



GCE MARKING SCHEME

SUMMER 2023

**ECONOMICS - UNIT 4
1520U40-1**

INTRODUCTION

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

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

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

Positive Marking

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

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

- AO1** Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues
- AO2** Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues
- AO3** Analyse issues within economics, showing an understanding of their impact on economic agents
- AO4** Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

WJEC GCE A LEVEL ECONOMICS – UNIT 4

SUMMER 2023 MARK SCHEME

SECTION A

1. (a)	Using examples, explain the role of barriers to entry in determining market structure.		[10]
Band	AO1	AO3	
	6 marks	4 marks	
3	5-6 marks		
	<p>Excellent, accurate and comprehensive understanding of both barriers to entry and market structures.</p> <p>Excellent use of examples.</p> <p>Excellent use of relevant terminology.</p>		
2	3-4 marks		3-4 marks
	<p>Good understanding of both barriers to entry and market structures.</p> <p>Good use of examples.</p> <p>Good understanding / use of two of the following three elements: barriers to entry, market structures and/or examples.</p> <p>Good use of relevant terminology.</p>		<p>A good, accurate and comprehensive analysis of the role of barriers to entry in determining market structure.</p> <p>Examples are embedded within the analysis.</p>
1	1-2 marks		1-2 marks
	<p>Some recognition of both barriers to entry and market structures.</p> <p>Limited use of examples.</p> <p>Limited use of relevant terminology.</p>		<p>Limited analysis of the role of barriers to entry in determining market structure.</p> <p>Examples are unlikely to fully embedded within the analysis.</p>
0	0 marks		0 marks
	No valid understanding.		No valid analysis

Indicative content:

- Understanding of barriers to entry e.g. fixed costs or other barriers that make it difficult / expensive for new firms to join a market
- Possible understanding of types of barrier to entry, for example
 - strategic / deliberate barriers put in place by incumbent firms e.g. heavy advertising by established brands (Easyjet, Heinz, banks etc)
 - innocent / natural barriers which are a result of the industry e.g. natural monopolies (rail network, National Grid etc)
 - legal / government barriers which are a result of government intervention and / or regulation e.g. licenses to operate (medical professionals, lottery / gambling, alcohol sales) or safety certification (e.g. food retailers and toy manufacturers)
- Understanding of market structures
 - how we can categorise firms and their industries, based on the degree of competition, the number of firms, market outcomes in the short run and long run etc
 - the traditional 'spectrum of competition' based on the number of firms in an industry i.e. monopoly through to perfect competition
 - consideration of contestability
- Analysis of the link between barriers to entry and market structure
 - The lower the barriers to entry the more firms there may be in the industry and the less monopoly power of incumbent firms there may be e.g. closer to monopolistic competition than oligopoly
 - This could be illustrated using diagrams for monopolistic competition or perfect competition, to show that the lack of entry barriers can mean that new firms enter the market in response to abnormal profits being earned, leading to outcomes in the long run that are different to those in the short run
 - Consideration of contestability i.e. the lower the barriers to entry, the greater the incentive for incumbent firms to behave competitively because of the threat of entry / hit-and-run competition, leading to a market structure with lower prices and greater efficiency
- Reward any relevant examples

1. (b)	With reference to game theory and your own examples, evaluate the likely costs of oligopolistic market structures. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks</p> <p>Excellent understanding of the likely costs of oligopolistic market structures.</p> <p>Both breadth and depth of coverage is excellent, with accurate use of game theory and relevant examples.</p> <p>Excellent use of relevant terminology.</p>	<p>5-6 marks</p> <p>An excellent analysis of the likely costs of oligopolistic market structures.</p> <p>Chains of argument are well developed, with both game theory and examples well integrated into the analysis.</p>	<p>6-8 marks</p> <p>An excellent critical evaluation of the likely costs of oligopolistic market structures.</p> <p>A clear judgement is reached at the very highest level.</p>
2	<p>3-4 marks</p> <p>Good understanding of the likely costs of oligopolistic market structures.</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band.</p> <p>There is some use of game theory and/or relevant examples, but these are not well developed.</p> <p>Good use of appropriate terminology.</p>	<p>3-4 marks</p> <p>A good analysis of the likely costs of oligopolistic market structures.</p> <p>Answers in this band show some developed chains of argument, with an attempt to integrate game theory and/or examples into the analysis, although there may be some errors.</p> <p>Answers in this band may lack depth.</p>	<p>3-5 marks</p> <p>A good evaluation that includes most of the key issues.</p> <p>At least 2 costs are evaluated</p>
1	<p>1-2 marks</p> <p>Limited understanding of the likely costs of oligopolistic market structures.</p> <p>The use of game theory and/or relevant examples may be missing.</p>	<p>1-2 marks</p> <p>Limited analysis of the likely costs of oligopolistic market structures.</p> <p>Answer tends to lack key economic concepts and avoids technical analysis. Game theory and examples are unlikely to be integrated or present within the analysis.</p>	<p>1-2 marks</p> <p>Limited evaluation; candidates may show awareness of some evaluative points but do not develop them.</p>
0	<p>0 marks</p> <p>No valid knowledge or understanding</p>	<p>0 marks</p> <p>No relevant analysis</p>	<p>0 marks</p> <p>No relevant evaluation</p>

