



*Rewarding Learning*

**ADVANCED**  
**General Certificate of Education**  
**2016**

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**Economics**

Assessment Unit A2 2

The Global Economy

**[AE221]**

**MONDAY 23 MAY, MORNING**

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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. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

### 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) Relevant points of comparison include:

- Data is presented in index number format with base at Q1 2008
- Over the period the USA's GDP rose from 100 to 107.8, a percentage rise of 7.8
- Over the period the EU's GDP fell from 100 to 97.8, a percentage fall of 2.2
- The gap between EU and USA GDP has increased steadily since 2011
- In 2014 the gap was 10 percentage points, meaning that USA GDP was 9.3 per cent greater than that of the EU
- Both economies fell significantly during 2008/9. The USA fell by 4 per cent and the EU fell 6 per cent
- The USA passed its starting point during 2010. The EU has yet to pass its starting point.

One mark for each relevant point made up to a maximum of 5 [5]

Maximum [3] if no manipulation.

Credit will be given for other relevant points.

- (b) Candidates should refer to the points in the passage but should explain and develop them. Direct use of source material with no additional development will be limited to Level 1.

Issues for explanation and analysis include:

- Low inflation. This encourages consumers to delay purchases as real prices are falling in some Eurozone countries. There is a negative impact on aggregate demand.
- The value of the euro is too high. This makes Eurozone exports more expensive for foreign purchasers and makes imports cheaper for EU consumers. Again aggregate demand is negatively affected.
- EU austerity policies. In order to reduce the debt burden many countries have had to cut spending and increase taxation. Budget deficits have to be kept below 3 per cent of GDP. This precludes the use of expansionary fiscal policies.
- Inflexible labour markets. Some Eurozone countries have highly regulated labour markets, This makes hiring and firing difficult and so increases unemployment. Again aggregate demand is negatively affected.

Credit will be given for other relevant points.

### Level 1 ([1]–[3])

Candidate provides little explanation of the reasons for low rates of economic growth in many Eurozone countries. There is likely to be some use of source material but this is not explained or developed. Quality of written communication is limited.

### Level 2 ([4]–[7])

Candidate provides some explanation of the reasons for low rates of economic growth in many Eurozone countries. The points referred to in the source material will be developed but this will be incomplete or contain errors. Quality of written communication is satisfactory.

### Level 3 ([8]–[10])

Candidate provides a clear explanation of the reasons for low rates of economic growth in many Eurozone countries. The points referred to in the source material will be extensively and accurately developed and some additional points may be introduced. For example, tensions between Europe

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and Russia over Ukraine and the resulting sanctions have adversely affected German growth. Quality of written communication is of a high standard. [10]

- (c) Candidates should refer to the points in the passage but should explain and develop them. Direct use of source material with no additional development will be limited to Level 1.

Issues for explanation and analysis include:

- Loss of business confidence. Firms will be reluctant to invest in troubled regions. This applies particularly to oil exploration and mining companies. There is likely to be an adverse effect on their share price, with consequential impacts on pension funds and other investors
- Increased defence and security spending. This will have an opportunity cost on other areas of government spending and perhaps also on the budget deficit.
- Increased costs for businesses. These range from higher oil and commodity prices to increased insurance premiums.
- Sanctions on and by Russia. These have led to the cancellation of many export orders such as 2 war ships due to be delivered by France to Russia. Russia has retaliated by banning all food imports from EU members.
- Increased defence exports. UK exporters of military equipment such as BAE have enjoyed an increase in orders. This has helped the UK balance of payments.

Conclusion. In spite of the increase in arms exports the net impact on the UK economy is probably negative.

#### **Level 1 ([1]–[3])**

Candidate provides little explanation of the impact of geopolitical tensions upon the UK economy. There is likely to be some use of source material but this is not explained or developed. Quality of written communication is limited.

#### **Level 2 ([4]–[7])**

Candidate provides some explanation of the impact of geopolitical tensions upon the UK economy. The points referred to in the source material will be developed but this will be incomplete or contain errors. Quality of written communication is satisfactory.

#### **Level 3 ([8]–[10])**

Candidate provides a clear explanation of the impact of geopolitical tensions upon the UK economy. The points referred to in the source material will be extensively and accurately developed and some additional points may be introduced. For example many refugees from conflict zones have attempted to enter the UK. Quality of written communication is of a high standard. [10]

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- (d) Whilst the Eurozone may have survived its recent crisis with all its membership intact this does not mean that its structural weaknesses have been addressed. One possible solution for these weaknesses and for its current stagnation is for the break-up of the Eurozone and for its weaker members to revert to their previous national currencies.

