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# **GCE MARKING SCHEME**

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**SUMMER 2024**

**ECONOMICS - UNIT 4  
1520U40-1**

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## About this marking scheme

The purpose of this marking scheme is to provide teachers, learners, and other interested parties, with an understanding of the assessment criteria used to assess this specific assessment.

This marking scheme reflects the criteria by which this assessment was marked in a live series and was finalised following detailed discussion at an examiners' conference. A team of qualified examiners were trained specifically in the application of this marking scheme. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners. It may not be possible, or appropriate, to capture every variation that a candidate may present in their responses within this marking scheme. However, during the training conference, examiners were guided in using their professional judgement to credit alternative valid responses as instructed by the document, and through reviewing exemplar responses.

Without the benefit of participation in the examiners' conference, teachers, learners and other users, may have different views on certain matters of detail or interpretation. Therefore, it is strongly recommended that this marking scheme is used alongside other guidance, such as published exemplar materials or Guidance for Teaching. This marking scheme is final and will not be changed, unless in the event that a clear error is identified, as it reflects the criteria used to assess candidate responses during the live series.

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## Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good learner to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

- AO1** Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues
- AO2** Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues
- AO3** Analyse issues within economics, showing an understanding of their impact on economic agents
- AO4** Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

**WJEC GCE A LEVEL ECONOMICS – UNIT 4**

**SUMMER 2024 MARK SCHEME**

**SECTION A**

<b>1. (a)</b>	<b>Using examples, explain how a firm may experience (i) internal growth and (ii) external growth. [10]</b>	
<b>Band</b>	<b>AO1</b>	<b>AO3</b>
	<b>6 marks</b>	<b>4 marks</b>
<b>3</b>	<b>5 – 6 marks</b> Excellent, accurate and comprehensive understanding of both internal and external growth.  Excellent use of examples.  Excellent use of relevant terminology.  Diagrams (if used) are accurate.	
	<b>3 – 4 marks</b> Good understanding of both internal and external growth.  Good understanding / use of two of the following three elements: internal growth, external growth and/or real examples.  Good use of relevant terminology.	<b>3 – 4 marks</b> A good, accurate and comprehensive analysis of both internal and external growth.  Diagrams (if used) and examples are embedded within the analysis.
<b>1</b>	<b>1 – 2 marks</b> Some recognition of both internal and external growth.  Limited/no use of examples.  Limited use of relevant terminology.	<b>1 – 2 marks</b> Limited analysis of either internal and external growth.  Diagrams (if used) and examples are unlikely to fully embedded within the analysis.
<b>0</b>	<b>0 marks</b> No valid understanding.	<b>0 marks</b> No valid analysis

## **Indicative content:**

### **Internal growth**

- Organic growth i.e. the business grows due to growth in the business itself – reinvesting retained profits, borrowing money, entering a new market, innovating products etc
- Well known examples include Dominos, Apple, Costa, Netflix, easyJet, although candidates may consider local examples as well since these firms often grow organically
- Can be relatively slow, but seen as a safe way to grow

### **External growth**

- Mergers / takeovers / acquisitions
- Firms grow by joining together
- Can be horizontal, vertical (forwards / backwards), conglomerate
- Aim for economies of scale and scope, synergies, risk-reduction etc
- Enter new markets / secure raw materials and final markets / spread risk
- Examples include: Disney/Pixar, Exxon/Mobil, Heinz/Kraft, Google/Android, SABMiller and Busch

Answers that only considers one of the two types of growth with an example can achieve Band 2 AO1 (3 marks), band 2 AO3 (2 marks). Answers that consider one type of growth without examples, maximum band 1 marks.

<b>1. (b)</b>	<b>Discuss the likely impact on firms of greater flexibility in both product markets and factor markets.</b>			<b>[20]</b>
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	<b>AO4</b>	
	<b>6 marks</b>	<b>6 marks</b>	<b>8 marks</b>	
<b>3</b>	<b>5 – 6 marks</b> Excellent understanding of the impact of greater flexibility in product and factor markets on firms.  Both breadth and depth of coverage is excellent.  Excellent use of relevant terminology.  Diagrams (if used) are accurate.	<b>5 – 6 marks</b> An excellent analysis of the impact of greater flexibility in product and factor markets on firms.  Chains of argument are well developed.  Diagrams (if used) are well integrated in the analysis.	<b>6 – 8 marks</b> An excellent critical evaluation of the likely impact of greater flexibility in product and factor markets on firms.  A clear judgement is reached at the very highest level	
	<b>2</b>	<b>3 – 4 marks</b> Good understanding of the impact of greater flexibility in product and/or factor markets on firms.  Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band.  Answers in this band may consider the impact of one of the two different markets, or there is an imbalance of understanding between the two.  Good use of appropriate terminology.	<b>3 – 4 marks</b> A good analysis of the impact of greater flexibility in product and/or factor markets on firms.  Answers in this band show developed chains of argument.  Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct	<b>3 – 5 marks</b> A good evaluation that includes most of the key issues.  At least 2 impacts are evaluated
<b>1</b>	<b>1 – 2 marks</b> Limited understanding of the impact of greater flexibility in product and/or factor markets on firms.	<b>1 – 2 marks</b> Limited analysis of the impact of greater flexibility in product and/or factor markets on firms.  Answer tends to lack key economic concepts and avoid technical analysis	<b>1 – 2 marks</b> Limited evaluation; candidates may show awareness of some evaluative points but do not develop them	
<b>0</b>	<b>0 marks</b> No valid knowledge or understanding	<b>0 marks</b> No relevant analysis	<b>0 marks</b> No relevant evaluation	