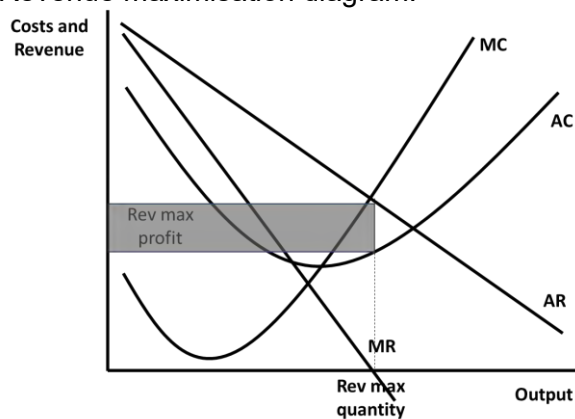
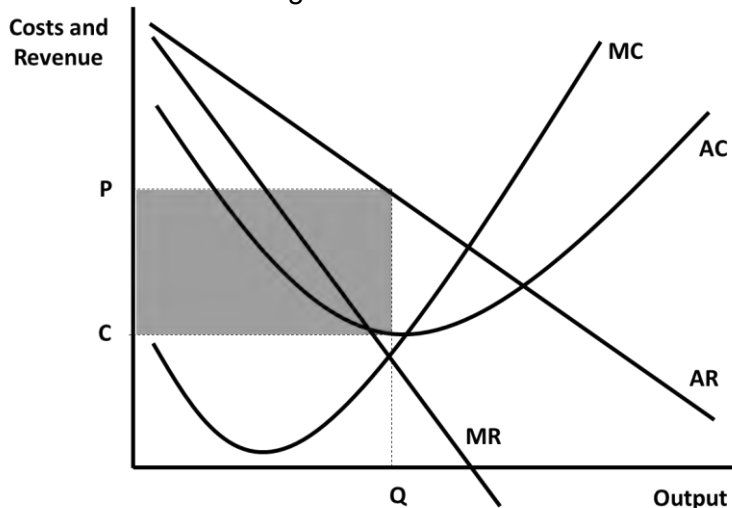
Indicative content:

- Understanding of oligopolistic market structure
 - Small number of dominant firms, interdependence, reasonably high barriers to entry / exit, homogeneous or heterogeneous goods, may be characterised by stable prices / price wars / collusion, relatively high profits in the SR and LR
- Understanding of game theory
 - Consideration of strategic interactions between firms that are interdependent by analysing their strategic choices and likely layoffs to determine the most likely action and outcome
 - Likely reference to the Prisoners' Dilemma and associated Nash equilibrium in which firms in a duopoly will both sell at a low price and earn lower profits than they would if they colluded to sell at a higher price
- Possible costs of oligopoly include:
 - Abuse of monopoly power by firms that are particular dominant in an industry, which could be illustrated using a price-making cost and revenue diagram
 - Examples include: difficulty in switching between banks for accounts leading to poor rates of interest on savings / accounts; high prices for energy as the market becomes more concentrated
 - Impact of collusion – can be shown using a payoff matrix although this is not necessary if game theory approaches are described in words
 - Recent examples include model prices, lift industry, banking LIBOR rates etc
 - Similar inefficiencies to large monopoly firms e.g. not operating at the point of allocative efficiency therefore resulting in a deadweight welfare loss, or not operating at the productively efficient point
 - Low consumer choice compared with monopolistically competitive markets
 - Limited number of breakfast cereal companies e.g. Kelloggs and Nestle, or household products e.g. Unilever and Procter and Gamble
 - Could use game theory to illustrate strategy choices as lots of brands v few brands for each company
- General evaluation points could include:
 - The costs depend on the degree of contestability i.e. if barriers to entry are actually relatively low then despite there being a handful of dominant firms then competition and prices might be quite high e.g. supermarkets and the threat from discounters such as Aldi and Lidl
 - The costs depend on the extent to which the government has intervened (or can / will intervene) e.g. price cap regulation for energy firms
 - Costs depend on whether the goods in the market are homogenous – in which case collusion or price wars are more likely – or heterogeneous – which leads to non-price competition in an attempt to meet consumer needs
 - Whether collusion is likely to be long-lived or short, depending on the degree of trust between firms and the risk of undercutting
 - Oligopolies may have many of the benefits of monopolies e.g. reinvestment of profits to be dynamically efficient and innovative (arguably this is more likely given the competition in the industry), ability to achieve economies of scale due to being larger
 - A relatively low number of firms can make it easier for consumers to choose a product that best suits their needs i.e. avoiding the 'paradox of choice – this could increase allocative efficiency
- Relevant points not in the indicative content should be rewarded.
- Game theory and the use of relevant examples are required for band 3.

2. (a)	Explain, using a relevant diagram(s), the differences between the objectives of profit maximisation and revenue maximisation. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	<p>5-6 marks</p> <p>Excellent, accurate and comprehensive understanding of both profit maximisation and revenue maximisation</p> <p>Accurate diagrams with no errors or omissions</p> <p>Excellent use of relevant terminology</p>	
	<p>3-4 marks</p> <p>Good of both profit maximisation and revenue maximisation</p> <p>Mostly accurate diagrams with few errors or omissions</p> <p>Good use of relevant terminology</p>	<p>3-4 marks</p> <p>A good, accurate and comprehensive analysis of both profit maximisation and revenue maximisation</p> <p>Diagrams are embedded within the analysis</p>
1	<p>1-2 marks</p> <p>Some recognition of both profit maximisation and revenue maximisation</p> <p>Diagrams may be attempted but with significant errors or omissions</p> <p>Limited use of relevant terminology</p>	<p>1-2 marks</p> <p>Limited analysis of profit maximisation and revenue maximisation – answer is likely to be unbalanced</p> <p>Diagrams are unlikely to fully embedded within the analysis</p>
	<p>0 marks</p> <p>No valid understanding</p>	<p>0 marks</p> <p>No valid analysis</p>

Indicative content:

- Understanding of business objectives and different types of firms with different objectives
- Profit maximisation
 - Output where $MC = MR$ – understanding of **why** that is the profit maximising point
 - Reasons for firms choosing to profit maximise
 - Output lower and price higher than in revenue max
- Revenue maximisation
 - Output where $MR = 0$ – understanding of **why** that is the revenue maximising point
 - Reasons for firms choosing to revenue maximise
 - Output higher and price lower than in profit max

Revenue maximisation diagram:**Profit maximisation diagram:**

2. (b)	Evaluate the economic impact of firms choosing to grow. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks</p> <p>Excellent understanding of the impacts of business growth</p> <p>Both breadth and depth of coverage is excellent – there are micro and macro points</p> <p>Excellent use of relevant terminology</p>	<p>5-6 marks</p> <p>An excellent analysis of the micro and macro impacts of business growth</p> <p>Chains of argument are well developed</p>	<p>6-8 marks</p> <p>An excellent critical evaluation of the impacts of business growth</p> <p>A clear judgement is reached at the very highest level</p>
2	<p>3-4 marks</p> <p>Good understanding of the impacts of business growth</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band</p> <p>Answers may be predominantly / fully micro or macro</p> <p>Good use of appropriate terminology</p>	<p>3-4 marks</p> <p>A good analysis of the impacts of business growth</p> <p>Answers in this band show developed chains of argument</p> <p>Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct</p>	<p>3-5 marks</p> <p>A good evaluation that includes most of the key issues</p> <p>At least 2 impacts are evaluated</p>
1	<p>1-2 marks</p> <p>Limited understanding of the impacts of business growth</p>	<p>1-2 marks</p> <p>Limited analysis of the impacts of business growth</p> <p>Answer tends to lack key economic concepts and avoid technical analysis</p>	<p>1-2 marks</p> <p>Limited evaluation; candidates may recognise that there are disadvantages of business growth</p>
0	<p>0 marks</p> <p>No valid knowledge or understanding</p>	<p>0 marks</p> <p>No relevant analysis</p>	<p>0 marks</p> <p>No relevant evaluation</p>

