



**General Certificate of Secondary Education  
2014**

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## **Economics**

**Paper 2**

**[G9272]**

**TUESDAY 3 JUNE, AFTERNOON**

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## **MARK SCHEME**

## General Marking Instructions

### Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

### The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

Section A		AVAILABLE MARKS
1	(a) An exchange rate is the price of one currency in terms of another.	
	Award [2] for a clear and accurate definition; [1] for a flawed or partial definition. (AO1: [2])	[2]
	(b) The pound (£) depreciates when it falls in value against other currencies, e.g. the exchange rate could change from £1= \$1.60 to £1= \$1.50.	
	Award [2] for a clear and accurate explanation; [1] for a flawed or partial explanation. (AO1: [2])	[2]
	(c) (i) UK exported goods will become relatively cheaper for foreign countries to buy and so UK exporters would expect to sell more. (ii) Tourists from Eurozone countries will find the UK less expensive as they will get more pounds in exchange for euros. This should promote the UK as a tourist destination.	[2]
	For each of (i) and (ii), award [2] for a clear and accurate explanation; [1] for a flawed or partial definition ( $2 \times [2]$ ). (AO3: [4])	8
2	(a) Inflation is a sustained rise in the general level of prices. It is measured by the percentage change in the Consumer Price Index, the government's preferred measure of inflation. The Retail Price Index is also used to measure inflation.	
	Award [2] for a clear and accurate definition; [1] for a flawed or partial definition. (AO1: [2])	[2]
	(b) Inflation may be the result of cost-push or demand-pull factors. For example, higher pay settlements in general to workers may push up costs and this may cause the general level of prices to rise. Increases in demand within the economy may cause the general price level to rise if supply is unable to increase at a similar rate.	
	Award [2] for an accurate point with some development, and [1] for a flawed or partial definition. (AO1: [1]; AO2: [1])	[2]
	(c) Inflation causes the real value of money to fall and households will not be able to buy as many goods and services unless their income rises by at least the same rate. The real value of savings will also fall so households may choose to spend savings to buy items before any further increases in prices.	
	Award [2] for a relevant effect with some development and [1] for a partial explanation. (AO1: [1]; AO2: [1])	[2]

3 (a) At the start of 2007, the base rate of interest was 5%; by 2012 it fell by 4.5% to 0.5%.

Award [2] for clear and accurate answer; award [1] for a flawed or partial answer.

(AO2: [2])

[2]

(b) Possible advantages of low interest rates include:

- Borrowers have less interest to pay on loans and mortgages
- Helps boost demand in the economy generating growth and employment
- May cause the exchange rate to depreciate and boost exports.

[2]

Possible disadvantages of low interest rates include:

- Savers lose out as their savings earn less money in interest
- Low interest rates may generate a rise in inflation if borrowing and spending increase
- May cause the exchange rate to depreciate and increase the price of imports.

[2]

Award [2] for each advantage and disadvantage of the effects of low interest rates that includes some relevant development; award [1] for a flawed or partial answer.

(AO1: [2] AO3: [2])

6

**Total for Section A**

**20**

**Section B****AVAILABLE MARKS**

4 (a) Unemployment occurs when someone who is out of work is actively seeking work but is unable to find a job.

Award [2] for clear and accurate definition; award [1] for flawed or partial definition.

(AO1: [2])

[2]

(b) Unemployment rose by just over 1 million over the 6 year period as follows:

- In January 2007, unemployment was 1.7 million and by December 2012 it reached 2.5 million
- Unemployment was fairly steady throughout 2007 and until midway through 2008
- Unemployment rose steadily from midway through 2008 until midway through 2009 from approximately 1.75 million to 2.5 million
- Over 2009 unemployment rose very quickly from 2.2 million to 2.5 million
- During 2010 and the start of 2011, unemployment remained at 2.5 million. From March 2011, it started to increase.
- In 2012, unemployment dipped very slightly from 2.7 million to 2.5 million.

