



**ADVANCED**  
**General Certificate of Education**  
**January 2013**

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## **Economics**

**Assessment Unit A2 2**

**The Global Economy**

**[AE221]**

**WEDNESDAY 30 JANUARY, AFTERNOON**

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**MARK  
SCHEME**

## General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are marked consistently and fairly. The mark scheme provides 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 schemes 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 and 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 to 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.

## Marking 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 selects 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 selects 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) The trend in value of the euro against the pound is very different from its trend against the Swiss franc.

- the euro started the period at a value of £0.83 and ended it at a value £0.87. This is an increase of £0.04 or approximately 4.8 per cent
- the rise was constant until the end of April when the euro's value rose to £0.91
- between May and July the euro's value fluctuated around £0.88.
- its highest value was in late June when it peaked at £0.92
- the euro's value against the Swiss franc started at approx 1.31 francs and ended at approx 1.15 francs. This is a fall of 0.16 francs or 12.2 per cent
- the trend was constant throughout the period though there were slight rises in late March and late June.

[2] for describing euro's trend against the pound

[2] for describing euro's trend against the Swiss franc

[1] for comparison of the two trends

[5]

(b) The passage refers to two policy instruments available to the People's Bank of China (PBOC). These are changes in the official rate of interest and direct intervention in currency markets.

In order to increase the value of the yuan the PBOC would increase the official rate and buy yuan on foreign currency markets. Use may also be made of other policies such as exchange controls.

The reverse would be true if the PBOC wished to reduce the value of the yuan.

Issues for analysis and discussion include:

- explanation of impact of increased or decreased interest rates on the value of the yuan
- explanation of impact of intervention in foreign currency on the value of the yuan
- explanation of impact of other policies.

#### **Level 1 ([1]–[3])**

Candidate provides little explanation of the policies which the PBOC could use. There may be a reference to the policies mentioned in the passage but no further explanation or development. Quality of written communication is limited.

#### **Level 2 ([4]–[7])**

Candidate provides some explanation of the policies which the PBOC could use. There will be a degree of explanation and development of the policies referred to in the passage, though this will be incomplete or contain errors. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate provides a clear and comprehensive explanation of the policies which the PBOC could use. There will be extensive explanation and development of the policies referred to in the passage and perhaps a reference to other policies. Quality of written communication is of a high standard. [10]

- (c) One undesirable aspect of globalisation is that a financial crisis is unlikely to be contained in any one country but will spread rapidly throughout the world. So it is with the current Eurozone debt crisis.

Issues for analysis and discussion include:

- explanation of how UK banks will suffer losses
- explanation of how these losses are likely to affect the wider economy as banks cut back on lending, e.g. the housing market and construction industry
- explanation of impact on UK exporters
- explanation of impact on aggregate demand in the UK
- explanation of impact on public finances as UK has to contribute to IMF bail outs.

**Level 1 ([1]–[3])**

Candidate provides little analysis of the impact of the Eurozone crisis upon the UK economy. There will be some reference to issues in the data but no significant further explanation. Quality of written communication is limited.

**Level 2 ([4]–[7])**

Candidate provides some analysis of the impact of the Eurozone crisis upon the UK economy. The issues in the data will be explained and developed though this is likely to be incomplete or contain errors. Quality of written communication is satisfactory.

**Level 3 ([8]–[10])**

Candidate provides a clear and comprehensive analysis of the impact of the Eurozone crisis upon the UK economy. There is extensive explanation and development of issues in the data and perhaps some reference to additional issues. Quality of written communication is of a high standard. [10]

- (d) All of these proposed solutions have significant disadvantages and deciding which is the “least bad” will be a difficult judgement. The “devalue and default” option is the most radical. It would involve Greece and perhaps other indebted countries leaving the euro, reverting to their national currencies and defaulting on all or part of their sovereign debt. This would reduce the burden of debt repayment and the lower exchange rate would enable Greece to regain competitiveness against other EU states. The major disadvantage is that it would create instability and uncertainty in world markets similar to the credit crunch of 2008. Ireland appears to have accepted the austerity path and has quickly returned to economic growth.

Issues for analysis and evaluation include:

- explanation of impact of “devalue and default” on Greece
- explanation of possible long-term benefits for Greece
- explanation of international consequences of “devalue and default”
- explanation of impact of prolonged period of austerity upon indebted nations
- explanation of impact of closer integration and fiscal transfers on both debtor and creditor nations
- overall evaluation and judgement of the “best” option.

