

COMPONENT 3: Evaluating Economic Models and Policies**MARK SCHEME****GENERAL MARKING GUIDANCE****Positive Marking**

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good 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 suggests the range of economic concepts, theory, issues and arguments which might be included in learners' answers.

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Q.1(a)	Using appropriate diagrams and examples, explain why some UK workers earn higher wages than others. [10]	
Band	AO1 1a	AO3
	6 marks	4 marks
	What are the factors and the diagrams?	Why do the differentials occur?
3	<p>5-6 marks</p> <p>A clear understanding of supply side and demand side factors.</p> <p>At least 3 factors are identified and well-explained.</p> <p>A good range of real/hypothetical scenarios/examples are clearly referenced.</p> <p>Use of correct and relevant diagrams.</p> <p>Include well-developed theoretical parts to the answer rather than focusing solely on social/positional factors.</p>	<p>3-4 marks</p> <p>Clear development and analysis as to why differentials occur with good theoretical linkages back to diagrams.</p>
2	<p>3-4 marks</p> <p>At least 2 factors have been identified and explained, but:</p> <p>May not look at both demand and supply side factors.</p> <p>Examples may be limited – not explained fully in context or the range may be limited.</p> <p>Diagrams are present but may have a few errors, or there may only be one diagram covered well.</p>	<p>1-2 marks</p> <p>Limited development and analysis as to why wage differentials occur.</p> <p>Linkages are short and under-developed.</p>
1	<p>1-2 marks</p> <p>Learner lists a number of possible factors for wage differentials. A diagram may be included but will be incomplete or is not referenced/explained.</p> <p>Limited explanation as to why the possible factors affect wages in the UK.</p>	
0	<p>0 marks</p> <p>Relevant factors not identified.</p>	<p>0 marks</p> <p>No lines of argument.</p>

Indicative content

- Could be short term response to demand side factors – labour is a derived demand and hence a surge in demand in certain sectors (search optimisation consultants, life coaches, etc.) may create short term wage differentials because labour mobility will be low in the short run.
- Could be due to occupational immobility – lack of relevant skills and training or access to appropriate education and training.
- Could be barriers to entry into certain sectors that restrict supply – doctors, dentists, accountants, etc.
- Could be regional immobility – North/South divides, which are not eliminated due to regional immobilities such as house price issues, social factors, etc.
- Could be relative desirability/risk of different jobs – equalising wage differential argument.
- Could be discrimination within the work-force on the grounds of gender, race and/or disability.
- Impact of trade unions in supporting pay by (theoretically) restricting supply or counteracting the monopsony power of employers.
- Could be part time/full time work (but do not over-credit this point).

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Q.1(b)	Evaluate the most appropriate policies that the government could implement when trying to reduce income inequality in the UK. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What are the policies and how do they operate?	How well is the process through which income inequalities will be reduced explained by the learner?	How good is the judgement of why the policies might be ineffective or have side effects/unintended consequences?
3	<p>5-6 marks</p> <p>At least 3 strategies are identified with a clear understanding of how they work and of their link to income inequality.</p>	<p>5-6 marks</p> <p>At least 3 policies are analysed with a clear line of argument. Thorough understanding of how inequality will be reduced, how precisely the policy is supposed to operate and what problem is to be overcome.</p>	<p>6-8 marks</p> <p>Learner fully evaluates at least 3 policies, pointing out their strengths and weaknesses. The learner demonstrates in-depth understanding of the ways these weaknesses might be overcome.</p> <p>Evaluation includes both the effectiveness of the policy in reducing income inequalities and the possible side effects of the policy. Both are qualified in terms of how serious side effects are and the probable effectiveness of the policy.</p> <p>The answer probably contains a well-reasoned judgement to the question in which the most appropriate policies are recommended and defended.</p>

Q.1(b) (cont)	Evaluate the most appropriate policies that the government could implement when trying to reduce income inequality in the UK. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What are the policies and how do they operate?	How well is the process through which income inequalities will be reduced explained by the learner?	How good is the judgement of why the policies might be ineffective or have side effects/unintended consequences?
2	<p>3-4 marks</p> <p>At least 2 policies are identified with some understanding of how they work and of their link to income inequality.</p>	<p>3-4 marks</p> <p>At least 2 policies are analysed. There is a clear link between the policy and income inequality, but details of the operation of the policy are missing or learner is unclear as to how inequality will be reduced.</p>	<p>3-5 marks</p> <p>The learner evaluates at least 2 policies, pointing out their strengths and weaknesses. The learner demonstrates good understanding of the ways these weaknesses might be overcome.</p> <p>Evaluation is likely to include either the effectiveness of the policy in reducing income inequalities or the possible side effects of the policy. These are qualified in terms of how serious side effects are and the probable effectiveness of the policy.</p> <p>Learners might evaluate by contrasting the relative strengths of several policies.</p>
1	<p>1-2 marks</p> <p>Policies are identified but understanding is not demonstrated.</p>	<p>1-2 marks</p> <p>Limited analysis of how the policies will reduce income inequality. Policy is understood, but learner asserts rather than explains its mechanics.</p>	<p>1-2 marks</p> <p>The learner shows an awareness that policies have limitations and may explain the weaknesses to a limited extent. Only 1 or 2 policies are evaluated, but with limited development, or a wider range is looked at, but evaluation is generic.</p> <p>Answers in this level are likely to have evaluation that is either asserted, or else is very general – not specific to the policies that have been stated.</p>
0	<p>0 marks</p> <p>No relevant policies identified.</p>	<p>0 marks</p> <p>No developed lines of reasoning.</p>	<p>0 marks</p> <p>Policies are not qualified or discussed.</p>

Indicative content

Raising incomes of lower income groups

National minimum wage. But only affects a small range of workers, it's not very high, could actually cause unemployment, worsening income inequalities etc.

Income tax changes. Depends on how it is done, but many of the lowest paid workers do not pay much income tax anyway. On the other hand, might create incentives to work.

Tax credits/income guarantees for those in full time work. Used in conjunction with a minimum wage, might prevent unemployment trap, create incentives to work and narrow income inequalities. Could be quite expensive because all relevant workers will be covered. Expensive to administrate.

Legislative approaches to discrimination, but difficult to enforce, drive up business costs, therefore putting UK/EU firms at a disadvantage.

Improved benefit system and welfare state to support the poorest members of society. But impact on incentives to work, cost of policies, may require tax increases slowing growth.