Allow up to [2] for description of the general upward trend and allow [2] for specific reference to the data and the rate at which unemployment increased.

(AO2: [4])

[4]

(c) Possible causes of unemployment include:

- Cyclical or demand-deficient unemployment – the economy may be in recession and the general level of demand for goods and services falls as does the demand for labour
- Seasonal unemployment – levels of unemployment may increase if there is a high level of seasonal employment linked with tourism or seasonal demand such as the summer season or Christmas
- Structural unemployment – demand for particular types of labour may fall if the structure of the economy changes and these skills are no longer needed
- Frictional unemployment – workers may be short term unemployed when they are between jobs. They may have lost a job and applied for a new job and this process may take a number of weeks.

Allow up to [2] for the explanation of each cause of unemployment ( $2 \times [2]$ ).

(AO1: [2]) AO2: [4])

[4]

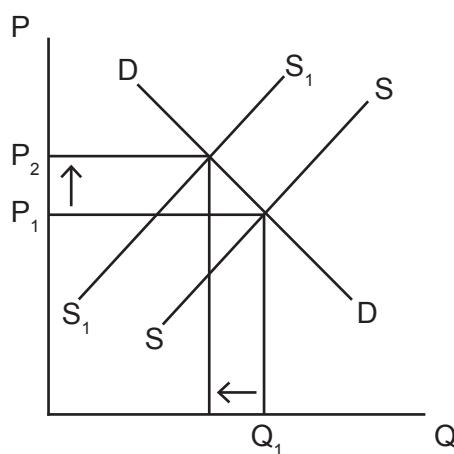
(d) Two possible costs of unemployment to the economy include:

- The lost output that the unemployed workers could be producing. This is the opportunity cost of unemployment
- The costs of benefits which have to be paid to unemployed people
- The loss of tax revenue to the government due to lower income and lower spending
- A possible increase in crime and antisocial behaviour
- Young unemployed people will have fewer opportunities to develop work related skills and experience

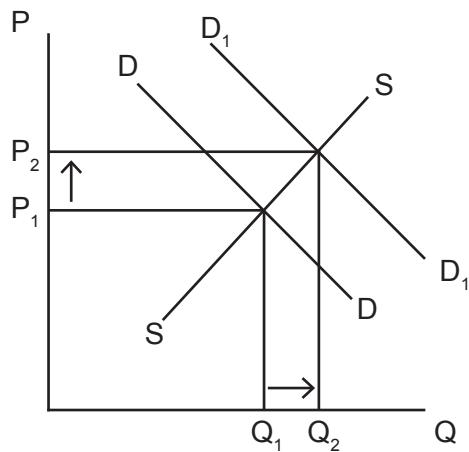
		AVAILABLE MARKS
	<ul style="list-style-type: none"> <li>• Increase in emigration and possible loss of skilled workers.</li> </ul> <p>Award [1] for identifying each valid cost and [1] for development (<math>2 \times [2]</math>). Award [1] in each instance for a flawed or partial explanation. (AO1: [2]) AO3: [2])</p>	[4]
(e)	<p>Ways in which the government might respond to rising unemployment include:</p> <ul style="list-style-type: none"> <li>• Expansionary fiscal stimulus to boost demand in the economy</li> <li>• Raise the school leaving age to 18 to reduce the demand for benefits created by 16-year-olds leaving school and not being able to find a job</li> <li>• Supply-side policies to improve skill levels such as initiatives at school or training schemes such as apprenticeships or to improve careers guidance or reduce frictional unemployment</li> <li>• Increase government spending on infrastructure projects that might benefit the construction industry</li> <li>• Work in partnership with private sector firms to create jobs</li> <li>• Increase opportunities for higher and further education so that more people stay in the full-time education for longer rather than seeking employment</li> <li>• Attract foreign direct investment.</li> </ul>	
	<p>Award [1] for identifying each valid cost and up to [2] for development (<math>2 \times [3]</math>). Award [1] in each instance for a flawed or partial explanation.</p>	[6]
5	<p>(a) The chart shows changes in world food prices between 2002 and 2013 presented in index number format. Between 2002 and 2008, there was a steady upward trend in world food prices. The index number score reached 200 in 2008 indicating a 100% increase over this 6 year period. In 2009, the index number score dropped by 53 points which represented a 26.5% decrease in world food prices. In the two subsequent years, prices once again started to rise and reached a high in 2011 when the index number score was 228. This was an increase of 45% between 2009–2011. In the final two years, 2012 and 2013, prices fell slightly but scores remained over 200 and confirming that prices overall had risen by 100% over the eleven year period.</p> <p>Allow up to [2] for the identification of the upward trend using the data and allow up to [2] for development. (AO2: [4])</p>	20

