



ADVANCED
General Certificate of Education
2018

Economics
Assessment Unit A2 2
assessing
The Global Economy
[AE221]
TUESDAY 12 JUNE, AFTERNOON

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)

G20 member country	approximate growth in real GDP per head at PPP between 1990 and 2014 (%)
Brazil	49
China	740
India	200
“Russia”	21
UK	43
USA	40

- Russia is the only one of the nations shown not to have experienced constant increase in income throughout the period
- Real GDP per head in China has increased more than eightfold during the period
- The fastest growth was in China in the first decade of the twenty-first century
- (Predictably) economic progress is relatively slower in nations starting from a higher baseline
- Of the countries starting from a higher baseline, the UK grew and developed most quickly, although GDP per head in 2014 was still 72% of that of the USA
- At the beginning of the period income per head in the USA was 25 times greater than in China, but by the end of the period the lowest income (India’s) was more than 10% of the highest (USA’s)

Many other relevant observations are possible & should be credited appropriately.

[5]

(b) Although there are clues in the passage about other factors which are important in addition to income, answers should not be limited to just the prompted points. People’s lives may not be improving if there are negative or no changes in some or all of the following:

- The size and rate of change of the country’s population
- The difference between Gross Domestic Product and Gross National Income
- Composition of the National Product
 - (“disproducts”/“regrettables”/proportion of investment spending/net exports)
- Distribution of income within and between the citizens and regions of the country
- Working practices and conditions
- Levels of pollution or depletion of non-renewable resources
- “Social cohesion” – *including the level of individuals’ commitment to a national identity and feeling that their own contributions to national life are worthwhile*
- *National organisation of preventive medicine and personal access to health care*
- *Access to education and other avenues of personal development*
- *Some ability to democratically influence future actions of local and national governments*
- *Personal safety and the impartial administration of just laws*
- *The degree of social equality (age, race, beliefs, sexual orientation)*
- *Ease of access to information including uncensored media and the Internet*

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Level 1 ([1]–[3])

The candidate provides little explanation as to why growth in GDP does not necessarily lead to improvements in quality of life. There may be vague references to some of the points in the passage but these will not be explained or developed. Quality of written communication is limited.

Level 2 ([4]–[7])

The candidate provides some explanation as to why growth in GDP does not necessarily lead to improvements in quality of life. There will be references to some of the points in the passage with a degree of development. Quality of written communication is satisfactory.

Level 3 ([8]–[10])

The candidate provides a clear and comprehensive explanation as to why growth in GDP does not necessarily lead to improvements in quality of life. The points in the passage are extensively developed and there may be some additional points. Quality of written communication is of a high standard.

[10]

- (c) There are three main reasons for failures in aid: corruption (including corrupt motives for the provision of aid); incompetence in administration (both by donors and recipients), including poor targeting; or shortcomings in local infrastructure.

Such failures include:

- Contradictory policies – money may be put into projects which are doomed to failure because of, for example, undismantled tariffs or subsidies to firms in MDCs
- Officials, insurgents or paramilitary groups may seize money or supplies intended to help needy populations
- Charities or aid agencies may misunderstand which are the areas of greatest need
- Conditions may be attached to aid – for example, if contracts in building programmes must be awarded to the donor country, there may be much less wealth creation in the recipient country
- There may be some other hidden military, ideological or commercial agenda
- Political considerations may actually call for replacement of some less-than-perfect systems in LDCs with imposed systems which are even less efficient locally
- Richer governments may want to be seen to be taking action in the aftermath of natural disasters, and rush to do so, but, for example, perishable goods may rot when there are no roads on which to distribute them
- Cultural or religious differences between countries, besides blocking the sending of appropriate aid, may also get in the way of implementing aid programmes in the way the donor country intended
- Other relevant points are to be credited appropriately – such ideas as patent exploitation by firms in MDCs may be explored in ways relevant to the question

Level 1 ([1]–[3])

The candidate provides very little examination of the reasons for the failure of foreign aid to alleviate poverty in LDCs. There will typically be a vague anecdotal approach but no significant economic analysis and quality of written communication is limited.