Issues for analysis and evaluation include:

- Problems for low productivity nations arising from inability to depreciate currency
- Problems arising from common interest rate
- Problems arising from failure of Eurozone to achieve all the features of an optimal currency area
- Conversion costs from break-up of Eurozone
- Impact on global financial confidence of break-up of Eurozone
- Problem of repayment of debts owed by nations leaving the Eurozone
- Loss of benefits of common currency, e.g. price transparency.

**Level 1 ([1]–[5])**

Candidate provides little critical examination of this view. There will be superficial references to some issues but no significant 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 explanation of some issues but limited economic analysis. 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 significant and accurate economic analysis. Quality of written communication is of a high standard.

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- 2 (a) A short definition of globalisation is “the ever increasing integration of the world’s local, regional and national economies into a single international market” ( A Anderton)

A number of factors have contributed to the rise of globalisation:

- Improved transport which has facilitated the movement of people and goods throughout the world
- Improved technology especially the growth of the internet has made it easier to communicate and share information around the world
- Growth of transnational companies which can produce and sell in many different countries
- The development of trading blocs such as the EU and NAFTA
- The gradual reduction of trade barriers, often through the work of the WTO
- Growth of global media such as CNN
- The development of a global business cycle
- The increasing integration of the world’s financial markets
- A massive increase in capital flows as nations often compete to receive foreign direct investment
- Increased international mobility of labour
- Development of global brands.

**Level 1 ([1]–[5])**

Candidate provides little explanation of the reasons for the growth of globalisation. There may be vague references to transport costs but no significant economic analysis. Quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate provides some explanation of the reasons for the growth of globalisation. There will be a degree of analysis of relevant issues but this will contain errors or be incomplete. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation of the reasons for the growth of globalisation. There will be accurate analysis of relevant issues and quality of written communication is of a high standard. [15]

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- (b) Globalisation has affected UK living standards in a number of ways, both positive and negative. Its overall impact is quite hard to assess. Any welfare gain will be unevenly spread throughout the economy, meaning that some groups will experience welfare loss.

Issues for analysis and evaluation include:

- Explanation of the term standard of living and how it might be measured
- Impact on consumer choice and consumer surplus
- Impact on retail prices and the rate of inflation
- Impact of increased imports on employment
- Impact of UK firms relocating to low wage economies
- Impact of inward migration on wage rates, including overtime rates
- Impact of inward migration on government spending, e.g. education, translation costs
- Impact of inward investment on employment
- Impact on share prices and profits of UK companies.

**Level 1 ([1]–[7])**

Candidate provides little critical examination of the view that globalisation has had a negative impact 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 critical examination of the view that globalisation has had a negative impact on UK living standards. There will be a degree of analysis of some issues but this will lack depth or contain errors. Quality of written communication is satisfactory.

**Level 3 ([14]–[19])**

Candidate provides significant critical examination of the view that globalisation has had a negative impact on UK living standards. There is relevant economic analysis of the major issues 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 globalisation has had a negative impact on UK living standards. There is clear and accurate economic analysis and quality of written communication is excellent. [25]

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- 3 (a) The European Union contains the two essential features of a customs union:
- there is complete freedom of movement of goods and services within the EU
  - all member states of the EU have the same import controls against products from outside the EU.

It is these features which create trade creation and trade diversion.

Trade creation occurs when consumption shifts from a relatively high cost producer to a relatively low cost producer. So a country joining the EU might then be able to obtain goods more cheaply from other members of the EU than it was able to obtain previously from non-member states.

Trade diversion occurs when consumption shifts from a lower cost producer outside the customs union to a higher cost producer within it.

When the UK joined the EU it lost free access to New Zealand lamb and had to buy from more expensive producers within the EU.

Issues for analysis and discussion include:

- explanation of why EU is a form of customs union
- explanation of trade creation
- explanation of trade diversion
- appropriate examples
- appropriate diagrams.

#### **Level 1 ([1]–[5])**

Candidate provides little explanation of how EU membership may lead to both trade creation and trade diversion. There is no significant economic analysis and quality of written communication is limited.

#### **Level 2 ([6]–[10])**

Candidate provides some explanation of how EU membership may lead to both trade creation and trade diversion. 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 EU membership may lead to both trade creation and trade diversion. There is accurate economic analysis and quality of written communication is of a high standard. [15]

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- (b) The 1957 Treaty of Rome described the objectives of the CAP as:
- to increase agricultural productivity
  - to ensure fair living standards for the agricultural community
  - to stabilise markets
  - to ensure availability of food
  - to provide food at reasonable prices.

It began operating in 1962 with the community intervening to buy farm output when the market price fell below an agreed target level. This helped to reduce Europe's reliance on imported food but also led to over-production and the creation of mountains and lakes of surplus food and drink. However these wasteful surpluses have now been eliminated because of the introduction of the single farm payment scheme.