(b) (i) This will cause a fall in supply and a consequent rise in price.

AVAILABLE MARKS



(ii) This will cause a rise in demand and subsequent rise in price.



For (i) and (ii), allow up to [4] for showing the correct shift in the diagram and explanation of the effect of each event on price as follows:

[2] for the correct diagram

[2] for indicating and explaining the effect on price and quantity (2 × [4]).

(AO2: [6] AO3: [2])

[8]

(c) Economic growth in countries such as Brazil, Russia, India and China could have the following economic effects:

- As standards of living rise and consumers have higher levels of disposable income, they demand more consumer goods that use up non-renewable resources
- Resources have to be allocated to produce these goods and services; this may increase negative externalities such as pollution
- More energy will be needed to support economic growth and higher consumer demand and, again, this increases demand on scarce energy resources if nonrenewable resources are used
- Consumption patterns change to reflect more Western tastes. In China, for example, there is increased consumption of dairy products and this in turn is having an impact on health
- More of the world's natural resources, even water, will need to be used as a result of building infrastructure and increased economic development
- Rising inflation in respective countries
- Rising oil and raw material/commodity prices.

Allow [1] for the identification of each point and up to [3] for development ( $2 \times [4]$ ).

(AO1: [2] AO3: [6])

[8]

20

**Total for Section B**

**40**

## Section C

AVAILABLE  
MARKS

**6 (a)** A merger is when two companies join together to form a single company. Mergers can be classified as horizontal when two companies in the same industry and at the same stage of production merge, for example the merger between Airtricity and Phoenix Gas appears to be a horizontal merger. When two companies in the same industry but at different stages of production merge, this is described as a vertical merger. An example could be if a coffee manufacturer merged with an agricultural business that grows the coffee plants. A lateral merger is when two firms in a similar industry but not direct competitors merge to form one larger company, for example, in the leisure sector, a hotel chain could merge with a pub chain. A merger could be described as a conglomerate if two companies in unrelated industries merge to produce one larger business that has a portfolio of unrelated business activities. This can be a popular way of spreading risk.

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

**Level 1 ([1]–[2])**

(AO1: [2])

The candidate demonstrates some understanding of a merger but this is limited and not developed. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

(AO1: [3]; AO2: [1])

The candidate demonstrates good understanding of the meaning of a merger with some limited development. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

(AO1: [4]; AO2: [2])

The candidate demonstrates a clear understanding of the most significant aspects of a merger and illustrates this effectively with reference to different types of mergers and examples. Quality of written communication is of a high standard. [6]

**(b)** The merger between Airtricity and Phoenix Gas could have positive and negative effects on consumers.

Positive effects include:

- Consumers could receive joint bills for gas and electricity making it more convenient to pay
- Economies of scale could lead to lower costs and lower prices for consumers
- The larger merged firm may be in a stronger position to invest in infrastructure that provides better quality service.

Possible negative effects include:

- More limited choice of suppliers if there are fewer competitors in the market
- Fewer competitors may result in higher prices
- Lack of competition may lead to a lack of innovation.