Indicative content:

- How business grows
 - Internal organic growth
 - M&A / integration (horizontal, vertical, conglomerate etc)
- Possible impacts on the business itself
 - Take on more debt, and have to repay in the future
 - Depends on how growth is financed
 - Synergy / economies of scale / rationalisation and the associated benefits
 - Depends on the nature of the growth; depends on the opportunity to share resources (e.g. location, production process similarities etc)
 - But could lead to diseconomies of scale
 - Entry to new markets / access to a different customer base – reduces risk
- Possible impacts on consumers
 - Lower prices if the firm benefits from economies of scale
 - But could be higher prices if the growth raises monopoly power – depends on the actions of competition authorities
 - Choice: could rise or fall depending on the nature of the growth
 - Households that own shares may experience capital gain
- Possible impacts on suppliers
 - Some may lose contracts to supply depending on how the larger firm chooses to continue sourcing materials
 - But organic growth could be good for suppliers
 - Could open up access to new markets for suppliers e.g. overseas
- Possible macro impacts
 - Greater profits for larger firm could raise tax revenue for the government
 - Employment impact
 - Lower prices from economies of scale could lead to rising competitiveness
 - Cultural issues
- Micro and macro impacts are required for band 3.

SECTION B

3. (a)	Explain how the position of an economy's long-run Phillips curve could shift. Use a diagram in your answer. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	5-6 marks Excellent, accurate and comprehensive understanding of the LRPC and factors that can shift the LRPC Accurate diagram with no errors or omissions Excellent use of relevant terminology	
	3-4 marks Good understanding of the LRPC and factors that can shift the LRPC Mostly accurate diagram with few errors or omissions Good use of relevant terminology	3-4 marks A good, accurate and comprehensive analysis of the LRPC and factors that can shift the LRPC Diagram is embedded within the analysis
1	1-2 marks Some recognition of the LRPC and factors that can shift the LRPC Diagram may be attempted but with significant errors or omissions Limited use of relevant terminology	1-2 marks Limited analysis of the LRPC and factors that can shift the LRPC Diagram is unlikely to fully be embedded within the analysis
	0 marks No valid understanding	0 marks No valid analysis

Indicative content:

- Phillips curve shows the relationship between the inflation rate and the unemployment rate
- The LRPC suggests that there is no trade-off in the long-run between inflation and unemployment, because of adaptation to inflation expectations
- The LRPC is vertical at the NAIRU or natural rate of unemployment
- Factors that shift the LRPC are similar to those that shift the LRAS
- Left shift of the LRPC implies that the natural rate of unemployment is falling
 - Greater flexibility in labour markets (time, location, skills, hours etc)
 - Decline in frictional unemployment e.g. changes in technology allow better 'matching' of workers with jobs
 - Lower structural unemployment due to improved education / training and transferable skills

3. (b)	Assess the likely impacts of UK economic growth on the Welsh economy. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	5-6 marks Excellent understanding of the impacts of UK economic growth on the Welsh economy Both breadth and depth of coverage is excellent Excellent use of relevant terminology	5-6 marks An excellent analysis of UK economic growth on the Welsh economy Chains of argument are well developed	6-8 marks An excellent critical evaluation of UK economic growth on the Welsh economy A clear judgement is reached at the very highest level
	2	3-4 marks Good understanding of UK economic growth. Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band Good use of appropriate terminology Reference to Wales might be superficial	3-4 marks A good analysis of UK economic growth. Answers in this band show developed chains of argument Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct Reference to Wales might be superficial
1	1-2 marks Limited understanding of UK economic growth.	1-2 marks Limited analysis of UK economic growth. Answer tends to lack key economic concepts and avoid technical analysis	1-2 marks Limited evaluation; candidates may recognise that there are disadvantages of UK economic growth for Wales
0	0 marks No valid knowledge or understanding	0 marks No relevant analysis	0 marks No relevant evaluation

