



ADVANCED
General Certificate of Education
January 2012

Economics

Assessment Unit A2 2

assessing

The Global Economy

[AE221]

WEDNESDAY 31 JANUARY, MORNING

**MARK
SCHEME**

General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are marked consistently and fairly. The mark schemes provide examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark scheme should be read in conjunction with these general marking instructions which apply to all papers.

Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 18-year-olds, which is the age at which the majority of candidates sit their A2 examinations.

Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners:

Threshold performance: Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Making calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

Level 3 (High Standard): The candidate successfully reflects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

Level 4 (Excellent): The candidate successfully reflects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.

- 1 (a) A surplus on the current account of the balance of payments exists when the sum of the credits exceeds the sum of the debits. It is not necessary for each component of the current account to show a surplus, only that there is an overall surplus.

There are four types of transaction recorded in the UK balance of payments on current account:

- trade in goods, consisting of exports and imports of tangible items such as cars, oil, whisky, etc.
- trade in services, consisting of debits and credits in relation to activities such as finance, advertising, etc.
- income, consisting of compensation of employees and the net return on UK-owned assets in other countries less payments to foreign owners of assets in the UK
- current transfers, consisting of private transfers such as emigrants' remittances and government transfers such as payments to the EU.

[5]

[1] for each item identified and adequately explained. An extra mark for any item which is extensively and accurately explained.
Constrained maximum of [5]

- (b) A number of factors have contributed to the UK having an almost permanent balance of payments deficit:
- de-industrialisation and loss of manufacturing base
 - rise of low cost, mostly Asian tiger economies
 - capital inflows from abroad have financed the current account deficit
 - the end of fixed exchange rates has allowed the UK government to avoid taking corrective action.

Level 1 ([1]–[3])

Candidate gives little explanation of the reasons for the UK's balance of payments deficit. There will typically be an anecdotal approach or verbatim quotes from the passage. Quality of written communication is limited.

Level 2 ([4]–[7])

Candidate gives some explanation of the reasons for the UK's balance of payments deficit. However, this will be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate gives a clear and comprehensive explanation of the reasons for the UK's balance of payments deficit. Quality of written communication is of a high standard. [10]

- (c) A number of factors have made UK firms attractive takeover targets for foreign predators:
- the fall in the value of the pound against the US dollar has made UK firms relatively cheap for American firms
 - the fall in the UK stock market has had the same effect
 - American firms have large cash surpluses as a result of cost-cutting during the recession
 - the BRIC economies have substantial current account surpluses which they can invest in the UK
 - many UK firms are in profitable sectors and have great earnings potential.

Level 1 ([1]–[3])

Candidate shows little understanding of why UK firms are attractive takeover targets for foreign predators. There is no significant economic analysis, and quality of written communication is limited.

Level 2 ([4]–[7])

Candidate shows some understanding of why UK firms are attractive takeover targets for foreign predators. There is a degree of economic analysis, though this may be incomplete or contain errors. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

Candidate shows a clear and comprehensive understanding of why UK firms are attractive takeover targets for foreign predators. There is accurate and relevant economic analysis, and quality of written communication is of a high standard. [10]

- (d) The issue of international capital flows and their potential has been a topical one in recent months. German Chancellor, Angela Merkel, has blamed the Greek debt crisis on the activities of international speculators, and even the IMF has said that LDCs should in certain circumstances restrict FDI.

Issues for analysis and evaluation include:

- protecting UK firms from foreign take-overs will give greater employment security to UK workers and management
- strategic UK industries would not fall into foreign hands
- UK government would have greater control over the economy
- foreign takeovers might worsen the working conditions for UK workers
- protection might allow UK firms to become complacent and inefficient
- technological diffusion would be restricted
- retaliation might prevent UK firms from investing overseas
- foreign takeovers give a financial bonus to UK shareholders.

Level 1 ([1]–[5])

Candidate provides little evaluation of the view that foreign takeovers of UK firms should be banned. The key issues are largely ignored or misunderstood, and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some evaluation of the view that foreign takeovers of UK firms should be banned. However, this may lack depth or be one-sided. Key issues are explained but the explanation may be superficial. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides an in-depth evaluation and judgement of the view that foreign takeovers of UK firms should be banned. Key issues are clearly and accurately explained. Quality of written communication is of a high standard. [15]

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- 2 (a) International trade may confer a number of benefits upon those nations which participate in it:
- consumers gain access to a wider range of products
 - consumers are able to buy imports more cheaply than from domestic producers
 - there is an overall increase in consumer welfare
 - producers gain access to wider markets
 - specialisation and trade (based on absolute and comparative advantage) creates a more efficient use of resources and an increase in welfare.