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

AVAILABLE  
MARKS

**Level 1 ([1]–[3])**

(AO1: [1]; AO2 [2])

The candidate shows some awareness of one or two ways in which consumers will be affected by the merger but these are not developed or explained. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

(AO1: [2]; AO2 [3]; AO3: [1])

The candidate explains positive and/or negative ways in which consumers will be affected by the merger with some limited development. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

(AO1: [3]; AO2 [4]; AO3: [2])

The candidate gives a thorough explanation of a good range of positive and negative ways in which consumers will be affected by the merger. Quality of written communication is of a high standard. [9]

(c) Social costs are a combination of private costs and external costs. Similarly social benefits are the sum of private benefits and external benefits. Cheaper energy could lead to a number of social costs and benefits that include:

- Private costs might include less profit for energy producers
- External costs might include: increased CO<sub>2</sub> emissions contributing to global warming; increased traffic congestion; increased air pollution; less tax revenue for government
- Private benefits might include lower bills for consumers resulting in an increase in disposable income. This could be used to demand more goods and services which in turn could result in higher demand for energy
- External benefits might include more efficient use of natural resources or lower unemployment and higher economic growth, or the export of cheap energy.

In addition to demonstrating knowledge and understanding of social costs and benefits in relation to the context of cheaper energy supplies, candidates may explore the possible consequences of cheaper energy supplies in the wider economic context such as the impact on inflation and economic growth.

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

**Level 1 ([1]–[5])**

(AO1: [1]; AO2: [1]; AO3: [3])

The candidate identifies some possible costs and benefits of cheaper energy supplies with very limited development or explanation and shows limited understanding of the concepts of social costs and benefits. Any conclusion is unbalanced and inadequately supported. Quality of written explanation is limited.

	AVAILABLE MARKS
<p><b>Level 2 ([6]–[10])</b>            (AO1: [2]; AO2: [2]; AO3: [6])            The candidate briefly discusses some possible costs and benefits of cheaper energy supplies and shows some understanding of the concepts of social costs and benefits. A conclusion is reached and supported. Quality of written communication is satisfactory.</p>	
<p><b>Level 3 ([11]–[15])</b>            (AO1: [3]; AO2 [3]; AO3: [9])            A comprehensive understanding of social costs and benefits in relation to the context of cheaper energy is developed and discussed. A reasoned and balanced conclusion is provided. Quality of written communication is of a high standard.</p>	<p>[15]</p> <p>30</p>
<p>7 (a) Consumer debt is the total money that consumers owe. The source material states that in 2011–2012, the average household consumer debt including mortgage debt stood at approximately £54 000. In addition to mortgages, consumers may have credit card debts where they have bought goods and services and used their credit cards as a means of payment but not cleared off the total they owe to the credit card company. They may have an approved or unapproved overdraft where they have spent more money than is in their bank account. They may have borrowed money in other ways such as a payday loan. Mortgage debt is usually classified as ‘good debt’ – this is negotiated between the consumer and the financial institution that is lending the money. At the other end of the spectrum, payday loans and large debt balances on credit cards are considered as ‘bad debt’. Consumers may not have the means to make ends meet on a day to day basis and rates of interest on payday loans in particular are extremely high. The government has recently announced a crackdown on these types of loans. New stricter regulation is being introduced.</p>	
<p><b>Level 0 [0]</b>            The candidate’s response contains no content worthy of credit.</p>	
<p><b>Level 1 ([1]–[2])</b>            (AO1: [2])            The candidate demonstrates some understanding of the concept of consumer debt but this is poorly explained or developed. Quality of written explanation is limited.</p>	
<p><b>Level 2 ([3]–[4])</b>            (AO1: [3]; AO2: [1])            The candidate demonstrates reasonable understanding of the concept of consumer debt but the explanation could be more fully developed. Quality of written communication is satisfactory.</p>	
<p><b>Level 3 ([5]–[6])</b>            (AO1: [4] marks; AO2: [2])            The candidate demonstrates clear understanding of the concept of consumer debt with a developed explanation. Quality of written communication is of a high standard.</p>	<p>[6]</p>