Improved education and training. But, long term, government not always best informed about what is appropriate education and training (risk of government failure?).

Credit other appropriate policies to raise the incomes of low income workers.

Reducing the incomes of high earners

Increases in top rate of income tax. But this creates avoidance, evasion and alternatives to income like better fringe benefits. Laffer curve.

Salary caps – top earners can earn no more than a certain amount more than bottom earners in organisations. But might make it difficult to recruit top quality staff, creating problems for the economy in the longer run.

Supply side policies to improve labour mobility and increase competition in higher income jobs – deregulation, policies to reduce occupational geographical mobility of labour.

Inheritance tax increases – if income inequalities persist because of wealth inequalities, could prevent assets being passed on, but hard to prevent avoidance and evasion. Might be viewed as unfair, depending on the level that taxes begin to bite.

Overall

Probably will require a mix of both sets of policies, but in an increasingly internationally mobile labour market, single country approaches to this can be difficult.

Evaluation (AO4) is likely to centre on

- (i) the effectiveness of the policy in reducing income inequalities (policy doesn't work very well) or
- (ii) the possible side effects of the policy meaning that it works but is still undesirable, but both of these are qualified in terms of how serious side effects are or how poorly the policy is likely to work/circumstances in which it might be more or less effective.

Learners might evaluate by contrasting the relative strengths of several policies – e.g. this policy is more appropriate under these circumstances, but this other policy is better under those circumstances, with good analysis as to why this might be the case.

Q.2(a)	Explain, using examples, why some markets may be harder to enter than others.		[10]
Band	AO1 1a	AO3	
	6 marks	4 marks	
	What are the examples of key barriers to entry in different markets?	Why are the barriers identified hard to overcome?	
3	<p style="text-align: center;">5-6 marks</p> <p>Learner demonstrates good understanding of actual barriers or industries from different sectors. Examples may be broad based to do with types of industry and barrier – precise specific case-studies are not required. For example, when talking about entry costs, learners might talk about the high cost of mobile phone licences, but in-depth knowledge is not required.</p> <p>Examples are given of both easy-to-enter and not so easy to enter markets.</p>	<p style="text-align: center;">3-4 marks</p> <p>Clear chain of argument that analyses the factors and shows a clear connection between the factors and different types of markets. It is clear why some markets are easier to enter than others – learner explains clearly why barriers might or might not be high.</p>	
2	<p style="text-align: center;">3-4 marks</p> <p>Limited understanding of textbook barriers to entry, but lacks convincing context; answer may explain economies of scale, for example, but be unable to supply convincing situations in which economies of scale are likely to arise.</p> <p>Alternatively, the learner may demonstrate an excellent real-world understanding, but the answer feels anecdotal, lacking depth of explanation as to why the barrier identified is a barrier.</p>	<p style="text-align: center;">1-2 marks</p> <p>Limited development and analysis with a basic link between the factors and different types of markets. Learner may explain only why some markets are easy or difficult to enter without making the contrast, or they may do both but the level of analysis may not be developed.</p>	
1	<p style="text-align: center;">1-2 marks</p> <p>Learner lists a number of factors/barriers to entry, but does not show understanding of what the barrier really means. Low band answers will not have examples.</p> <p>If examples are given, they may only be demonstrating barriers to entry rather than illustrating relative size of barrier.</p> <p>Examples may be rather superficial, where industries and barriers are used, but it is not made fully clear why the barrier is or is not significant in the context of the industry.</p>		
0	<p style="text-align: center;">0 marks</p> <p>Relevant factors not identified.</p>	<p style="text-align: center;">0 marks</p> <p>Response not credit worthy or not attempted.</p>	

Indicative content

Understanding shown of the meaning of contestability.

Points that could be introduced

- Financial factors
 - economies of scale
 - start-up costs
 - first mover advantage
 - sunk costs

- Strategic factors
 - product differentiation/brand loyalty
 - advertising

- Legal factors
 - intellectual property issues such as patents/copyright licences, etc

- Structural factors
 - vertical integration

- Anti-competitive practices (limit and predatory pricing)

Explanation of how these factors could be significant in some markets (oligopoly/monopoly) and less significant in others (monopolistic competition).

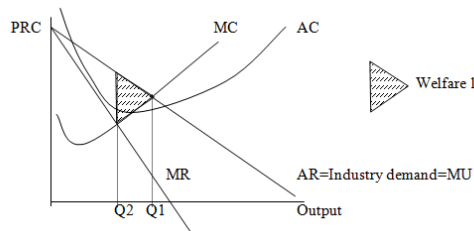
Use of real world examples such as the water industry, aircraft manufacture, banking, hairdressers, restaurants, etc.

Q.2(b)	Discuss the extent to which monopoly markets are economically desirable in developed economies. [20]		
Band	AO1 1ab	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	Are there relevant factors identified and exemplified on both sides of the debate?	How good is the theoretical development of the advantages and disadvantages of monopoly?	How good is the judgement of the circumstances under which monopoly might be more or less desirable?
3	<p>5-6 marks</p> <p>At least 4 points are identified with a clear understanding of how they work, covering both sides of the debate. Points are exemplified in the context of an actual economy, probably using examples at both micro and macro level.</p> <p>Learners construct relevant and accurate diagrams.</p>	<p>5-6 marks</p> <p>At least 4 points are analysed with a clear line of argument linking them to the desirability or undesirability of monopoly. Answers in this level will use appropriate diagrams to support their analysis.</p>	<p>6-8 marks</p> <p>At least 3 points are critically evaluated. Evaluation points are well-explained. There is a very well-developed argument. A well-reasoned conclusion may be included which looks at the circumstances in which monopoly might be more or less desirable.</p>
2	<p>3-4 marks</p> <p>2 or 3 points are developed with some understanding. Limited examples of how they impact on the real world are present, but these may not be well developed.</p> <p>Learners construct relevant diagrams with some inaccuracies.</p>	<p>3-4 marks</p> <p>At least 2 or 3 points are analysed with a sound explanation of how they show desirable or undesirable outcomes for monopoly. Analysis may lack depth, diagrams may not always be well integrated or completely correct, or key points are missing.</p>	<p>3-5 marks</p> <p>At least 2 points are evaluated with a clear understanding of why monopoly may not always be desirable or undesirable. Answers in this level will tend to qualify arguments (for example, the consumer loses out but ... the market may be inefficient in some ways but ...) without giving an overview of what will make monopoly more or less likely to produce beneficial or undesirable outcomes.</p>
1	<p>1-2 marks</p> <p>Several advantages and disadvantages of monopoly are identified, demonstrating limited understanding and examples are not present. Diagrams not present or incorrect.</p>	<p>1-2 marks</p> <p>Limited analyses of how monopoly is undesirable. Answer lacks key economic concepts and tends to avoid technical analysis.</p>	<p>1-2 marks</p> <p>A basic attempt to show that monopoly may not always produce desirable or undesirable outcomes. There is some attempt to evaluate points, but evaluation tends to be asserted rather than explained.</p>
0	<p>0 marks</p> <p>No relevant content.</p>	<p>0 marks</p> <p>No relevant analysis.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>

