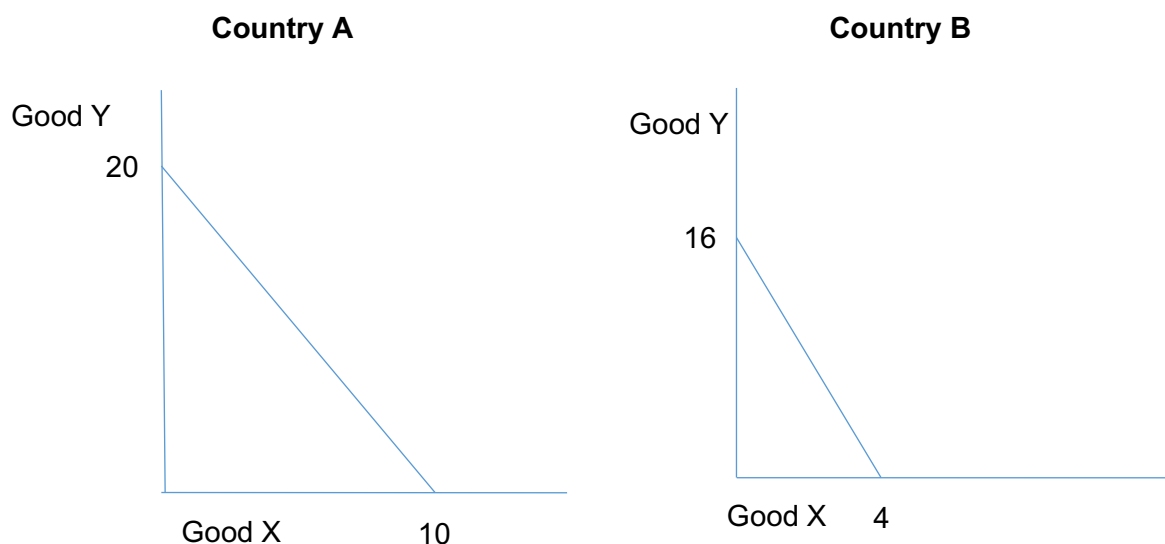
Comparative advantage means that a country can produce a good or service at lower opportunity cost than other countries.

Consequently, if all countries specialise in what they have a comparative advantage in, world economic output will be increased and each country will be able to consume more than it would have been able to had it not engaged in international trade.

Suppose two economies have the following initial production possibilities with a given amount of resources:

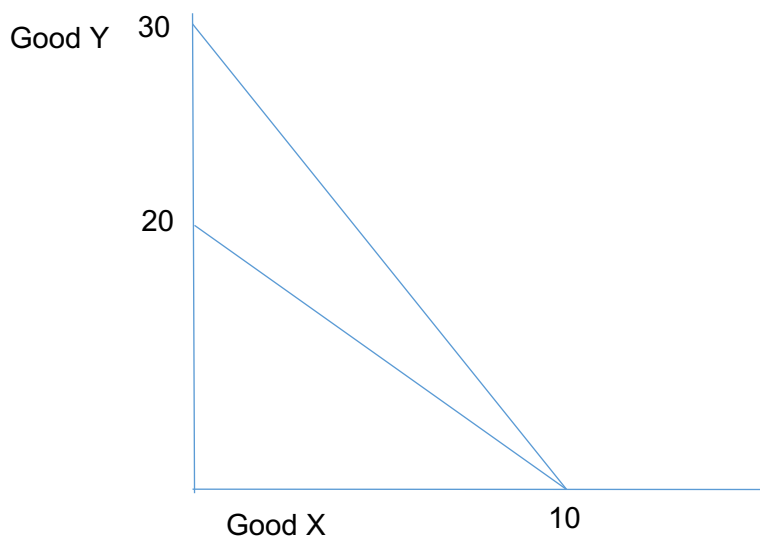
	Good X		Good Y
Country A	10	Or	20
Country B	4	Or	16

The opportunity cost of 1X is 2Y in country A and 4Y in country B. Therefore Country A has a comparative advantage in Good X (and country B has a comparative advantage in Good Y):

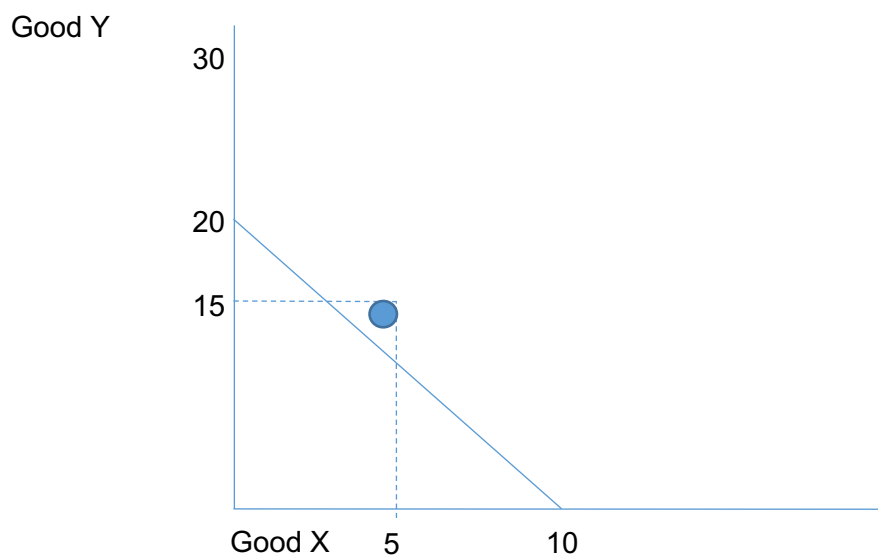


If each country was to specialise in the relevant good and then trade at a mutually beneficial rate (A sells X to B for between 2Y and 4Y). This is because it costs A 2Y to make an X, so they won't sell for *less* than that. Likewise, it costs B 4Y to make an X, so they won't pay *more* than that. Therefore, an appropriate trade might be A sells X to B for (say) 3Y.

