



*Rewarding Learning*

**ADVANCED**  
**General Certificate of Education**  
**2017**

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**Economics**

**Assessment Unit A2 2**

*assessing*

**The Global Economy**

**[AE221]**

**MONDAY 19 JUNE, 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. 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:
- Over the entire period the pound fell against the US dollar from \$1.57 to \$1.54. This is a fall of 1.6%
  - Over the entire period the pound rose against the euro from 1.27 euros to 1.4 euros. This a rise of 10.2%
  - The low point for pound/dollar exchange rate was \$1.46 in April 2015. This is a fall of 6.7% from 2014
  - The high point for the pound dollar exchange rate was \$1.59 in June 2015.

2 marks for each well developed point including some measure of proportionality. Constrained max of 5 marks.

[5]

- (b) A number of factors have contributed to the rise in the value of the US dollar:
- A rising American stock market has attracted foreign investors and led to an increase in demand for US dollars
  - Geopolitical uncertainty has increased the attractiveness of US government securities as a safe haven asset and increased the demand for US dollars
  - Low interest rates in other parts of the world have made US government securities an attractive investment and increased demand for US dollars
  - The reduction in the USA's oil imports has reduced the supply of US dollars
  - A fall in the value of other major currencies such as the yen has pushed up the value of the US dollar.

#### Level 1 ([1]–[3])

Candidate provides little explanation of the factors behind the rise in the value of the US dollar. Little will be added to the points in the source and there is likely to be significant direct use of source material with little economic analysis. Quality of written communication is limited.

#### Level 2 ([4]–[7])

Candidate provides some explanation of the factors behind the rise in the value of the US dollar. There will be some development of the points in the source and a degree of economic analysis 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 factors behind the rise in the value of the US dollar. There will be extensive development of the points in the source and significant economic analysis perhaps including a relevant diagram. Quality of written communication is of a high standard.

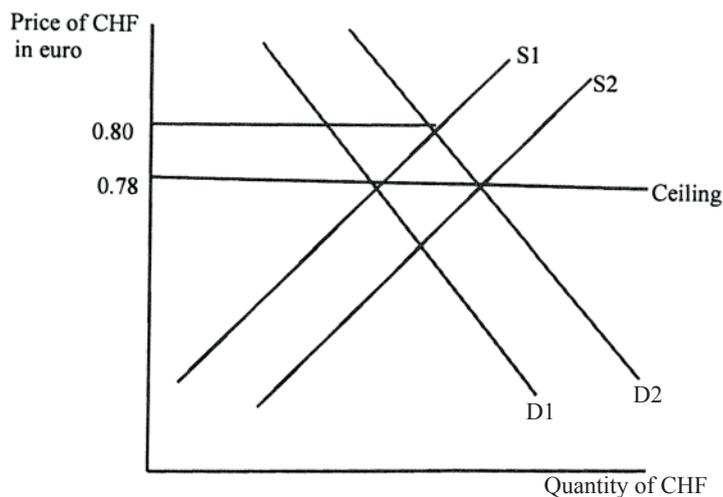
[10]

AVAILABLE  
MARKS

- (c) The CHF is initially at an equilibrium exchange rate of 0.78 euros. However an increase in demand for CHF moves the demand curve from D1 to D2 and a new exchange rate of 0.80 euros is established. This is above the ceiling set by the SNB.

The SNB responds to this by selling Swiss francs and buying euros. This increases the supply of CHF on the forex market, moving the supply curve from S1 to S2 and restoring the ceiling of 0.78 euros.

The SNB could also reduce interest rates. This would reduce the demand for CHF and lower its exchange rate.



#### Level 1 ([1]–[3])

Candidate provides little explanation of how the Swiss Central Bank maintained the ceiling on the value of the Swiss franc against the euro. There will be no serious attempt at a diagram and little economic analysis. Quality of written communication is limited.

#### Level 2 ([4]–[7])

Candidate provides some explanation of how the Swiss Central Bank maintained the ceiling on the value of the Swiss franc against the euro. There will be an attempt at a diagram and some economic analysis but these will contain errors or be incomplete. Quality of written communication is satisfactory.

#### Level 3 ([8]–[10])

Candidate provides a clear and accurate explanation of how the Swiss Central Bank maintained the ceiling on the value of the Swiss franc against the euro. There will be an accurate diagram and relevant economic analysis. Quality of written communication is of a high standard. [10]

AVAILABLE  
MARKS

- (d) The issue of fixed versus floating exchange rates has divided economists for many years. For almost 3 decades after the Second World War the world's major currencies were fixed in terms of the American dollar which itself was pegged to a fixed value in gold. Countries experiencing a long term deficit on their current account could, with the permission of the IMF, devalue their currencies.

This arrangement known as the Bretton Woods agreement collapsed in 1971. Since that date most of the world's major currencies have been allowed to float, though some such as the Chinese renminbi have remained pegged to the dollar.