Indicative content:

- Understanding of economic growth in the UK economy – SR / LR, balanced / unbalanced etc
 - Consideration of the nature of the growth and the extent to which Wales will be able to benefit i.e. nature of the growth, impact on Welsh borders etc
- Greater demand for Welsh inputs to the wider UK production process, and the associated multiplier process in Wales
 - Consideration of need for domestic inputs post-Brexit
 - Consideration of the types of inputs available e.g. skilled digital workforce in Cardiff/Swansea, more limited role for agriculture etc
 - Regional impact in Wales
- Impact of tourism in Wales – link to greater demand for holidays due to higher income
 - Consideration of YED for holidays domestically / abroad
- Greater UK government tax revenue may lead to more money for Wales
 - Depends on approach to funding
 - Depends on extent to which Welsh growth matches that of the broader UK – often lags behind
- Regional issues within Wales
 - Extent to which different regions will be able to benefit, due to specialisation in different industries and relevant infrastructure (transport, broadband, education etc)
- Consideration of the impact of the nature of the growth
- Environmental impact

Allow other sensible points.

Note – there is no requirement for specific facts/figures in relation to the Welsh economy, but the answer must be in the context of Wales for Band 3 to be achieved.

4. (a)	Explain the problems that might arise when measuring the rate of unemployment in an economy.		[10]
Band	AO1	AO3	
	6 marks	4 marks	
3	5-6 marks		
	<p>Excellent, accurate and comprehensive understanding of possible issues when measuring unemployment</p> <p>Reference is made to both the labour force survey and the claimant count measures of unemployment.</p> <p>Excellent use of relevant terminology</p>		
2	3-4 marks		3-4 marks
	<p>Good understanding of possible issues when measuring unemployment</p> <p>Good use of relevant terminology</p>		A good, accurate and comprehensive analysis of possible issues when measuring unemployment
1	1-2 marks		1-2 marks
	<p>Some recognition of possible issues when measuring unemployment</p> <p>Limited use of relevant terminology</p>		Limited analysis of possible issues when measuring unemployment
0	0 marks		0 marks
	No valid understanding		No valid analysis
Indicative content:			
<ul style="list-style-type: none"> • Understanding of unemployment • Labour Force Survey measure (ILO approach) <ul style="list-style-type: none"> ○ Survey of a limited number of households therefore not necessarily scalable, and people do not always reply honestly to surveys, especially when lengthy ○ Opportunity cost of collecting this data ○ Impact of how the information is presented i.e. framing effect • Claimant Count <ul style="list-style-type: none"> ○ As benefits rules change, some people may not be counted due to complexity e.g. introduction of Universal Credit ○ Eligibility criteria ○ Social stigma of claiming benefits • General issues: <ul style="list-style-type: none"> ○ Unemployment can be transient / short-lived ○ Issue of underemployment is not picked up ○ People may be classed as inactive just because being 'unemployed' is difficult e.g. waiting for benefits, become disillusioned etc 			

4. (b)	Discuss the possible causes of unemployment in Wales. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks</p> <p>Excellent understanding of the possible causes of unemployment in Wales</p> <p>Both breadth and depth of coverage is excellent</p> <p>Excellent use of relevant terminology</p>	<p>5-6 marks</p> <p>An excellent analysis of the possible causes of unemployment in in Wales</p> <p>Chains of argument are well developed</p>	<p>6-8 marks</p> <p>An excellent critical evaluation of the possible causes of unemployment in in Wales</p> <p>A clear judgement is reached at the very highest level</p>
2	<p>3-4 marks</p> <p>Good understanding of the possible causes of unemployment.</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band</p> <p>Good use of appropriate terminology</p> <p>Reference to Wales might be superficial</p>	<p>3-4 marks</p> <p>A good analysis of the possible causes of unemployment.</p> <p>Answers in this band show developed chains of argument</p> <p>Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct</p> <p>Reference to Wales might be superficial</p>	<p>3-5 marks</p> <p>A good evaluation that includes most of the key issues</p> <p>At least 2 causes are evaluated</p>
1	<p>1-2 marks</p> <p>Limited understanding of the possible causes of unemployment.</p>	<p>1-2 marks</p> <p>Limited analysis of the possible causes of unemployment.</p> <p>Answer tends to lack key economic concepts and avoid technical analysis</p>	<p>1-2 marks</p> <p>Limited evaluation</p> <p>Candidates may recognise that there are a variety of causes</p>
0	<p>0 marks</p> <p>No valid knowledge or understanding</p>	<p>0 marks</p> <p>No relevant analysis</p>	<p>0 marks</p> <p>No relevant evaluation</p>