With regard to expense, the CAP remains by far the largest single item in the EU budget. *In 2013 the budget for direct farm payments (subsidies) and rural development – the twin “pillars” of the CAP – was 57.5bn euros (£49bn), out of a total EU budget of 132.8bn euros (that is 43% of the total). Most of the CAP budget is direct payments to farmers.*

However the significance of the CAP in the EU has fallen. In 1970 it constituted 87% of the EU budget. So although the CAP is certainly expensive it is a good deal less expensive than it used to be.

Issues for analysis and evaluation include:

- explanation of objectives of CAP
- benefits of CAP to stability of food supplies in EU
- impact of CAP on farm incomes
- impact of EU enlargement upon CAP
- impact of CAP on farmers in LDCs
- financial costs of CAP
- costs of CAP to EU consumers in terms of higher food prices
- impact of CAP on animal welfare and production of safe food
- impact of CAP on rural environment
- explanation of recent reforms to CAP
- explanation of opportunity cost of CAP spending. Would these funds be better invested in science and technology which would increase the EU's rate of economic growth
- explanation of costs of dismantling CAP.

#### **Level 1 ([1]–[7])**

Candidate provides little critical examination of the view that the CAP should be abolished. There may be vague references to food mountains and wine lakes but no significant economic analysis. Quality of written communication is limited.

#### **Level 2 ([8]–[13])**

Candidate provides some critical examination of the view that the CAP should be abolished. There will be references to some relevant issues but the explanation will lack depth or contain errors. Quality of written communication is satisfactory.

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**Level 3 ([14]–[19])**

Candidate provides a comprehensive critical examination of the view that the CAP should be abolished. There will be extensive and relevant economic analysis and quality of written communication is of a high standard.

**Level 4 ([20]–[25])**

Candidate provides a comprehensive in-depth critical examination of the view that the CAP should be abolished. There will be extensive relevant and accurate economic analysis and quality of written communication is excellent.

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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 by making loans to middle income and creditworthy poorer countries
- the International Development Agency (IDA) which provides assistance to the world's poorest nations which may not be considered creditworthy.

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

- investment 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. This has led the BRIC nations to establish their own financial institution which will perform functions similar to the World Bank.

The WTO has three distinct roles in the global economy:

- to provide a framework for negotiating and formalising trade agreements, aimed at liberalising world trade. An example of this is the Doha round of negotiations
- to ensure that these agreements are adhered to
- to provide a dispute resolution process when countries feel that trade agreements have been breached. The WTO has the power to award compensation to aggrieved parties.

#### **Level 1 ([1]–[5])**

Candidate provides little comparison of the roles of the World Bank and the WTO in the global economy. There may be superficial references to issues like “helping free trade” but these will lack substance. Quality of written communication is limited.

#### **Level 2 ([6]–[10])**

Candidate provides some comparison of the roles of the World Bank and the WTO in the global economy. There will be some explanation of key issues but this will lack detail or contain errors. Quality of written communication is satisfactory.

#### **Level 3 ([11]–[15])**

Candidate provides a clear comparison of the roles of the World Bank and the WTO in the global economy. There will be extensive and accurate explanation of key issues and quality of written communication is of a high standard.

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- (b) There is no serious debate with regard to short term emergency relief aid. Obviously MDCs should assist poorer countries which have suffered natural and perhaps even man-made disasters. However the efficacy of long term development aid has been increasingly questioned in recent years. This has been accelerated by austerity in many MDCs and also by high growth rates in NICs such as India and in many African nations. Some economists question the contribution of aid to these high growth rates and argue that opening EU and American markets to imports from African farmers would generate long term sustainable growth.

Issues for analysis and evaluation include:

- Explanation of general benefits of trade, e.g. comparative advantage, consumer surpluses
- Disadvantages of free trade, e.g. infant industries, senile industries
- Political opposition in MDCs to reduced import controls
- Explanation of benefits of aid particularly when focussed on long term development goals, e.g. literacy
- Problems of misuse of aid
- Benefits of aid to donor nations, e.g. security
- Reduced significance of aid as many LDCs experience high growth rates
- Balanced conclusion, e.g. development aid should be better targeted but not totally abolished.

#### Level 1 ([1]–[7])

Candidate provides little evaluation of this view. There are a number of vague assertions but no significant economic analysis and quality of written communication is limited.

#### Level 2 ([8]–[13])

Candidate provides some evaluation of this view. However this will be one-sided or lack depth. There is a degree of understanding of the issues and a degree of economic analysis though this may contain minor errors. Quality of written communication is satisfactory.

#### Level 3 ([14]–[19])

Candidate provides an in-depth evaluation of this view. This will be based on a wide range of issues and supported by relevant economic analysis. Quality of written communication is of a high standard.

#### Level 4 ([20]–[25])

Candidate provides an in-depth evaluation and judgement of this view. Virtually all relevant issues are addressed and supported by relevant and accurate economic analysis. Quality of written communication is excellent.

[25]

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**Total**

**80**

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