**Level 1 ([1]–[5])**

Candidate provides little critical examination of this view. There will typically be a superficial anecdotal approach but a shortage of economic analysis. Quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some critical examination of this view. There will be a degree of economic analysis but this is likely to be incomplete or contain errors. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides an in-depth critical examination and judgement of this view. There will be extensive economic analysis and quality of written communication is of a high standard.

[15]

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- 2 (a) Less Developed Countries (LDCs) may differ considerably but they do have a number of features which are common to many of them.

These include:

- low per capita income
- shortage of physical capital
- lower levels of human capital as measured by educational statistics
- high population growth
- health and mortality. Inhabitants of LDCs are likely to endure poorer health and have a lower life expectancy than in more economically developed countries (MDCs)
- structure of the economy. LDCs typically have much greater dependence on agriculture than in MDCs
- poor governance and corruption
- war and the breakdown of the state.

Newly Industrialised Countries (NICs) are countries whose economies have not yet reached First World status but have, in a macroeconomic sense, outpaced their developing counterparts.

NICs usually share some other common features:

- high rates of economic growth, usually export based
- significant current account surpluses
- a switch from agricultural to industrial economies
- an increasingly open-market economy, allowing free trade with other nations in the world
- high levels of FDI (Foreign Direct Investment)
- lowered poverty rates.

**Level 1 ([1]–[5])**

Candidate provides little explanation of the differences between LDCs and NICs. There will be a number of vague unsubstantiated assertions and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation of the differences between LDCs and NICs. Some important issues will be addressed but many omitted and quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation of the differences between LDCs and NICs. Most issues are addressed in some detail and quality of written communication is of a high standard.

[15]

- (b) The trade versus aid debate has become more intense in recent years. Free market economists argue that reducing import barriers would do far more to promote development in LDCs than any amount of foreign aid. This view is challenged by a number of development economists who argue that the terms of trade are so biased against LDCs that free trade would be of little benefit. It would seem that free trade though important would not be sufficient to promote significant economic development in LDCs and that foreign aid programmes, however flawed, should remain.

Issues for analysis and evaluation include:

- explaining the potential benefits from trade liberalisation
- theory of comparative advantage
- some aid, especially that channelled through non governmental organisations, funds beneficial projects
- possibility that trade would not benefit the poorest African countries who might lack a comparative advantage in agriculture
- infant industry considerations
- ineffectiveness of aid. Africa has received over \$500 billion dollars of aid but many nations remain mired in poverty
- much aid is siphoned off by corrupt governments and officials. Much of this money finds its way back to Western bank accounts or is spent on exported luxury goods from the west

- aid gives power to the donor countries who use it to promote economic policies which may not be appropriate for each country. It supports paternalistic attitudes
- much aid ends up in the pockets of highly paid “development consultants” from the donor states
- much aid is wasted in ill-researched projects which were dreamt up by the donor states and which often gave lucrative contracts to engineering companies from these states
- aid played little or no part in the development of countries like China, Thailand and India
- much aid is tied to security considerations
- aid has helped to increase agricultural productivity through training
- not all African governments are corrupt.

**Level 1 ([1]–[7])**

Candidate provides little critical examination of the view that trade alone is insufficient to promote economic development. There may be vague references to some issues but these are not explained or developed. Quality of written communication is limited.

**Level 2 ([8]–[13])**

Candidate provides some critical examination of the view that trade alone is insufficient to promote economic development. However, key issues will be missed or there will be errors. Quality of written communication is satisfactory.

**Level 3 ([14]–[19])**

Candidate provides a significant critical examination of the view that trade alone is insufficient to promote economic development. Key issues are explained in some depth and quality of written communication is of a high standard.

**Level 4 ([20]–[25])**

Candidate provides an extensive in-depth critical examination and judgement of the view that trade alone is insufficient to promote economic development. Quality of written communication is excellent.

[25]

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**3 (a)** The current account is made up of:

- trade in goods
- trade in services
- net Income flows
- net current transfers.

The total of these sections is usually a negative figure as shown below:

Date	Trade in goods	Trade in services	Income flows	Current transfers	Balance
2011 Q1	-22.2	13.8	4.6	-5.5	-9.3

The financial account records cross border changes in the holdings of assets such as shares, government securities, buildings and land and businesses.

- when foreign citizens and businesses purchase UK assets this is an inflow of funds and when UK citizens purchase assets abroad this represents an outflow
- direct investment refers to the purchase of physical assets such as a factory, a farm or property. So when a UK citizen purchases a Spanish villa this is an outflow of funds and a debit item.

Portfolio investment refers to changes in holdings of paper assets such as company shares or government securities. So when an American pension fund buys UK gilt-edged securities this is an inflow of funds and a credit item.