AVAILABLE
MARKS

Level 2 ([4]–[7])

The candidate provides some examination of the reasons for the failure of foreign aid to alleviate poverty in LDCs. There will be a degree of economic analysis of relevant issues and quality of written communication is satisfactory.

Level 3 ([8]–[10])

The candidate provides a clear and comprehensive examination of the failure of foreign aid to alleviate poverty in LDCs. There will be accurate economic analysis of relevant issues and some degree of evaluation. Quality of written communication is of a high standard. [10]

- (d) “Free trade” means that goods and services may be supplied across international borders without restrictions such as tariffs or administrative complications. “Sustainable economic development” implies a positive rate of progress in living standards and conditions which does not create inflationary pressures, nor deplete scarce resources or damaging volumes of pollution.

Nearly every textbook in Economics reflects the conventional view that free trade will ultimately benefit all participants, and the analysis of deadweight welfare loss is a familiar feature of an ‘A’ level Economics course.

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, still matter.

Issues for analysis and evaluation include:

- Theory of comparative advantage
- The potential benefits from genuine trade liberalisation far exceed the aid programmes of the donor states
- Ineffectiveness of aid. *Africa has received over \$500 billion dollars of aid but many nations remain mired in poverty*
- Some of the other failings of aid mentioned in answer (c) may be judiciously re-visited
- Aid played little or no part in development of countries like China, Thailand and India
- 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
- Possibility of formal trade deals retarding development in lower-income countries
- Infant industry considerations
- Aid has helped to increase agricultural productivity through training
- Not all governments in less developed countries are corrupt
- Raising living standards in LDCs may ease immigration pressures in MDCs
- appropriate examples
- appropriate diagrams

AVAILABLE
MARKS

Level 1 ([1]–[5])

The candidate provides little evaluation of the view that free trade is the most effective way to promote sustainable economic development. Key issues are not explored and there is no significant economic analysis. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate provides some evaluation of the view that free trade is the most effective way to promote sustainable economic development, though this may lack detail or be one-sided. There is a degree of economic analysis and quality of written communication is satisfactory.

Level 3 ([11]–[15])

The candidate provides a significant evaluation and judgement of the view that free trade is the most effective way to promote sustainable economic development. Key issues are explored in some depth and there is widespread use of economic analysis. Quality of written communication is of a high standard. [15]

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2 (a) The current account is made up of:

- Trade in goods
- Trade in services
- Net income flows, **now recorded by the ONS as “primary income”**
- Net current transfers, **now recorded by the ONS as “secondary income”**

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

<i>UK balance of payments on current account, net figures, £billion</i>					
	<i>Trade in goods</i>	<i>Trade in services</i>	<i>“Income”</i>	<i>“Transfers”</i>	<i>Balance</i>
<i>2014</i>	<i>–123.7</i>	<i>+89.1</i>	<i>–33.1</i>	<i>–25.2</i>	<i>–92.9</i>

- Although the terminology is old-fashioned and no longer officially used in national accounts, the “balance of trade” – often described as such by news media – is the difference between exports of goods and services and imports of goods and services
- Primary income includes income from employment and income from investments, such as interest and dividends
- Secondary income consists of transfers, which may include private remittances, contributions to international bodies and grants of aid to other countries

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 account also records changes in reserve assets
- It is also where a balancing item, “Errors and Omissions” is included to adjust figures when estimates in each category do not exactly match up with recorded flows of money in and out of the economy

Level 1 ([1]–[5])

The 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])

The 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.

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Level 3 ([11]–[15])

The 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) The extent to which a deficit on current account may be a serious problem depends on a number of factors:

- Failure of domestic industries to provide goods and services for domestic production may limit the nation's prospects for growth and restrict employment
- Like many other economic phenomena, there may not seem to be a problem with something people have got used to until suddenly some adverse combination of circumstances turns a simmering slight problem into a serious acute one
- "Balancing" deficits on current account with surpluses on the financial account may not really be in the national interest
- Possible negative consequences of British firms coming under foreign control
- The size of the deficit in relation to GDP
- Whether the deficit is growing or fluctuating and for how long the current balance has been in deficit
- How the deficit is structured, *e.g. if the transfers element was quite a high negative value, but the balance of trade in goods and services was positive, the economy could still be performing quite strongly*
- The ease with which it can be financed by the capital and financial accounts
- The possibility that a main contributory factor has been an over-valued exchange rate
- The possibility that improvements in national rates of productivity may lead to future improvements in the current balance
- The possibility that an excess of imports over exports may be a healthy leakage in terms of limiting inflation
- How easily the deficit might be cured by administration of policy instruments
- appropriate examples
- appropriate diagrams

Level 1 ([1]–[7])

The 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])

The 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])

The 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.