Issues for analysis and evaluation include:

- Explanation of fixed exchange rates and how they are maintained
- Explanation of the need for some supervisory body such as the IMF to oversee the regime
- Explanation of the benefits of fixed exchange in terms of reducing the currency risks of international transactions
- Explanation of the benefits of fixed exchange rates for international trade
- Explanation of how fixed exchange rates help to control inflation
- Explanation of how floating exchange rates can act as an automatic correction mechanism for current account deficits and comparison with a fixed rate regime
- Explanation of the deflationary impact of fixed rates
- Explanation and evaluation of other exchange rate systems such as adjustable peg, etc.
- Reference to historical examples.

#### **Level 1 ([1]–[5])**

Candidate provides little critical examination of the view that the world's major economies should introduce a system of fixed exchange rate. Key issues are not addressed and there is limited economic analysis. Quality of written communication is limited.

#### **Level 2 ([6]–[10])**

Candidate provides some critical examination of the view that the world's major economies should introduce a system of fixed exchange rate. Several key issues are addressed with a degree of economic analysis. However this may contain errors or be incomplete. Quality of written communication is satisfactory.

#### **Level 3 ([11]–[15])**

Candidate provides an in-depth critical examination and judgement of the view that the world's major economies should introduce a system of fixed exchange rate. Most key issues are addressed with significant and accurate economic analysis. Quality of written communication is of a high standard.

[15]

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AVAILABLE  
MARKS

- 2 (a) Economic development is a very broad economic and social indicator but one which has no precise definition. John Sloman says *“Development is a normative concept. Its definition will depend on the goals that the economist assumes societies want to achieve.”*

Development reflects economic and social progress and although it requires economic growth, growth in itself is no guarantee of development.

Most measures of development will include indicators such as income per head, literacy rates, infant mortality, health care provision, inequality of income and wealth, environmental considerations, the status of women and quite often political freedom.

Other valid points will receive full credit.

Indicators of economic development include:

- Real per capita GDP. This is a useful starting point but clearly a very inadequate measure of overall development
- Human Development Index. This was first introduced in 1990 as part of the UN Development Programme. Countries are graded on a scale from 0 to 1 based on GDP per capita, longevity and educational achievement. *In 2011 The Netherlands had a figure of 0.91 and the Republic of Niger was rated at 0.30*
- Human Poverty Index. This was meant to complement the Human Development Index by measuring the extent to which access to the 3 key variables of the HDI was restricted
- *Index of Sustainable Economic Welfare. This was proposed by Nordhaus and Tobin as an alternative to GDP. It is no longer updated but credit will be given for reference to it*
- *The OECD's Better Life Index. This enables comparisons to be made amongst the 362 regions of the OECD on 11 measures including income, jobs and health*
- Measures of happiness.

#### **Level 1 ([1]–[5])**

Candidate provides little explanation of economic development or how it can be measured. Response is likely to focus exclusively on GDP. Quality of written communication is limited.

#### **Level 2 ([6]–[10])**

Candidate provides some explanation of economic development and how it can be measured. The main shortcomings of GDP figures will be explained and there will be some reference to other measures. Quality of written communication is satisfactory.

#### **Level 3 ([11]–[15])**

Candidate provides a clear and comprehensive explanation of economic development and how it can be measured. There will be a detailed explanation of at least two measures and quality of written communication is of a high standard. [15]

AVAILABLE  
MARKS

- (b) There is no serious doubt about the need for 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 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, increased exports, reduced migration
- Reduced significance of aid as many LDCs experience high growth rates
- Benefits of trade liberalisation as an alternative to development aid
- Opportunity cost of aid in donor countries
- 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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AVAILABLE  
MARKS

- 3 (a) The IMF was first conceived at a UN conference in 1944 and came into operation in 1945. For almost 3 decades its major function was to supervise a system of fixed exchange rates. However when this collapsed in 1971 its role became:
- To provide short term loans to countries experiencing balance of payments deficits or exchange rate turbulence. Recently (2015) it has played a major role in providing financial assistance to Greece
  - To survey and monitor economic and financial developments and to provide advice to nations which appeared to be developing instability
  - To provide technical advice and training to those countries which request it.

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 was 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.

A simple comparison of the two bodies would be that the IMF promotes stability and the WTO promotes trade.

#### Level 1 ([1]–[5])

Candidate provides little comparison of the roles of the IMF and the WTO in the global economy. There may be superficial references to issues like “helping countries with financial problems” but these will lack substance. Quality of written communication is limited.

#### Level 2 ([6]–[10])

Candidate provides some comparison of the roles of the IMF and the WTO in the global economy. There will be a degree of explanation of key issues but this will lack detail or be incomplete. Quality of written communication is satisfactory.

#### Level 3 ([11]–[15])

Candidate provides an in-depth comparison of the roles of the IMF and the WTO in the global economy. There will be extensive explanation of key issues and quality of written communication is of a high standard. [15]

- (b) The issue of protecting the UK economy against lower cost competitors is certainly not a new one. In the 19th century the clamour for controls against imports from the USA was the background for David Ricardo’s theory of comparative advantage which to this day remains one of the major arguments against protectionism.