Level 1 ([1]–[5])

Candidate shows little understanding of the benefits of international trade. There is no significant economic analysis and often a low key anecdotal approach to the issues. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate shows some understanding of the benefits of international trade. There a degree of economic analysis, though this will typically lack depth or be incomplete. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate shows a clear and comprehensive understanding of the benefits of international trade. There is accurate and relevant economic analysis. Quality of written communication is of a high standard.

[15]

- (b) Most economic theory regards free trade as more desirable than protectionism. However, even free market economists acknowledge that in certain circumstances a degree of protectionism can be justified, though few would concede that it is the best way of promoting growth and development.

Issues for analysis and evaluation include:

- explanation of growth and development
- explanation of meaning and types of protectionism
- explanation and evaluation of infant industry argument
- explanation and evaluation of strategic industry argument
- explanation and evaluation of sunset industry argument
- explanation of absolute and comparative advantage
- evaluation of the relevance of theory of comparative advantage
- explanation of comparative advantage
- analysis of effect of import controls upon economic welfare
- historical and international examples.

Level 1 ([1]–[7])

Candidate provides little explanation or evaluation of the view that protectionism is the best method of promoting economic growth and development. Arguments are anecdotal and superficial. Quality of written communication is limited.

Level 2 ([8]–[13])

Candidate provides some explanation and evaluation of the view that protectionism is the best method of promoting economic growth and development. However, the evaluation will be one-sided or lack depth. There is a degree of economic analysis, though this will be incomplete or superficial. Quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate provides a clear explanation and meaningful evaluation of the view that protectionism is the best method of promoting economic growth and development. There is relevant economic analysis, and quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate provides a clear and comprehensive explanation of the view that protectionism is the best method of promoting economic growth and development. This is complemented by in-depth evaluation and judgement, supported by accurate economic analysis. Quality of written communication is excellent. [25]

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- 3 (a) The exchange rate of the pound against the US dollar is, by and large, a freely floating one, which means it is determined by market forces with a minimum of government intervention.

Hence it will be the demand and supply for pounds and dollars which ultimately determines the rate of exchange between the two currencies. The pound will rise in value against the dollar if demand rises or supply falls, and the dollar will rise against the pound for similar reasons. A number of factors influence these market forces:

- UK purchases of imports from the USA creates sales of sterling and purchases of dollars
- USA purchases of imports from the UK will cause sales of dollars and purchases of pounds
- investment flows from the USA to the UK increase the demand for pounds and the supply of dollars
- investment flows from the UK to the USA increase the demand for dollars and the supply of pounds
- speculation can affect market forces
- international confidence in the economic management of the country can also affect market forces.

Level 1 ([1]–[5])

Candidate provides little explanation of how the rate of exchange between the pound and the dollar is determined. There is no significant economic analysis, and quality of written communication is limited.

Level 2 ([6]–[10])

Candidate provides some explanation of how the rate of exchange between the pound and the dollar is determined. There is a degree of economic analysis, and quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate provides a clear and comprehensive explanation of how the rate of exchange between the pound and the dollar is determined. This is supported by relevant economic analysis, and quality of written communication is of a high standard. [15]

- (b) The issue of fixed versus floating exchange rates has been debated by economists and policy makers for many years. For almost three decades after the Second World War the world's major currencies were fixed in terms of the dollar, which itself, was pegged to a fixed value in gold. This system was known as an adjustable peg as rates could be adjusted in the long run in the event of a structural balance of payments deficit.

Today the Chinese renminbi is fixed against the American dollar, and the members of the Eurozone share a common currency. However, the pound and the American dollar are allowed to float against other major currencies and against each other.

Issues for analysis and evaluation include:

- explanation of fixed exchange rates and how they are maintained
- explanation of how fixed exchange rates assist in providing a stable trading environment by eliminating currency risks
- explanation of how fixed exchange rates encourage international trade
- explanation of how fixed exchange rates affect macroeconomic policy by forcing governments to adopt deflationary policies in order to maintain the fixed rate
- explanation of how fixed exchange rates help to control inflation
- explanation and evaluation of other exchange rate systems such as free floating, adjustable peg, etc
- reference to international and historical examples.