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Level 4 ([20]–[25])

The 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 evidence economic analysis. Quality of written communication is excellent.

[25]

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3 (a) Globalisation is the term used to describe the way in which the markets across the world have become increasingly integrated. It has many causes which include:

- 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
- Improved communications 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])

The 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])

The 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])

The 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 impacted upon virtually every single aspect of the UK economy. Everything from the availability of goods and services to the closer integration of world financial markets and its role in the spread of the credit-crunch has been affected. There have also been deep social implications as a result of inward migration.

Issues for analysis and evaluation include:

- Nature of globalisation – ease of movement of workers and money across frontiers, ease of exchange of information, standardisation of brands and cultures
- Impact on UK consumers – past experience has involved falling prices of consumer goods
- Impact on FDI into UK – recognition that this is not always positive
- Impact on UK firms – more competition, but possibly gains from economies of scale
- Impact on UK balance of payments
- Impact of migration (positive cultural diversity, social pressures)

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- Risks associated with closer financial integration between economies, e.g. financial crisis
- Impact on labour market and living standards (wage/overtime rates – enforcement of NMW)
- Impact on productivity – cheap labour may act as a disincentive to capital investment
- Net impact of globalisation
- appropriate examples
- appropriate diagrams

Level 1 ([1]–[7])

The candidate provides little explanation of the various ways in which globalisation has affected the UK economy. There is no attempt at evaluation and quality of written communication is limited.

Level 2 ([8]–[13])

The candidate shows some understanding of the various ways in which globalisation has affected the UK economy. There is a degree of evaluation of the overall impact and quality of written communication is satisfactory.

Level 3 ([14]–[19])

The candidate shows a clear understanding of the various ways in which globalisation has affected the UK economy. This is supported by accurate economic analysis and there is significant evaluation of the overall impact. Quality of written communication is of a high standard.

Level 4 ([20]–[25])

The candidate shows a clear and comprehensive understanding of the various ways in which globalisation has affected the UK economy. This is supported by accurate economic analysis and there is in-depth evaluation of the overall impact. Quality of written communication is excellent. [25]

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- 4 (a) The exchange rate of the pound against the euro 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 euro which ultimately determines the rate of exchange between the two currencies. The pound will rise in value against the euro if demand rises or supply falls, and the euro will rise against the pound for similar reasons.

A number of factors influence these market forces:

- UK purchases of imports from the Eurozone lead to sales of sterling and purchases of euro
- Eurozone purchases of imports from the UK will lead to sales of euro and purchases of pounds
- Investment flows from the Eurozone to the UK increase the demand for pounds and the supply of euro
- Investment flows from the UK to the Eurozone increase the demand for euro and the supply of pounds
- Impact on tourism – a stronger pound makes holidays abroad seem much better value
- Inclusion of appropriate (supply and demand for currency) diagrams
- Speculation can affect market forces
- International confidence in the economic management of the country can also affect market forces

Level 1 ([1]–[5])

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

Level 2 ([6]–[10])

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

Level 3 ([11]–[15])

The candidate provides a clear and comprehensive explanation of how the rate of exchange between the pound and the euro 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.*

Until 2015 the Chinese yuan (yuan renminbi) was fixed against the American dollar, but now its value, more conveniently, is held in line with a "basket" of major currencies instead. Members of the Eurozone share a common currency. However, the pound, the euro and the American dollar are allowed to float against other major currencies and against each other.

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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 may 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, or adjustable peg
- Reference to difficulties of maintaining fixed exchange rates
- Reference to need for objective external enforcement of a global system
- Reference to international and historical examples
- appropriate diagrams

Level 1 ([1]–[7])

The 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])

The 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])

The 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])

The 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]

Total**AVAILABLE
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40

80