Indicative content:

- Welsh unemployment is usually slightly higher, on average, than the rest of the UK
- Regional issues and geographical immobility – access to higher paid jobs in England?
 - Consideration of the Welsh border areas, and more economically developed areas near Cardiff/Swansea /M4
 - Poor transport infrastructure
 - Geographical / landscape issues
 - Underinvestment in railways and rolling stock
 - Cost of travel
- Structural – reduction in Welsh industry / manufacturing / farming
 - Consideration of extent to which retraining is effective / viable
 - Consideration of impact of differences in infrastructure e.g. transport, broadband etc
 - Quality of education
- Very high youth unemployment – strong regional differences e.g. v high in Swansea but less so in Cardiff
 - Information problems – firms still relying on traditional method of advertising rather than methods that appeal to young people
 - Consideration of methods to tackle youth unemployment
- Cyclical reasons e.g. slower growth in parts of Wales could lead to less demand for labour, seasonal issues in terms of tourism / agriculture
- Consideration of the impact of global / large-scale external events such as Brexit, the COVID-19 pandemic etc
- Consideration of possible discrimination

Allow other sensible points.

Note – there is no requirement for specific facts/figures in relation to the Welsh economy, but the answer must be in the context of Wales for Band 3 to be achieved.

SECTION C

5. (a)	Explain the difference between GDP and GNP, and the significance of purchasing power parity adjustments for measuring living standards. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	<p>5-6 marks</p> <p>Excellent, accurate and comprehensive understanding of GDP and GNP, and PPP adjustments for measuring living standards</p> <p>Excellent use of relevant terminology</p>	
2	<p>3-4 marks</p> <p>Good understanding of GDP and GNP, and PPP adjustments for measuring living standards</p> <p>Good use of relevant terminology</p>	<p>3-4 marks</p> <p>A good, accurate and comprehensive analysis of the difference between GDP and GNP, and how PPP adjustments can be used to measure living standards</p>
1	<p>1-2 marks</p> <p>Some recognition of GDP and GNP, and PPP adjustments for measuring living standards</p> <p>Limited use of relevant terminology</p>	<p>1-2 marks</p> <p>Limited analysis of the difference between GDP and GNP, and how PPP adjustments can be used to measure living standards</p>
0	<p>0 marks</p> <p>No valid understanding</p>	<p>0 marks</p> <p>No valid analysis</p>

Indicative content:

- Difference between GDP and GNP
 - Both are metrics of economic performance and used as a proxy for living standards
 - GDP: output produced domestically i.e. within an economy's borders, regardless of ownership of the factors of production
 - Standard measure of an economy's performance in terms of output
 - GNP: output produced by national factors of production regardless of location (or GDP + net property income)
 - Candidates may use an illustrative example, which should be rewarded
- Purchasing power parity
 - A technique for converting income into US dollars and establishing how much of that currency would be needed to buy a standard product / basket of goods
 - E.g. someone earning the same nominal amount in US dollars in a developing economy such as Nigeria compared to someone in the US would have a greater purchasing power because of the lower cost of living in Nigeria, so GNP per capita would be adjusted upwards in this case
 - Important for assessing living standards as otherwise it is difficult to work out what goods/services can be bought in an economy – the ability to purchase goods/services is a key factor in living standards