Issues for analysis and evaluation include:

- Explanation of different types of import control, including the distinction between overt and covert measures
- Welfare analysis of controls including impact on consumer and producer surplus
- Application and evaluation of theory of comparative advantage
- Significance of membership of EU and WTO

AVAILABLE  
MARKS

- Possibility of complacency and X-inefficiency in domestic economy
- Recognition that controls may be justified in certain circumstances, e.g. Import, Service and Strategic Industries and retaliation against unfair practices
- Possibility of retaliation and worsening of international relations
- Critical examination and comparison with other possible policies
- Reference to historical and contemporary events, which highlight that free trade can create losers as well as winners.

#### **Level 1 ([1]–[7])**

Candidate provides little evaluation of the view that it is essential for the UK to impose import controls in order to protect jobs and promote growth. There may be a few anecdotal points such as “cheap labour” but these will not be supported by any significant economic analysis. Quality of written communication is limited.

#### **Level 2 ([8]–[13])**

Candidate provides some evaluation of the view that is essential for the UK to impose import controls in order to protect jobs and promote growth. There will be a few relevant points which are supported by a degree of economic analysis. Quality of written communication is satisfactory.

#### **Level 3 ([14]–[19])**

Candidate provides a significant evaluation of the view that is essential for the UK to impose import controls in order to protect jobs and promote growth. A range of relevant points are developed and explained with supporting economic analysis. Quality of written communication is of a high standard.

#### **Level 4 ([20]–[25])**

Candidate provides a comprehensive in-depth evaluation and judgement of the view that it is essential for the UK to impose import controls in order to protect jobs and promote growth. There is a balanced critical examination of both sides of the debate and a reasoned final judgment. Quality of written communication is excellent. [25]

AVAILABLE  
MARKS

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- 4 (a) The components of the UK balance of payments are related by the simple identity that the sum of all credit items must equal the sum of all debit items. Hence the overall balance of payments must balance and sum to zero. An individual component of the balance of payments may be in surplus or deficit but the overall balance must be zero.

In the event that all recorded transactions do not balance then some items must have been missed or wrongly valued. Hence a figure for net errors omissions is included to ensure that the account does balance.

**Current account balance + Capital and Financial account balances + net errors and omissions = 0**

Areas for analysis include:

- Discussion of the Structure of UK Balance of Payments accounts
- Discussion of the importance of changes in official reserves in ensuring that the Balance of Payments balances
- Discussion of the link between Direct and Portfolio Investment flows in the financial account and Primary Income flows in the current account.

**Level 1 ([1]–[5])**

Candidate shows little understanding of the components of the UK balance of payments or of how they are related. Quality of written communication is limited.

**Level 2 ([6]–[10])**

Candidate shows some understanding of the components of the UK balance of payments but only a limited explanation of how they are related. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

Candidate shows a comprehensive understanding of the components of the UK balance of payments and a clear explanation of how they are related. Quality of written communication is of a high standard. [15]

- (b) The economic significance of a balanced current account has fallen in recent decades. This is partly the result of the movement of most developed countries to a floating exchange rate regime and also to the increasing importance of capital and financial flows. Governments feel that they can turn a blind eye to a current account deficit as it is likely to be balanced by a financial account surplus. In addition a deficit may be corrected by a fall in the value of the pound without any need for government to take any corrective measures.

Issues for analysis and evaluation include:

- Assessment of the significance of any deficit, e.g. duration, percentage of GDP, etc.
- Analysis of the causes of the deficit
- Analysis of the impact of government fiscal and monetary policies on the deficit
- Explanation of impact on exchange rate
- Explanation of fixed and floating exchange rates
- Explanation of floating exchange rates as automatic corrective mechanism for balance of payments deficits

AVAILABLE  
MARKS

- Explanation of impact of the deficit on employment
- Explanation of impact of deficit on investor confidence and on UK credit rating
- Explanation of possibility of “sterling crisis”
- *A former member of the monetary policy committee said recently, “A balance of payments deficit doesn’t matter until suddenly it does!”.*

**Level 1 ([1]–[7])**

Candidate provides little explanation or evaluation of the view that a balance of payments deficit is of no economic significance. Quality of written communication is limited.

**Level 2 ([8]–[13])**

Candidate provides some explanation of the view that a balance of payments deficit is of no economic significance. There is a degree of evaluation though this may lack depth or be one-sided. Quality of written communication is satisfactory.

**Level 3 ([14]–[19])**

Candidate provides a clear and comprehensive explanation of the view that a balance of payments deficit is of no economic significance. There is significant evaluation 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 a balance of payments deficit is of no economic significance. There is in-depth evaluation and judgement and quality of written communication is excellent.

[25]

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**Total****80**AVAILABLE  
MARKS