(b) The source material states that between 2012–2013 average household debt was £54 000. In general, people are relying more on forms of credit to make ends meet and possible reasons include:

- The recession hit many households as many workers lost jobs and businesses experienced a downturn in demand. They required fewer workers and reduced overtime opportunities for workers
- Public sector cuts have had a knock-on effect on jobs and rates of pay
- Linked to this, reform of the benefits system has left many households struggling to budget with less income
- Annual pay increases to keep up with rises in the cost of living, especially in the public sector, have been very small if not frozen altogether
- The demand for some forms of credit, such as payday loans has increased as other forms of borrowing provided by more regulated financial institutions have become less available. If borrowers don't pay off payday loans quickly, the interest owed accumulates rapidly and substantially increases the overall debt owed.

AVAILABLE MARKS

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

**Level 1 ([1]–[3])**

(AO1: [1]; AO2: [2])

The candidate identifies one or two reasons for the high levels of UK consumer debt but the explanation is limited. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

(AO1: [2]; AO2: [3]; AO3: [1])

The candidate identifies at least two reasons for the high levels of UK consumer debt and there is an attempt to explain in detail. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

(AO1: [3]; AO2: [4]; AO3: [2])

The candidate identifies a range of reasons for the high levels of UK consumer debt and these are explained in detail. Quality of written communication is of a high standard. [9]

(c) High levels of consumer debt have a range of effects on the economy. These may include:

- Benefits from increased demand for goods and services creating employment, for example, from house or car purchase, both of which often need borrowed capital
- Lower unemployment as consumer spending may be supported by borrowing and/or buying on credit which creates demand in the economy
- Creating employment in the financial services sector through selling and servicing financial products
- Benefits to consumers from being able to consume goods and services that improve their standard of living, for example owning their home
- Increase in receipts from tax revenue connected to the high levels of consumer spending such as VAT and excise duties

- Rising rates of inflation fuelled by consumer spending made possible by borrowing
- Some people may overextend themselves and be unable to pay off debts, leading to great hardship which could ultimately result in losing a home and having to rely on benefits
- Some types of credit are not well regulated and the most financially vulnerable often fall foul of the most risky and expensive types of borrowing such as payday loans – this could leave groups of people within the economy very vulnerable and possibly lead to greater dependence on benefits
- Increased levels of imports to the UK and this will have an effect on trade balances and the Balance of Payments
- High levels of consumer debt contribute to a weak economy which can reduce overall levels of confidence affecting investment and economic growth.

AVAILABLE  
MARKS

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

**Level 1 ([1]–[5])**

(AO1: [1]; AO2: [1]; AO3: [3])

The candidate identifies some possible effects of rising consumer debt on the UK economy but these are not developed or discussed. Any conclusion is unbalanced and inadequately supported. Quality of written explanation is limited.

**Level 2 ([6]–[10])**

(AO1: [2]; AO2: [2]; AO3: [6])

The candidate is able to briefly discuss a range of ways in which rising consumer debt affects the UK economy. A conclusion is reached and supported. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

(AO1: [3]; AO2: [3]; AO3: [9])

A wide range of ways in which consumer debt affects the UK economy are developed and thoroughly discussed. A reasoned and balanced conclusion is provided. Quality of written communication is of a high standard. [15]

30

8 (a) A budget deficit exists when government spending is greater than revenue earned by the government. The government then has to borrow to cover the shortfall leading to a rise in the National Debt. In the UK the budget deficit is measured by the Public Sector Net Cash Requirement (PSNCR). The UK government usually has a budget deficit and with increasing demands on the 'public purse', for example to meet the needs of ageing population, the government has to make strict choices about how best to budget its limited resources. In an attempt to restrict the budget deficit in future years, the government has announced a cap on spending on some items of expenditure, such as the welfare budget, as this spending has tended to increase.

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

AVAILABLE MARKS

**Level 1 ([1]–[2])**

(AO1: [2])

The candidate demonstrates some basic understanding of the meaning of a budget deficit but this is poorly explained or undeveloped. Quality of written explanation is limited.