This accounts also records changes in reserve assets.

#### **Level 1 ([1]–[5])**

Candidate provides no significant explanation of the differences between the current and financial accounts of the balance of payments. There will at best be a vague reference to issues like exports and imports, but little explanation. Quality of written communication is limited.

#### **Level 2 ([6]–[10])**

Candidate provides some explanation of the differences between the current and financial accounts of the balance of payments. However, this will be incomplete or contain errors. Quality of written communication is satisfactory

#### **Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation of the difference between the current and financial accounts of the balance of payments. Quality of written communication is of a high standard. [15]

- (b)** Whether or not a current account deficit is economically significant will depend on a number of factors.

These include:

- the absolute size of the deficit
- its size in relation to GDP
- the duration of the deficit
- the composition of the deficit
- the ease with which it can be financed by the capital and financial accounts.

A long-term deficit, constituting a high percentage of GDP could well indicate a lack of competitiveness, perhaps caused by low productivity or an over-valued exchange rate.

Issues for analysis and evaluation include:

- impact on employment
- impact on aggregate demand
- impact on circular flow of income
- impact on exchange rate
- impact on inflation
- impact on growth.

**Level 1 ([1]–[7])**

Candidate provides little evaluation of the view that current account deficits are still economically significant. Key issues are not explored and there is no significant economic analysis. Quality of written communication is limited.

**Level 2 ([8]–[13])**

Candidate provides some evaluation of the view that current account deficits are still economically significant. Key issues are explored though this may lack detail and there is limited economic analysis. Quality of written communication is satisfactory.

**Level 3 ([14]–[19])**

Candidate provides a significant evaluation of the view that current account deficits are still economically significant. Key issues are explored in some depth and there is widespread use of economic analysis. Quality of written communication is of a high standard.

**Level 4 ([20]–[25])**

Candidate provides an extensive in-depth evaluation and judgement of the view that current account deficits are still economically significant. Key issues are explored in great depth and there is extensive and accurate use of economic analysis. Quality of written communication is excellent. [25]

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**4 (a)** Candidates should give a brief explanation of what is meant by globalisation and then proceed to analyse its main causes.

- improvements in transport such as containerisation. This has reduced the significance of transport costs and facilitated the movement of both finished goods and raw materials. It has also increased the flow of migration, both legal and illegal
- trade liberalisation has gradually reduced protectionist measures. This has been assisted by the creation of large free trade areas such as the EU and NAFTA. The work of the WTO has also facilitated this process
- improvements in communications such as the Internet have facilitated international trade in services such as call centres. They have also led to greater integration of world financial markets, meaning that shocks in one market spread rapidly to others

- the development of multi-national corporations has allowed industries to produce and sell on an international basis. This is particularly true of global brands such as Coca-Cola
- increases in international capital flows.

**Level 1 ([1]–[5])**

Candidate provides little explanation of the causes of globalisation. There will be vague generalisations but no significant economic analysis and quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation of the causes of globalisation though this is likely to be incomplete or lack depth. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation of the causes of globalisation and quality of written communication is of a high standard.

[15]

- (b) Globalisation has affected UK living standards in a number of ways. These impacts have been both positive and negative, making its overall impact quite difficult to judge. However, the balance of the evidence would tend to point to a net welfare gain though this will be unevenly spread throughout the economy.

Issues for analysis and evaluation include:

- explanation of the term standard of living and how it might be measured
- impact on consumer choice
- impact on retail prices and the rate of inflation
- impact of imports on employment
- impact of UK firms relocating to low wage economies
- impact of inward migration on wage rates
- impact of inward investment on employment
- impact on share price and profits of UK companies and hence on shareholders, including pension funds.

**Level 1 ([1]–[7])**

Candidate provides little evaluation of the impact of globalisation on UK living standards. There will be vague assertions, often relating to migration, but little economic analysis. Quality of written communication is limited.

**Level 2 ([8]–[13])**

Candidate provides some evaluation of the impact of globalisation on UK living standards. There will be a degree of economic analysis and quality of written communication is satisfactory.

**Level 3 ([14]–[19])**

Candidate provides significant evaluation of the impact of globalisation on UK living standards. There is relevant economic analysis and quality of written communication is of a high standard.

**Level 4 ([20]–[25])**

Candidate provides an extensive in-depth evaluation and judgement of the impact of globalisation on UK living standards. There is clear and accurate economic analysis and quality of written communication is excellent.

[25]

**Total**AVAILABLE  
MARKS

40

**80**