5. (b)	Evaluate the extent to which changes in the Human Development Index (HDI) are a good indicator of changes in the level of development in an economy. [20]		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	<p>5-6 marks</p> <p>Excellent understanding of both HDI and the level of development</p> <p>Both breadth and depth of coverage is excellent</p> <p>Excellent use of relevant terminology</p>	<p>5-6 marks</p> <p>An excellent analysis of the link between changes in the HDI and the level of development in an economy</p> <p>Chains of argument are well developed</p>	<p>6-8 marks</p> <p>An excellent critical evaluation of the link between changes in the HDI and the level of development in an economy</p> <p>A clear judgement is reached at the very highest level</p>
	<p>3-4 marks</p> <p>Good understanding of both HDI and the level of development</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band</p> <p>Good use of appropriate terminology</p>	<p>3-4 marks</p> <p>A good analysis of the link between changes in HDI and the level of development in an economy</p> <p>Answers in this band show developed chains of argument</p> <p>Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct</p>	<p>3-5 marks</p> <p>A good evaluation that includes most of the key issues</p> <p>At least 2 points are evaluated</p>
1	<p>1-2 marks</p> <p>Limited understanding of the link between changes in HDI and the level of development in an economy</p>	<p>1-2 marks</p> <p>Limited analysis of the link between changes in HDI and the level of development in an economy</p> <p>Answer tends to lack key economic concepts and avoid technical analysis</p>	<p>1-2 marks</p> <p>Limited evaluation</p>
0	<p>0 marks</p> <p>No valid knowledge or understanding</p>	<p>0 marks</p> <p>No relevant analysis</p>	<p>0 marks</p> <p>No relevant evaluation</p>

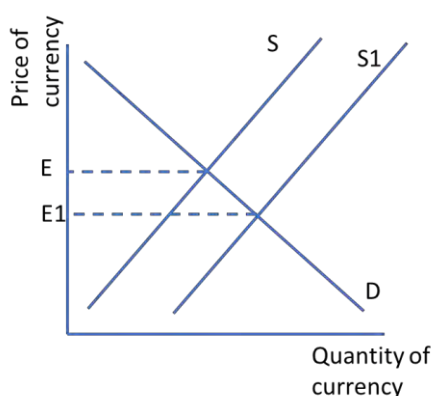
Indicative content:

- Understanding of development: rise in living standards / quality of life
 - Note that development is a very broad term and candidates could consider a range of ideas and concepts
- Understanding of components of HDI and how a rise in each causes an improvement in living standards / development
 - GNI per capita: reasons for using GNI not GDP (better measure of the income actually available for spending on goods/services because remittances are important in LEDCs); higher GNI per capita suggests that citizens can buy more goods/services which raises living standards, and also may result in more income being 'left over' after buying essentials to be able to save (link with Harrod-Domar model, savings gaps etc)
 - Life expectancy at birth: good indicator of living standards as it reflects other aspects e.g. access to clean water, sanitation, access to healthcare / doctors, nutrition etc
 - Education (mean years of schooling for adults, and expected mean years of schooling for children – composite indicator): more education suggests access to jobs requiring greater skill, more occupational mobility, greater ability to read information / advice leaflets etc
- Rising GNI per capita leads to more savings, which can be used to smooth consumption, act as 'insurance' in case of problems, support people in old age or who are sick etc. More savings in financial institutions also allows greater borrowing, therefore investment can increase
 - But – depends on the nature of the financial sector and access to financial institutions
 - But – depends on financial understanding of citizens
- Rising GNI per capita can lead to more government tax revenue, which can be spent on improving living standards e.g. roads, communication, healthcare, education etc
 - But – amounts raised might be minimal and so other sources of finance e.g. aid might be more useful
 - But – if the government is heavily indebted, then additional tax revenue may be spent on debt financing
 - But – depends on skill of government in deploying its revenue
 - But – issues with efficient tax collection etc – this can be hard in an economy with a strong shadow economy
- Reasons why rising HDI may not lead to more development:
 - Possibly greater inequality – regional, gender etc
 - Environmental damage
 - Need to consider reasons for the increase in HDI e.g. primary product dependency / Dutch Disease i.e. resource curse, if the growth has been caused by export of primary products
 - Depends on remittances
 - Other factors in development e.g. gender equality, freedom of speech etc
- Other evaluative comments
 - Consideration of other development measures
 - Ability to measure the aspects of the HDI in some countries is difficult