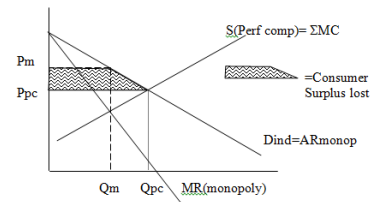
Indicative content

Monopolies have higher prices, lower output and welfare loss compared to competition.
 Monopolies engage in anti-competitive practices (predatory/limit pricing/price discrimination).
 Quality and customer service decline with monopoly.
 Productive and allocative inefficiency.
 Complacency and X-inefficiency.

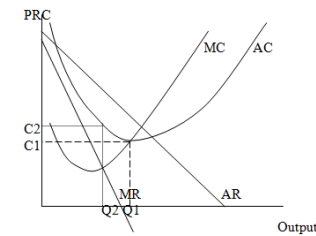
Appropriate diagrams to illustrate X-inefficiency, productive and allocative inefficiency and economies of scale.



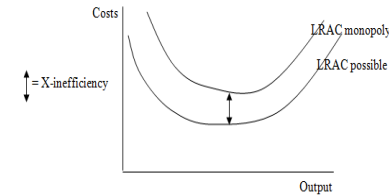
Allocative inefficiency



Loss of consumer surplus



Productive inefficiency



X inefficiency

But

Monopoly desirable because:

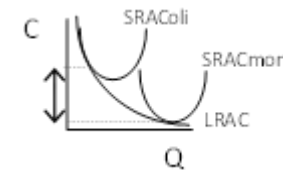
Natural monopoly.

Economies of scale: lower costs leading to lower prices.

High abnormal profits to fund R&D (dynamic efficiency).

National monopolies are needed to compete successfully internationally.

Relevant real world examples.



Econ scale

Overall

Depends on stage/type of monopoly.

Contestability will be important.

Role of shareholders in preventing X inefficiency.

May contrast with other market structures.

May depend on regulation.

Relevant real world examples.

Q.3(a)	Explain why high levels of unemployment might be considered undesirable within an economy. [10]	
Band	AO1 1a	AO3
	6 marks	4 marks
	Why does the cost arise?	Why is this undesirable for an economy?
3	<p>5-6 marks</p> <p>Learner has a good understanding of the major costs of unemployment and has explained clearly why costs may arise from unemployment. A top band response will have a well-developed understanding of 3 or 4 costs of unemployment. A bottom level within this band response will have fewer costs developed, or development of a wider range may not be so full.</p>	<p>3-4 marks</p> <p>Generally there are well-developed lines of reasoning between the cost being identified and the negative impact being shown. There is a logical development of 3 to 4 of the impacts.</p>
2	<p>3-4 marks</p> <p>Answers in this band will have fewer costs developed than a band 3 answer or development of a wider range may not be so full.</p> <p>Answers in this level are likely to show a good understanding of only 2 main costs of unemployment, although top band answers may also have partial development of another 1 or 2 costs.</p>	<p>1-2 marks</p> <p>Reasoning is generally not well-developed. There is some explanation and development, but this is either superficial or covers only 1 or 2 of the points identified.</p>
1	<p>1-2 marks</p> <p>Learner can only demonstrate a knowledge of the costs of unemployment and lacks explanatory development. For the top of this band it is likely that 3 to 4 costs of unemployment will have been simply identified.</p> <p>Alternatively learner illustrates a basic understanding of only 2 costs of unemployment.</p>	
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No chains of argument present.</p>

Indicative content

- High unemployment is Pareto inefficient – economy will be operating inside its PPF, learner might use a diagram to illustrate.
- High unemployment is likely to worsen the fiscal position because tax receipts will fall and benefit expenditure will rise.
- High unemployment is likely to damage firms' profitability, hence damaging funds for innovation and reducing potential growth.
- Persistent high unemployment may create deskilling and worsen the NAIRU/NRU (Hysteresis), hence making it more difficult for an economy to return to high levels of GDP.
- High unemployment widens inequality within society and damages the living standards of those who are unable to find jobs.
- High unemployment has social consequences and has been shown to be correlated with family breakdown, damaged life-chances for the children of unemployed, health issues (putting a strain on health infrastructure) and rising crime.
- Other relevant and well developed points should be credited.