Level 1 ([1]–[7])

Candidate provides little explanation or evaluation of the view that the world's major trading nations should introduce a system of fixed exchange rates. There is no significant economic analysis, and quality of written communication is limited.

Level 2 ([8]–[13])

Candidate provides some explanation and evaluation of the view that the world's major trading nations should introduce a system of fixed exchange rates. However, the evaluation will be one-sided or lack depth. There is a degree of economic analysis, though this will be incomplete or superficial. Quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate provides a clear explanation and meaningful evaluation of the view that the world's major trading nations should introduce a system of fixed exchange rates. There is relevant economic analysis, and quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate provides a clear and comprehensive explanation and in depth evaluation of the view that the world's major trading nations should introduce a system of fixed exchange rates. There is accurate and relevant economic analysis. Quality of written communication is excellent.

[25]

AVAILABLE
MARKS

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- 4 (a) The World Bank was founded in 1944 and has its headquarters in Washington DC. It is not a bank in the common sense of the word. It consists of two development institutions, owned by 187 member countries. These are:
- the International Bank for Reconstruction and Development (IBRD) which aims to reduce poverty in middle income and credit worthy poorer countries
 - the International Development Agency (IDA) which provides assistance to the world's poorest nations.

Both institutions provide low-interest loans, interest-free credits and grants for a variety of purposes.

These include:

- investments in provision of education and healthcare
- investment in public administration
- investment in infrastructure
- investment in agriculture
- investment in private sector businesses
- investment in environmental and natural resource management.

There has been some criticism of the World Bank for promoting free market economic policies which may not necessarily be appropriate for LDCs.

Like the World Bank the IMF was the result of the Bretton Woods agreement of 1944. However, it differs from the World Bank in that its primary purpose is not to promote economic development but rather to ensure exchange rate stability and provide temporary financial assistance to countries in financial difficulties.

Such financial assistance normally has strict conditions attached to it and this was the case with the UK in 1976 and Ireland in 2010. These conditions are viewed by many as being unduly harsh and the IMF has attracted considerable criticism on this score.

Level 1 ([1]–[5])

Candidate gives little explanation of the roles of the World Bank and the IMF. There may be vague references to grants and loans but no significant explanation. Quality of written communication is limited.

Level 2 ([6]–[10])

Candidate gives some explanation of the roles of the World Bank and the IMF. However, this is likely to lack detail or contain errors. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

Candidate gives a clear and comprehensive explanation of the roles of the World Bank and the IMF. Quality of written communication is of a high standard. [15]

- (b) Trade liberalisation would involve the removal of import controls and export subsidies. Producers, generally agricultural, in LDCs would have free access to markets in developed economies. This would enable them to take advantage of lower labour costs and generate export led growth and development. However, there are also disadvantages to this strategy. Infant industries in LDCs would be unable to develop behind protectionist barriers and the economy could find itself swamped with imports from technologically advanced developed nations.

It is likely that the best strategy for promoting development would be a combination of selective liberalisation and significant foreign aid.

Issues for analysis and discussion include:

- explanation of meaning and measurement of economic development
- explanation of trade liberalisation
- evaluation of impact of trade liberalisation upon poorer countries
- explanation of how foreign aid could complement trade liberalisation
- evaluation of impact of aid on developed countries.

Level 1 ([1]–[7])

Candidate shows little understanding of the impact of trade liberalisation upon LDCs. Other policies to promote development are not explored and quality of written communication is limited.

Level 2 ([8]–[13])

Candidate shows some understanding of the impact of trade liberalisation upon LDCs. However, this will lack depth and any evaluation will be limited. There will be some reference to other policies. Quality of written communication is satisfactory.

Level 3 ([14]–[19])

Candidate shows a clear understanding of the impact of trade liberalisation upon LDCs. There will be significant evaluation of both trade liberalisation and other possible policies to promote development. Quality of written communication is of a high standard.

Level 4 ([20]–[25])

Candidate shows a clear and comprehensive understanding of the impact of trade liberalisation upon LDCs. There will be in-depth evaluation and judgement of both trade liberalisation and other possible policies to promote development. Quality of written communication is excellent.

[25]

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Total**80**