6. (a)	Explain why a currency devaluation may not improve an economy's trade balance. [10]	
Band	AO1	AO3
	6 marks	4 marks
3	<p style="text-align: center;">5-6 marks</p> <p>Excellent, accurate and comprehensive understanding of currency devaluation and the link with an economy's trade balance</p> <p>Excellent use of relevant terminology</p>	
2	<p style="text-align: center;">3-4 marks</p> <p>Good understanding of currency devaluation and the link with an economy's trade balance</p> <p>Good use of relevant terminology</p>	<p style="text-align: center;">3-4 marks</p> <p>A good, accurate and comprehensive analysis of how a currency devaluation may not improve an economy's trade balance</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Some recognition of currency devaluation and the link with an economy's trade balance</p> <p>Limited use of relevant terminology</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited analysis of how a currency devaluation may not improve an economy's trade balance</p>
0	<p style="text-align: center;">0 marks</p> <p>No valid understanding</p>	<p style="text-align: center;">0 marks</p> <p>No valid analysis</p>

Indicative content:

- Understanding of exchange rates
- Understanding of the 'trade balance'
 - A sub-account on the current account on the balance of payments, which includes revenue from exports and the total amount spent on imports
 - Sometimes broken down into visible (goods) and invisible (services) trade
- Devaluation refers to a fixed / managed exchange rate system, in which monetary authorities take action to lower the value of the currency against other currencies potentially by:
 - lowering interest rates so that less short-term capital flows (hot money) is attracted (reduced D for the currency)
 - buying foreign currency reserves / gold by selling domestic currency on the Forex market (increased supply of the currency)
 - Could be illustrated using a diagram



Theory suggests that devaluation should make exports relatively cheaper and imports relatively more expensive, which should improve the trade balance

- However, there are numerous reasons why the trade balance may not improve
 - Consideration of relative PED of exports and imports (Marshall-Lerner condition)
 - If the sum of elasticities is less than 1 (i.e. relatively inelastic) then a devaluation will worsen the trade balance because, for example, the lower price for exports leads to a less than proportionate increase in the demand for exports and therefore reduces export revenue, which worsens the trade balance *ceteris paribus*
 - J-curve effect: PED is usually inelastic in the short-run as it is difficult to alter purchasing habits (contracts, habitual consumption, difficulty in finding substitutes etc)
 - Trade war / tit for tat retaliation – could lead to a series of competitive devaluations, or other countries may impose trade restrictions if they regard the devaluation as anti-competitive etc
 - The goods available for export may be undesirable / poor quality

6. (b)	Discuss the view that free international trade is more beneficial for MEDCs than LEDCs.		
			[20]
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	5-6 marks Excellent understanding of the impact of free trade for MEDCs and LEDCs Both breadth and depth of coverage is excellent Excellent use of relevant terminology	5-6 marks An excellent analysis of the impact of free trade for MEDCs and LEDCs Chains of argument are well developed	6-8 marks An excellent critical evaluation of the impact of free trade for MEDCs and LEDCs A clear judgement is reached at the very highest level
	2	3-4 marks Good understanding of the impact of free trade for MEDCs and LEDCs Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band Good use of appropriate terminology	3-4 marks A good analysis of the impact of free trade for MEDCs and LEDCs Answers in this band show developed chains of argument Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct
1	1-2 marks Limited understanding of the impact of free trade for MEDCs and LEDCs	1-2 marks Limited analysis of the impact of free trade for MEDCs and LEDCs Answer tends to lack key economic concepts and avoid technical analysis	1-2 marks Limited evaluation
0	0 marks No valid knowledge or understanding	0 marks No relevant analysis	0 marks No relevant evaluation

Indicative content:

- Comparative advantage and the benefits of free trade in terms of greater efficiency and rising world output
 - Evaluation of the underlying assumptions of comparative advantage
 - Consideration of MEDCs and LEDCs e.g. specialisation in high value-added v low value-added goods/services
 - Issues of over-dependency, especially on primary products and Prebisch-Singer hypothesis / primary product dependency / resource curse issues
- Issues of employment in export industries and associated industries e.g. suppliers
 - Consideration of ownership of factors of production
 - Consideration of global supply chains
- Rising choice
 - Consumers in MEDCs might be more likely to have income that allows them to enjoy a choice, whereas consumers in LEDCs may not have enough income to afford choices anyway
- Relatively international competitiveness
 - Not all LEDCs are the same – some may really benefit from rising demand for their exports if they are extremely competitive, whereas others may not yet be developed enough to benefit
 - Some MEDCs have struggled to compete, especially in manufacturing
- Links with globalisation and other benefits associated with greater interconnectedness
- Consideration of trade blocs and their negotiating power
- WTO favours LEDCs