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Q.3(b)	Evaluate the most appropriate policies the government could use to reduce unemployment significantly in the UK at the present time. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What is the policy and how does it operate in the context of the UK?	How well is the process through which unemployment will be reduced explained by the learner? What types of unemployment will be affected?	How well is the effectiveness or potential side-effects of the policy judged?
3	<p>5-6 marks</p> <p>At least 3 policies are explained with a clear understanding of how they work.</p> <p>Policies described are linked to the UK economy at the present time.</p>	<p>5-6 marks</p> <p>Policies are well-developed, covering within them the main different types of unemployment. The answer must cover, at the very least, both demand side and supply side unemployment when developing the analysis of policies.</p> <p>At least 3 policies have been well developed – learner has described the policy clearly, shows understanding about how it is supposed to work and why unemployment might be reduced – policies have lines of reasoned argument.</p> <p>High end responses will anchor policies clearly to types of unemployment showing a good understanding of underlying economic theory.</p>	<p>6-8 marks</p> <p>Learner fully evaluates at least 3 policies, pointing out their strengths and weaknesses, perhaps the ways the weaknesses might be overcome or contrasting them with other policies.</p> <p>Evaluation should consider which policies face the biggest obstacles, and this will feed into the final conclusion.</p> <p>The answer is likely to contain a well-reasoned conclusion to the question in which the most appropriate policies (in the context of the UK at the present time) are recommended and defended (most likely to be a package of policies).</p>
2	<p>3-4 marks</p> <p>At least 2 policies are explained in some detail, showing an understanding of how they work.</p> <p>Possibly 3 or more policies have been explained, but some are not clearly relevant to the UK situation at the present time.</p>	<p>3-4 marks</p> <p>Learner develops a range of policies, but these are not always fully understood or are not well linked to different types of unemployment.</p> <p>Learner may well treat unemployed workers as an homogenous group and apply policies to this group in general rather than targeting policies at particular types of unemployment.</p> <p>Answers which look only at supply side or demand side unemployment are unlikely to score more than band 2, unless the learner fully justifies the reason for looking at only one side of the divide e.g. neoclassical approach – cyclical is irrelevant in the long run, Keynesian, it's demand deficient that is the key in the short run – in other words has made a conscious choice to focus the essay in a particular direction.</p>	<p>3-5 marks</p> <p>There is developed evaluation of at least 2 of the policies that are given which shows that the learner understands the policy and its limitations. Evaluation is specific to the policy mentioned and explained in context. Answers in this level will have developed lines of evaluation – hence the evaluation has been analysed.</p> <p>Learner might evaluate by contrasting the relative strengths of several policies – e.g. this policy is more appropriate under these circumstances, but this other policy is better under those circumstances, with good analysis as to why this might be the case.</p>

Q.3(b) (cont)	Evaluate the most appropriate policies the government could use to reduce unemployment significantly in the UK at the present time. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What is the policy and how does it operate in the context of the UK?	How well is the process through which unemployment will be reduced explained by the learner? What types of unemployment will be affected?	How well is the effectiveness or potential side-effects of the policy judged?
1	<p>1-2 marks</p> <p>Policies are identified but understanding of more than 1 policy is not demonstrated. It doesn't matter how many policies are identified, if understanding of what the policy is intended to do is not shown, no more than 1 mark can be awarded.</p>	<p>1-2 marks</p> <p>Policies are outlined and learners show some understanding, but there is only a limited link back to unemployment – there is limited understanding and analysis of why unemployment will be reduced.</p> <p>Policy is understood, but learner asserts rather than explains its mechanics.</p>	<p>1-2 marks</p> <p>Learner shows an awareness that policies have limitations and may explain the weaknesses to a limited extent. Probably only 1 or 2 policies are evaluated, but with limited development, or a wider range are looked at, but evaluation is generic.</p> <p>Answers in this level are likely to have evaluation that is either asserted, or else is very general – not specific to the policies that have been stated. General evaluation points (e.g. time lags) that have been made specific (learner has explained exactly why time lags would be a problem in the case of the policy stated) will be part of a band 2 or 3 answer.</p>
0	<p>0 marks</p> <p>No relevant policies identified.</p>	<p>0 marks</p> <p>No logical chains of reasoning.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>

Indicative content

Demand side solutions

Monetary: cut interest rates/QE: increase C and I, exchange rate falls, exports rise, imports fall. Growth rises, creating jobs.

But: Liquidity trap, failure of market rates to respond, confidence issues, overall existing level of debt, exports may not be price sensitive, QE may be stuck in banking system, falling interest rates cuts interest income, risk of bubble even if it works, etc.

Fiscal: Increase G/cut T: AD expands, multiplier effects therefore jobs are created.

But: High levels of government debt may make this inappropriate due to risks of bond vigilantes, crowding out and increased opportunity cost of debt. Projects may not be shovel ready (HS2 etc.). Tax cuts may not have much effect because of confidence issues/Ricardian equivalence/rational expectations. Time lags. Depends on which areas money is invested into – capital vs. labour intensive areas. Risk of white elephants driving up current spending in the longer term, depends on size of mpc etc.

General evaluation – demand side solutions are unnecessary if product and factor markets are fully flexible because the economy will self-stabilise back to the NAIRU/NRU. Expanding demand will therefore be counter-productive sowing the seeds for another bust (2001-08?).

Supply side solutions

Some of these may be quite small scale and highly varied if learners have studied unemployment policies in other countries; the range of supply side job-creation programmes is quite impressive, so they will have to be marked on their merits. However some broad themes are likely:

- Cuts in employment costs (targeting real wage unemployment): Abolish/reduce minimum wage, reduce TU power, reduce employment protection legislation, reduce administrative costs of employing workers – easier to hire.
 - **But** – costs may not be the issue, side effects on equality, minimum wage doesn't cover that many workers.
- Improve education and training (targeting youth, occupational immobilities and long term unemployment).
 - **But** – long term, government not best equipped to know what employers want, what does 'improve' education really mean, expensive etc.
- Regional policies (aimed at regional immobilities). Improved infrastructure, targeted subsidies and tax breaks, housing market reforms, etc.
 - **But** nothing seems to have worked very well due to the lure of the southeast and London.

- Tax and benefit reform (aimed at frictional and voluntary). Create better information and incentives to work – restrict access to benefits or cut overall levels, cut income tax/increase personal allowance/minimum income guarantees etc. Improve job-centres, use of contracted out employment agencies etc.
 - **But**, some unemployment will always exist regardless of policies, impact on equality and fairness, etc.
- Final conclusion will be likely to weigh up policies in the context of other available policies and the situation facing the UK at the time of the exam (difficult to forecast here).

Q.4(a)	Explain factors which might have caused the decrease in the international competitiveness of UK businesses. [10]	
Band	AO1 1ab	AO3
	6 marks	4 marks
	What are the factors that might affect the UK's international competitiveness?	Why do the factors identified actually reduce competitiveness?
3	<p>5-6 marks</p> <p>Clear reference to how at least 3 factors contributed to a decrease in the international competitiveness of the UK – answers in this level will be clearly referring to problems affecting the UK rather than just any economy.</p> <p>Factors are clearly identified and explained, showing good understanding.</p> <p>Learner shows understanding as well as knowledge.</p>	<p>3-4 marks</p> <p>Clear chain of argument that analyses the factors and shows a clear connection between the factors and competitiveness.</p> <p>Learner has a clear understanding of what international competitiveness might mean and probably links to more than just cost factors (although if cost factors are done in depth, then this band is possible for a well-reasoned argument).</p>
2	<p>3-4 marks</p> <p>Answers in this level will have explained factors impacting on international competitiveness, but may lack either range or context.</p> <p>For example, answers may have only 2 main factors explained, or may have more factors explained, but lack an appreciation of the current situation in the UK.</p>	<p>1-2 marks</p> <p>Limited development and analysis with a basic link between the factors and competitiveness.</p> <p>Learner is likely simply to assume an understanding of competitiveness and relate factors back broadly to this.</p>
1	<p>1-2 marks</p> <p>Limited reference to how the identified factors contributed to a decrease in the international competitiveness of the UK.</p> <p>Answer clearly refers to the sorts of issues affecting developed economies generally, but there is nothing tying it closely to the UK.</p> <p>To get more than 1 mark, learner must show good understanding of at least one factor. Other points are identified but not developed.</p>	
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