If this was done then the post trade possibilities for country A would be:

Country A

However, there is no need for them to draw the post trade lines - all that needs to be done is for them to show that it is possible for one country to consume outside its PPF. Hence if they simply argued that country A could sell 5 X for 15 Y, allowing it to be outside its PPF, then this would be fine:

Country A

If they don't map it exactly onto the PPF, this is fine as long as it is clear that consumption possibilities have expanded.

6. (b)	Discuss the costs and benefits of globalisation. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks Excellent knowledge.</p> <p>An excellent knowledge of globalisation and its costs and benefits.</p> <p>At least two costs and two benefits will have been identified and a clear knowledge of the meaning of globalisation is shown.</p>	<p>5-6 marks Excellent analysis.</p> <p>An excellent analysis of how the costs and benefits identified impact on economies showing strong chains of analysis.</p> <p>There is a clear line of argument.</p>	<p>6-8 marks Excellent evaluation.</p> <p>A well-developed two sided answer that looks at the relative costs and benefits of globalisation.</p> <p>Learner comes to a reasoned judgement as to the net effect of globalisation as to whether it is positive or negative.</p>
2	<p>3-4 marks Good knowledge.</p> <p>A good knowledge of globalisation showing good knowledge of costs or benefits.</p>	<p>3-4 marks Good analysis.</p> <p>A good analysis of how the costs and benefits identified impact on economies.</p> <p>The answer may have a good line of argument but clarity of analysis may be lacking.</p>	<p>3-5 marks Good evaluation.</p> <p>A strong two sided answer with the relative strength of the costs and benefits evaluated but lacking an overall reasoned conclusion.</p>
1	<p>1-2 marks Limited knowledge.</p> <p>There is a limited understanding of globalisation and the costs and benefits identified lack detail/contain inaccuracies.</p>	<p>1-2 marks Limited analysis.</p> <p>Analysis of the impact of the costs and benefits identified of globalisation lacks a clear line of argument.</p>	<p>1-2 marks Limited evaluation.</p> <p>A basic attempt is made at evaluation but much of what is said is merely assertion.</p>
0	<p>0 marks No knowledge or understanding shown.</p>	<p>0 marks No valid analysis.</p>	<p>0 marks No valid evaluation.</p>

Indicative content:

Costs of Globalisation

Inequality: Globalisation has been linked to rising inequalities in income and wealth. Evidence for this is a rise in the Gini-coefficient and a growing rural–urban divide in countries such as China, India and Brazil. This leads to political and social tensions and instability as a backlash.

Inflation: Strong demand for food and energy has caused a steep rise in commodity prices. Food price inflation (known as stagflation) has placed millions of the world's poorest people at great risk.

Macroeconomic Instability: A decade or more of strong growth, low interest rates, easy credit in developed countries created a boom in share prices and property valuations. The bursting of speculative bubbles prompted the credit crunch and the contagion from that across the world from 2008 onwards. This had negative effects on poorer & vulnerable nations.

Threats to the Global Commons: A major long-term threat is the impact that rapid growth and development is having on the environment. Threats of irreversible damage to ecosystems, land degradation, deforestation, loss of bio-diversity and the fears of a permanent shortage of water are afflicting millions of the most vulnerable people

Trade Imbalances: Global trade has grown but so too have trade imbalances. Some countries are running enormous trade surpluses and these imbalances are creating tensions and pressures to introduce protectionist policies such as new forms of import control.

Unemployment: Concern has been expressed by some that capital investment and jobs in advanced economies will drain away to developing countries as firms switch their production to countries with lower unit labour costs. This can lead to higher levels of structural unemployment.

Standardisation: Some critics of globalisation point to a loss of economic and cultural diversity as giant firms and global brands dominate domestic markets in many countries.

Dominant Global Brands – globalisation might actually stifle competition if global businesses with dominant brands and superior technologies take charge of key international markets be it telecommunications, motor vehicles, heavy industrial equipment or digital cameras.

Benefits from Globalisation

Trade enhances **division of labour** as businesses and countries specialise in areas of comparative advantage

Deeper relationships between markets across borders enable and encourage producers and consumers to reap the benefits of **economies of scale**

Competitive markets **reduce monopoly profits** and incentivize businesses to seek cost-reducing innovations and improvements in what they sell – this leads to an improvement in dynamic efficiency

Gains in efficiency should bring about an improvement in economic growth and higher per capita incomes. The **OECD Growth Project** found that a 10 percentage-point increase in trade exposure for a country was associated with a 4% rise in income per capita over time.

Globalisation has helped many of the **world's poorest countries** to achieve higher rates of economic growth and reduce the number living in extreme poverty – for example, significant progress has been made in China and India and notable in a number of sub-Saharan African countries whose annual growth of real GDP has often exceeded 10%.

	AO1	AO2	AO3	AO4	
1., 2. (a)	6	0	4	0	10
1., 2. (b)	6	0	6	8	20
3., 4. (a)	6	0	4	0	10
3., 4. (b)	6	0	6	8	20
5., 6. (a)	6	0	4	0	10
5., 6. (b)	6	0	6	8	20
Total	36	0	30	24	90