**Level 2 ([3]–[4])**

(AO1: [3]; AO2: [1])

The candidate demonstrates a reasonable understanding of the meaning of a budget deficit but the explanation could be more fully developed. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

(AO1: [4]; AO2: [2])

The candidate demonstrates a clear understanding of the meaning of a budget deficit with development. Quality of written communication is of a high standard.

[6]

(b) There are a number of reasons why a government might wish to reduce a budget deficit. These include:

- If the deficit is too high then lenders may become reluctant to lend to the government meaning it can no longer finance its spending
- If the government deficit is too high, the rate of interest it has to pay may increase
- Rising government borrowing may mean that there are fewer funds available for the private sector to borrow
- High government borrowing today imposes a higher national debt on future generations
- If a budget deficit continues to be high and growing, it could lead to a reduction in the UK's credit rating.

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

**Level 1 ([1]–[3])**

(AO1: [1]; AO2: [2])

The candidate demonstrates one or two reasons why the government may wish to reduce the budget deficit but these are not developed or explained. Quality of written explanation is limited.

**Level 2 ([4]–[6])**

(AO1: [2]; AO2: [3]; AO3: [1])

The candidate provides a brief explanation as to why the government may wish to reduce the budget deficit. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

(AO1: [3]; AO2: [4]; AO3: [2])

The candidate provides a thorough explanation of the main reasons why government may wish to reduce a budget deficit. Quality of written communication is of a high standard.

[9]

(c) A deficit can be reduced by cutting spending or raising taxes. There are advantages and disadvantages to raising taxes as a means of reducing the deficit and these include:

- Raising taxes means that public services may not have to be reduced as significantly.
- Increased taxes could be placed on the wealthy meaning that they bear more of the burden whilst spending cuts could lead to lower welfare benefits for the poorest in society.
- Higher taxes could be placed on demerit goods such as alcohol and tobacco
- Higher taxes could reduce demand in the economy causing a deeper recession
- An increase in income tax could act as a disincentive discouraging people from working
- An increase in indirect taxes would cause prices to raise generating inflation
- Increasing levels of taxation can lead to tax evasion/avoidance.

AVAILABLE MARKS

Increasing taxes is never politically popular but neither is reducing public spending on essential services. The government may be able to reduce the budget deficit by seeking greater efficiencies in how existing spending is allocated and by cutting down on inefficiency. Arguments could be made that reflect supply-side government policy. Whichever approach the government chooses, there will be winners and losers.

#### **Level 0 [0]**

The candidate's response contains no content worthy of credit.

#### **Level 1 ([1]–[5])**

(AO1: [1]; AO2: [1]; AO3: [3])

The candidate identifies one or two possible impacts of raising taxes but points are flawed or lack development. Any conclusion is imbalanced or inadequately supported. Quality of written explanation is limited.

#### **Level 2 ([6]–[10])**

(AO1: [2]; AO2: [2]; AO3: [6])

The candidate briefly discusses some possible impacts of raising taxes to reduce the budget deficit. Quality of written communication is satisfactory.

#### **Level 3 ([11]–[15])**

(AO1: [3]; AO2: [3]; AO3: [9])

The candidate develops and thoroughly discusses a number of possible ways in which the government could reduce the budget deficit that include reducing taxes and other measures. A reasoned and balanced conclusion is reached. Quality of written communication is of a high standard. [15]

30

9 (a) Countries can benefit from trading internationally in a range of ways. These include:

- Gaining supplies of raw materials needed for production and food supplies that cannot be produced within domestic borders
- Promoting employment and economic growth from producing goods and services that can be traded
- Being able to specialise in areas where a country has a comparative advantage hence make the best use of limited resources
- Developing good relationships with other trading countries
- Increased choice for consumers.