- Lower level of productivity, widening productivity gap with most of G7.
- Higher unit labour costs, both wage and non-wage could be a factor.
- Rise in/high domestic inflation rate relative to those of international competitors.
- Decline in non-price factors affecting competitiveness, i.e. lower investment, poor R & D, lower skills etc. leading to a decline in quality, design, technological standards etc. These may be counted as separate factors if explained separately. UK's poor record on investment and numeracy skills might be a factor here.
- Improved quality/design/price of competitor countries.
- Rise in the exchange rate, especially against the euro and dollar, because they are major trading partners.
- Protectionist policies by other countries.

Any other relevant factors should be credited.

Anecdotal examples of the sorts of issues that face specific industries are likely to enhance the quality of answers.

4 (b)	Evaluate strategies which may be used by the government to improve the competitiveness of UK businesses. [20]		
	AO1 1abc 6 marks	AO3 6 marks	AO4 1ab 8 marks
Band	What are the strategies to be used and how will they be relevant to UK competitiveness?	How well explained is the process through which the strategy will operate to increase competitiveness?	How good is the judgement of why the strategies might be ineffective or have undesirable side effects? Why might some strategies be more effective than others?
3	<p>5-6 marks</p> <p>At least 3 strategies are well developed with a clear understanding of their link to the competitiveness of the UK economy. Answers in this band will have policies that are clearly UK focused, or will be targeted at UK outcomes. Not just policies to improve competitiveness.</p> <p>Strategies are identified with a clear understanding of how they work.</p>	<p>5-6 marks</p> <p>At least 3 strategies are analysed with a clear line of argument linking it to the improvement of competitiveness. In-depth understanding of how competitiveness will be improved, how precisely the policy is supposed to work and what problem is to be overcome.</p>	<p>6-8 marks</p> <p>At least 3 strategies are critically evaluated, considering how serious the weaknesses really are and the extent to which they might be overcome.</p> <p>Evaluation points are well-explained looking at how problematic objections are – a sense of which strategies are likely to be the most effective.</p> <p>A well-reasoned conclusion is likely to be included in which the most appropriate strategies are recommended and defended.</p>
2	<p>3-4 marks</p> <p>At least 2 strategies are developed with limited understanding of their link to competitiveness of UK businesses.</p>	<p>3-4 marks</p> <p>At least 2 strategies are analysed with a sound explanation of how the strategies will affect competitiveness. There is a clear link between the strategy and UK competitiveness but details of how the strategy will work are missing, or it is not always made clear how competitiveness will be improved.</p>	<p>3-5 marks</p> <p>There is developed evaluation of at least 2 of the strategies, which show that the learner understands the policy and its limitations. In other words, evaluation is specific to the policy mentioned and explained in context. Answers in this band will have developed lines of evaluation – hence evaluation has been analysed.</p> <p>Evaluation is likely to centre on the effectiveness of the strategy, or possibly on its side effects.</p> <p>Conclusion will have limited or no support.</p>
1	<p>1-2 marks</p> <p>One limited or unclear application to competitiveness. Policies may be appropriate, but they are not well linked to the UK situation, or understanding of the strategies is not clearly demonstrated.</p>	<p>1-2 marks</p> <p>Limited analyses of how the strategies will affect competitiveness. Strategy is understood, but learner asserts rather than explains its mechanics.</p>	<p>1-2 marks</p> <p>The answer shows an awareness that strategies have limitations and may explain the weaknesses to a limited extent. Probably only 1 or 2 strategies are evaluated with limited development, or a wider range are looked at, but evaluation is generic.</p>
0	<p>0 marks</p> <p>Appropriate strategies are not identified.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Strategies are not qualified or discussed.</p>

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- Depreciate the exchange rate to decrease export prices.
 - **But**, this will not deal with the underlying causes of a lack of competitiveness.
- Education and training programmes to increase skill levels.
 - **But**, these are very costly and will take time to take effect and there is the potential for government failure.
- Improvements in transport/communications infrastructure.
 - **But**, these are costly and take time to take effect. Using private capital has its problems (PFI).
- Tax breaks for investment/R & D programmes/patent development.
 - **But**, schemes need to be well crafted to work and not be subject to abuse. They can also conflict with EU regulations.
- Macroeconomic stability (low stable inflation/low government debt).
 - **But**, external and political factors make these difficult to achieve.
- Attract FDI
 - **But**, foreign firms take their profits out of the country and may have little loyalty to the location.
- Increase productivity.
 - **But**, requires spending on training and new investment which is costly for firms. New working practices/redundancies can run into trade union opposition.
- Efficient goods and factor markets/banking and financial sector.
 - **But**, potential for failure unless the policy framework is robust.

Evaluation will focus on the limitations of the above policies qualifying their importance in increasing the level of competitiveness. Learners may focus on which strategies are most important particularly in relation to the relative importance of price and non-price competitiveness.

The best learners will examine the role of businesses in improving competitiveness and that it cannot all be achieved by the government.

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Q.5(a)	Explain, with examples, why having significant amounts of natural resources can damage the economic development of a country. [10]	
Band	AO1 1abc	AO3
	6 marks	4 marks
	What are the key issues with having significant amounts of natural resources?	Why is economic development damaged?
3	<p style="text-align: center;">5-6 marks</p> <p>Learner has a good understanding of the major issues facing LEDCs with large amounts of resources. They have explained clearly why the presence of resources is actually problematic.</p> <p>At least 3 separate issues are identified and developed.</p> <p>Learner has applied the points that they made to specific examples and scenarios. Often named countries will be used with details that show that the problem has been contextualised, or perhaps countries facing similar problems have been grouped together, but again the learner explains clearly why the problem applies to them.</p> <p>Bottom level responses may have well-developed factors but weaker examples or good examples with a narrower range of factors.</p>	<p style="text-align: center;">3-4 marks</p> <p>Generally there are well-developed lines of reasoning between the problem being identified and the impact on economic development being shown. There is a logical development of how at least 2 of the issues impact on the economy.</p> <p>This need not be in context. A good theoretical development is enough.</p>
2	<p style="text-align: center;">3-4 marks</p> <p>Answers in this band have explained factors dealing with the problems stemming from an abundance of natural resources, but may lack either range or context.</p> <p>At least 2 separate issues are identified and explained, or may have more factors explained, but lack convincing examples of situations in which abundant natural resources have been problematic.</p>	<p style="text-align: center;">1-2 marks</p> <p>Reasoning is generally not well-developed. There is basic explanation and development, of at least 1 issue and how it impacts on the economy.</p> <p>This need not be in context. Theoretical development is enough.</p>
1	<p style="text-align: center;">1-2 marks</p> <p>Learner can only demonstrate a knowledge of the problems faced and lacks detailed explanatory development of at least 1 issue.</p> <p>Answers in this level may have dealt with a wide range of issues, but not really demonstrated an understanding as to why they actually cause problems, or may have developed only 1 main issue.</p> <p>Learner has some examples, but these are not generally well developed. At the bottom of the band, there may only be scattered examples ("e.g. x").</p>	
0	<p style="text-align: center;">0 marks</p> <p>No key issues identified and no convincing examples are used.</p>	<p style="text-align: center;">0 marks</p> <p>No chains of argument present.</p>

Indicative content

Possible problems include:

Risk of over-specialisation in primary products which may

- Create disincentives to invest in education at both a state and individual level.
- Create import dependency making the country vulnerable to exogenous shocks.

Price and supply volatility (can be explained with a supply and demand diagram illustrating low PED and PES and volatile S and D due to weather and speculation). This may

- Deter FDI.
- Impact on government tax receipts making it harder to fund infrastructure projects.

Risk of Dutch Disease. Countries dependent on a narrow range of resources find that inward investment into those sectors (most often minerals) together with demand for the final product drives up the exchange rate, making other sectors uncompetitive and therefore narrowing the economy's industrial base.

Risk of Resource Curse. Most common in high value minerals and oil. The high value of these products and the ease with which production can be controlled can create a number of issues, such as;

- Political instability as different groups vie for control of the resource – hence military coups and unstable government which then deter I and FDI.
- Separation of the political elite from the population as a whole – the government is not dependent on the population for tax revenue, and hence may become less responsive to them.
- Corruption – high levels of wealth can be concentrated in the hands of a few, meaning that resources may not be used to the best advantage of the country as a whole.
- Production may be concentrated in the hands of foreign multinationals, which may or may not be beneficial to the population as a whole (repatriation of profit, etc.).

Q.5(b)	To what extent is encouraging inward foreign direct investment (FDI) the most appropriate policy for countries aiming to increase their level of economic development? [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What understanding is there of FDI and how it might help overcome an obstacle and what examples are there?	How well explained is the theoretical link between FDI and economic development?	How well judged are the circumstances under which FDI might be more or less likely to assist in economic development?
3	<p style="text-align: center;">5-6 marks</p> <p>Learner clearly understands that FDI is different from simply buying shares/portfolio investments. FDI involves setting up subsidiaries, creating joint ventures or acquiring a majority shareholding in an overseas business with the intention of operating it.</p> <p>Learner understands at least 4 clear ways in which FDI might help to improve economic development in LEDCs.</p> <p>Learner has applied the points that they made to specific examples and scenarios. Often named countries will be used with details that show that the problem has been contextualised, or perhaps countries facing similar problems have been grouped together, but again the learner explains clearly why the problem applies to these countries.</p>	<p style="text-align: center;">5-6 marks</p> <p>The links between FDI and economic development are well-developed, and at least 4 main issues have been developed (probably more), in-depth of analysis is the key here.</p> <p>Answers in this band are well-developed as to how FDI might or might not create economic development.</p> <p>Learner has an in-depth understanding of the advantages and disadvantages of FDI and gives good explanations to the links to economic development.</p>	<p style="text-align: center;">6-8 marks</p> <p>Learner comes to a clear judgement about the circumstances in which FDI might be beneficial to economic development and puts it into context. Answers in this band will have a broad range of examples on both sides of the debate and the answer will use these to draw out the principles behind whether or not FDI will be likely to create economic development.</p> <p>The answer is likely to contain a well-reasoned conclusion to the question to which extent FDI can contribute to economic development.</p>

Q.5(b) (cont)	To what extent is encouraging inward foreign direct investment (FDI) the most appropriate policy for countries aiming to increase their level of economic development? [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What understanding is there of FDI and how it might help overcome an obstacle and what examples are there?	How well explained is the theoretical link between FDI and economic development?	How well judged are the circumstances under which FDI might be more or less likely to assist in economic development?
2	<p>3-4 marks</p> <p>Learner understands 2 or 3 ways in which FDI might help to improve economic development.</p> <p>FDI is not consistently linked to specific country examples.</p> <p>Either the links are not fully developed, or some are well-developed, but only sporadically.</p> <p>Generally the answer is in context.</p>	<p>3-4 marks</p> <p>The links between FDI and economic development are well-developed, but the development may be uneven, with some well-developed ideas and others where the development is more limited.</p> <p>Learner has a good understanding of the advantages and disadvantages of FDI, but may not always explain the links clearly to economic development.</p>	<p>3-5 marks</p> <p>There is developed evaluation of most of the factors that have been identified which shows that the learner understands the impact of FDI and the extent to which the factor will always apply. Evaluation is specific to the factor mentioned and explained in context. Answers in this level will have developed lines of evaluation – hence the evaluation has been analysed.</p> <p>Learner might evaluate by contrasting the relative strengths of positive and negative aspects of FDI, but band 2 evaluation is not just good points, bad points or advantages/disadvantages.</p>