AVAILABLE MARKS

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

**Level 1 ([1]–[2])**

(AO1: [2])

The candidate demonstrates some basic understanding of one or two benefits of international trade but these are poorly explained or developed. Quality of written communication is limited.

**Level 2 ([3]–[4])**

(AO1: [3]; AO2: [1])

The candidate demonstrates reasonable understanding of the main benefits of international trade. The quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

(AO1: [4]; AO2: [2])

The candidate demonstrates a clear understanding of the most significant benefits of international trade. The quality of written communication is of a high standard. [6]

(b) A trade deficit is the difference between the value of goods and services exported and imported. In August 2012, the deficit grew to £4.4 billion. This can affect the UK economy in a number of ways. These include:

- The UK as a whole will be spending more on imports than it is earning from exports. This will have an adverse effect on the Balance of Payments
- Running a trade deficit may be necessary if the UK is obtaining goods and services that are essential to the working of the economy
- If a trade deficit is small, this is generally not considered harmful to the economy but if the deficit is growing and persistent, this can harm confidence in an economy. If confidence is lost, investment may be withdrawn
- More pressure may be placed on the government by businesses to help them compete globally and increase their levels of exports. Actions may include financial help to small companies, trade finance, promotion and insurance.

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

AVAILABLE  
MARKS

**Level 1([1]–[3])**

(AO1: [2]; AO2 [:2])

There is a limited explanation of the problems caused by falling exports. The quality of written communication is limited.

**Level 2 ([4]–[6])**

(AO1: [2]; AO2: [3]; AO3: [1])

The candidate provides a reasonable examination of a number of ways a trade deficit affects the UK economy. The quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

(AO1: [3]; AO2: [4]; AO3: [2])

The candidate provides a thorough examination of the most relevant ways a trade deficit affects the UK economy. The quality of written communication is of a high standard. [9]

(c) There are a number of possible policies a government could pursue if it is faced with a trade deficit but some of these are unlikely to be realistic options for the UK. For example:

- It could follow protectionist measures such as implementing tariffs and quotas but, as a member of the EU and WTO, these are unrealistic options unless they are being used for some other political objective. For example, the UK has imposed trade sanctions on Syria in opposition to the political situation in that country.
- The government could in theory allow the pound to depreciate and this could cause exports to become cheaper and imports more expensive but again, direct attempts to buy and sell foreign exchange are unlikely to be realistic options. Monetary policy, as directed by the Bank of England and the setting of the base rate of interest, may have more impact on the demand for the pound and the rate of exchange
- The government could try and make UK firms more competitive by pursuing supply-side policies. This is likely to be one of the more realistic options.

Other government economic objectives include lowering inflation, sustaining a high level of employment, sustainable economic growth and care of the environment. If the government pursues policies that lead to increased levels of exports, either through supply-side policies or indirectly by the effects of interest rates, this could help to increase levels of employment and economic growth. Increased demand for resources could also cause demand-pull inflation.

Increased production in the UK economy uses energy and economic resources, putting pressure on the environment with the likelihood of increases in negative externalities such as pollution.

**Level 0 [0]**

The candidate's response contains no content worthy of credit.

**Level 1([1]–[5])**

(AO1: [1]; AO2: [1]; AO3 [:3])

The candidate identifies one or two possible policies that could reduce the trade deficit but the link to other government economic objectives is flawed or lacks development. Any conclusion is unbalanced and inadequately supported. The quality of written communication is limited.

AVAILABLE MARKS

**Level 2 ([6]–[10])**

(AO1: [2]; AO2: [3]; AO3: [6])

The candidate briefly discusses some possible policies that could reduce the trade deficit and how these might affect government economic objectives. A conclusion is reached and supported. The quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

(AO1: [3]; AO2: [3]; AO3: [9])

The candidate identifies a number of possible approaches to reducing the trade deficit and provides a thoughtful discussion of the impact of these on other government objectives. A reasoned and balanced conclusion is reached. The quality of written communication is of a high standard. [15]

30

**Total for Section C**

30

**Total**

90