Q.5(b) (cont)	To what extent is encouraging inward foreign direct investment (FDI) the most appropriate policy for countries aiming to increase their level of economic development? [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What understanding is there of FDI and how it might help overcome an obstacle and what examples are there?	How well explained is the theoretical link between FDI and economic development?	How well judged are the circumstances under which FDI might be more or less likely to assist in economic development?
1	<p>1-2 marks</p> <p>Learner only has knowledge rather than understanding of ways in which FDI might help to deal with obstacles. At most 1 way has been explained.</p> <p>Or</p> <p>Learner does not really understand what FDI is, but has some relevant points.</p> <p>Examples are likely to be superficial and scattered (“eg x”).</p>	<p>1-2 marks</p> <p>Policies are outlined and learners show basic understanding, but there is limited or no linkage to economic development; the answer is more the advantages and disadvantages of FDI than whether or not it will increase growth and development.</p>	<p>1-2 marks</p> <p>Learner shows an awareness that FDI has limitations and may explain the weaknesses to a limited extent. Probably only 1 or 2 of the benefits are evaluated, but with limited development, or a wider range are looked at, but evaluation is generic.</p> <p>Alternatively, the learner’s main line may be that FDI is not very helpful at all, but will show an awareness that this may not always be so, again development is limited, often without country specific examples.</p> <p>Answers in this level are likely to have evaluation that is either asserted, or else is very general – not specific to countries and scenarios. General evaluation points that have been made specific (perhaps through the use of a short case study) will be part of a level 2 or 3 answer.</p>
0	<p>0 marks</p> <p>Learner briefly identifies only 1 or 2 ways in which FDI might help.</p>	<p>0 marks</p> <p>No logical chains of reasoning.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>

Indicative content

FDI allows funds to come in from abroad hence overcoming problems with low domestic savings and investment.

FDI may create jobs, increasing incomes locally, increasing the government's tax base and build regional multiplier effects amongst possible suppliers.

However, in some sectors jobs may be destroyed and supply bases may actually not be within the local economy. Sometimes jobs may not be created at all (firms employing staff from their home nation), or the jobs that are created may be low skilled.

FDI may allow specialist skills to be harnessed, allowing resources to be utilised more efficiently (e.g. high pressure, variable temperature drilling in oil and gas). This expertise (which may include management skills) may then be disseminated more widely throughout the economy. This will be especially the case if there are joint ventures between MNCs and local firms.

But commercial secrecy, IP rights and so on may mean that these benefits are not so great.

In some cases multinationals may build infrastructure to go with their investment (notably China in Africa), which can have major external benefits for other businesses, the health sector and so on.

But the quality of this investment has been questioned in a number of cases.

MNCs may bring technology that might not otherwise be available to the country.

But

MNCs may actually encourage primary product dependency and some of the other issues listed in part (a).

MNCs may actively support corrupt regimes.

MNCs may have very poor pay and working conditions (although how much poorer than existing domestic firms is open to question).

Profits may be repatriated, reducing the benefits to the economy as a whole and the tax base.

Competition may drive local businesses in the same sector to the wall.

Economy may become dependent on MNCs, which may in any case be internationally footloose, hence creating significant problems were they to leave (or threaten to leave) – governments may be exploited.

Environmental issues – MNCs may be far less concerned about external costs in countries other than their own, and may put pressure on government to relax standards (or not impose legislation).

Overall evaluation

May depend on the current stage of development of the LEDC – not all MNCs will want to go to the world's least economically developed countries and in any case may not be able to control MNCs adequately so as to get the most out of them.

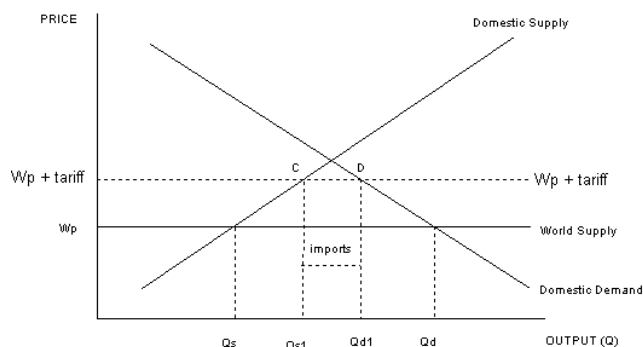
FDI is likely to be at best a partial solution, and its effectiveness will depend on the other policies that are in place.

Much will depend on the nature of the FDI and the intentions of the firms that are investing.

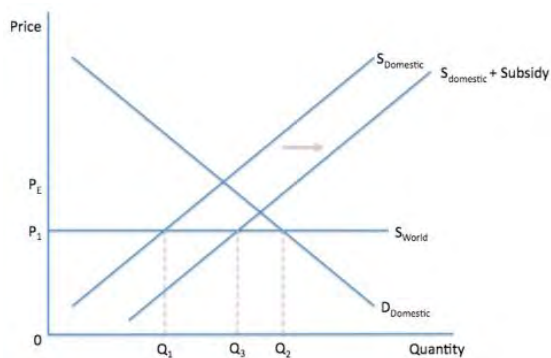
Q.6(a)	Using diagrams explain measures a country such as the US could introduce to reduce its current account deficit.		[10]
Band	AO1 1ac	AO3	
	6 marks	4 marks	
	What is meant by a current account deficit and how can it be reduced?	How do the policies work to reduce the deficit?	
3	<p>5-6 marks</p> <p>Learner draws at least 2 appropriate diagrams to illustrate the points that they are trying to make.</p> <p>Learner also clearly understands at least 2 or 3 ways in which it might be reduced. Definition is not required.</p> <p>Bottom band answers are likely to lack a little in either range or depth.</p>	<p>3-4 marks</p> <p>Clear chain of argument that analyses the measures and shows a clear connection between the measures and a reduction in the current account deficit. Learner deals directly with both imports and exports.</p>	
2	<p>3-4 marks</p> <p>Responses in this band may have flawed diagrams but good understanding of measures, or good diagrams, but more limited understanding shown.</p>	<p>1-2 marks</p> <p>Limited development and analysis with a basic link between the measures and the current account deficit.</p>	
1	<p>1-2 marks</p> <p>Learner draws only 1 good diagram or 2 diagrams which are flawed in significant ways.</p> <p>Learner fails to demonstrate good understanding of at least 2 ways in which it might be reduced.</p>		
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	

Indicative content

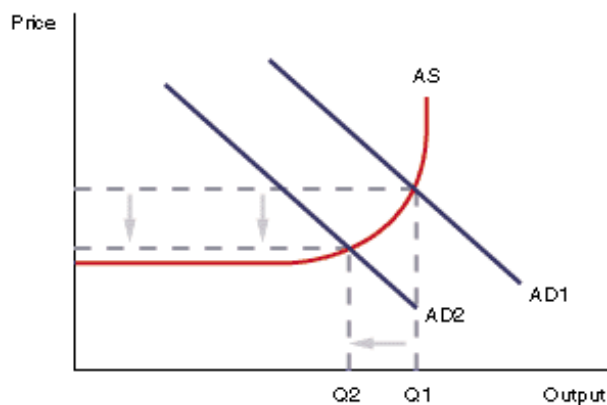
- Tariffs could be imposed to drive up the final price of imports.



- Quotas by volume, value or market share.
- Non-price protectionism in the form of regulations, bureaucracy, technical specifications, etc.
- Subsidies to domestic producers/exporters.

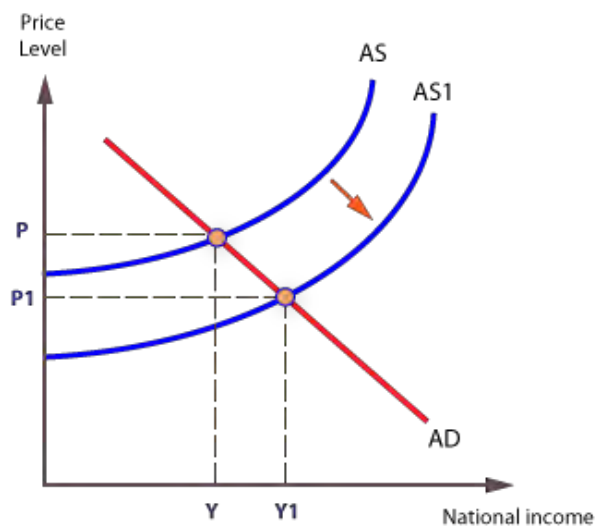


- Higher income tax rates, reduced government spending, reducing total demand in the economy, hence reducing imports.

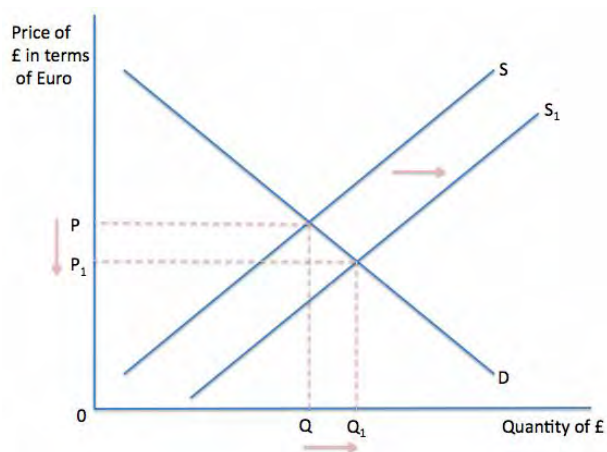


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- Supply side policies to boost the productivity of domestic firms and exporters.



- Devaluation of the exchange rate, currency wars by increasing the supply of domestic currency onto the forex market.



- Other plausible policies should be credited.

Q.6(b)	Discuss whether a country should always try to reduce a deficit on the current account of its balance of payments. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	Does the learner know whether a current account deficit might be good or bad?	Learner can explain in detail why a deficit might or might not be a good thing and can explain why a country might or might not try to reduce it.	How good is the judgement of whether a government should attempt to reduce a current account deficit?
3	<p>5-6 marks</p> <p>At least 4 issues are identified to do with the extent to which a current account deficit might or might not be a good or a bad thing.</p>	<p>5-6 marks</p> <p>Learner has a clear line of argument on both sides of the case which argues not just that a current account deficit might or might not be a bad thing, but also makes it clear whether a country should try to reduce it. It is likely that there will be 4 key lines of argument, all of which are tightly related back to the question set.</p>	<p>6-8 marks</p> <p>Learner comes to a clear view as to the circumstances under which a current account deficit will or will not be problematic and whether or not it will be appropriate to reduce it.</p> <p>Alternatively, evaluation may focus on which policy is used – whether we should reduce a deficit may depend on what tools are available.</p> <p>All points are well-developed.</p>
2	<p>3-4 marks</p> <p>At least 2 or 3 appropriate issues are identified with the learner showing that they understand what the point means.</p>	<p>3-4 marks</p> <p>Answer may be one sided, mainly arguing that current account deficits are or are not a problem. It is likely that there will be at least 2 lines of argument.</p> <p>Alternatively learner may have a good idea as to why current account deficits might be a problem, but does not make the further step to argue whether or not it is important to deal with them.</p>	<p>3-5 marks</p> <p>Answers in this band will have qualified arguments ('but it depends on ...') but have not discussed the circumstances under which it would be more or less sensible to try to reduce the deficit. Hence points have been well-evaluated, but the learner has not judged the issue at hand.</p>
1	<p>1-2 marks</p> <p>1 or 2 points are identified, or a wider range of points where it does not seem clear that the learner understands the link to the current account.</p>	<p>1-2 marks</p> <p>Limited analysis of how a current account deficit has problems. Learner focuses on the advantages and disadvantages of current account deficits rather than linking back to why they need to be dealt with (or not).</p> <p>At least 1 line of argument.</p>	<p>1-2 marks</p> <p>A basic attempt to show that a current account deficit may not always produce undesirable outcomes. Points are qualified to a limited extent, but there is little depth of explanation.</p>
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

Current account deficits can be problematic:

- Current account deficits are a concern as they can lead to lower AD and loss of employment.
- Current account deficits indicate a lack of price and/or non-price competitiveness.
- Explanation of the processes showing how unemployment can rise and GDP fall as a result of a current account deficit.
- Danger of surplus on the financial account leads to a high proportion of assets owned by foreigners.
- Danger of loss of foreign exchange reserves/IMF intervention.
- Collapse of the exchange rate/capital flight.

But

- Can allow higher short term living standards, consume outside PPF.
- Size (% of GDP) and persistence of the deficit.
- Structural or cyclical.
- Components of the deficit matter – it may be mainly capital goods, promoting long term growth.

Evaluation

- A floating exchange rate will self-correct any current account deficit (could mention J-curve and Marshall-Lerner).
- Deficit on the current account will be balanced by a surplus on the financial account, so much will depend on the nature of this surplus – could be central bank purchases of foreign exchange, short term inflows into banks, shares and property or longer term flows in the form of FDI, and each will have different impacts.
- Depends on how the deficit is reduced and on its original cause.