## Indicative content:

### Product markets:

- The market for goods and services
- Understanding of product market flexibility i.e. prices and output can adjust, resources can be reallocated
  - Implies elastic PED, few barriers to entry, contestability, footloose capital etc
- Impact on firms:
  - Profitable opportunities i.e. role of profit is to attract new firms
    - BUT if markets are competitive / contestable due to greater flexibility then there may be little scope for LR abnormal profit – depends on degree of product differentiation i.e. monopolistic v perfect competition
  - Maybe smaller market share if markets are easy to enter, could be less consumer brand loyalty too
    - BUT firms can introduce marketing etc to raise artificial / strategic barriers to entry
  - May make it easier to buy competitively priced raw materials, reducing business costs, and may also be easier to sell on goods/services to a range of firms (less monopsony power) which raises revenue
    - Depends on the market
  - Allows firms to be more allocatively efficient if they can respond to consumer needs/wants more quickly

### Factor markets:

- The market for factors of production e.g. capital and labour – we usually focus on labour
- Understanding of labour market flexibility i.e. wages can adjust, flexible hours, choice of location, occupational mobility
  - Implies hire-and-fire, zero-hours contract, gig economy etc
- Impact on firms
  - Can reduce costs if workers are only paid for hours that they actually work e.g. zero-hour contracts.
    - BUT reduces worker morale and can lead to high staff turnover
    - More likely in lower-skilled industries
  - Can reduce costs if workers have more flexibility in terms of their skills – raises productivity and reduces waste i.e. improves the likelihood that firms can employ the most appropriate workers
    - BUT depends on other types of flexibility e.g. availability of childcare, taxes etc
  - Reduction in job security if workers are easily replaceable can reduce productivity, raising costs, and perhaps lowering product quality
    - Depends on the company and their values
  - Can move production to wherever is cheapest if workers are geographically mobile
    - BUT this may not last e.g. many migrant workers often move back home
  - Offers new business opportunities e.g. gig economy such as Uber, Deliveroo, Task Rabbit etc
    - BUT the more flexible nature of the market may reduce profits, market share etc

Markers note: If the answer focuses on either the flexibility of product or factor markets alone the maximum to be awarded is:

Band 2 AO1 (3 marks)

Band 2 AO3 (3 marks)

Band 2 AO3 (4 marks)

Understanding of both markets but an imbalance between the two can achieve top band 2 marks (13 in total).

<b>2. (a)</b>	<b>Using examples, explain why a business may choose objectives other than profit maximisation. [10]</b>	
<b>Band</b>	<b>AO1</b>	<b>AO3</b>
	<b>6 marks</b>	<b>4 marks</b>
<b>3</b>	<b>5 – 6 marks</b> Excellent, accurate and comprehensive understanding of why a business may choose alternative objectives.  Excellent use of examples.  Excellent use of relevant terminology.  Diagrams (if used) are accurate.	
	<b>3 – 4 marks</b> Good understanding of why a business may choose alternative objective(s).  Good understanding of more than one alternative objective without examples.  Good understanding of one alternative objective with a real example.  Good use of relevant terminology.	<b>3 – 4 marks</b> A good, accurate and comprehensive analysis of why a business may choose alternative objectives.  Diagrams (if used) and examples are embedded within the analysis.
	<b>1 – 2 marks</b> Some recognition of why a business may choose alternative objectives.  Limited/no use of examples.  Limited use of relevant terminology.	<b>1 – 2 marks</b> Limited analysis of why a business may choose alternative objectives.  Diagrams (if used) and examples are unlikely to fully embedded within the analysis.
	<b>0 marks</b> No valid understanding.	<b>0 marks</b> No valid analysis

## Indicative content:

N.B. this question is about why firms may choose alternative objectives rather than detailed analysis of those alternative objectives.

Possible alternatives include:

- Revenue maximisation ( $MR = 0$ )
  - WHY: large numbers can look impressive in markets with tiny profit margins e.g. supermarkets, easier to get a sense of the state of the market, quicker to collate this accounting data than profits
- Normal profit / limit pricing / sales volume maximisation ( $AR = AC$ )
  - WHY: the market may be highly competitive, firms may want to maximise their market share and reduce the competition, firms may want to gain customer loyalty by selling high volumes at low prices (which can lead to future inelastic PED and the ability to raise prices), limit pricing acts as a barrier to entry in contestable markets
- Allocative efficiency ( $AR = P = MC$ )
  - WHY: could be a firm that is nationalised or operating in the public interest
- Productive efficiency (lowest AC)
  - WHY: a quick rule-of-thumb way to keep profits high and gain market share (economies of scale), can lead to easy pricing strategies such as cost-plus
- Satisficing behaviour (any range of output up to the normal profit point)
  - WHY: range of business stakeholders with different aims and objectives, thus reducing conflict
- Social responsibility
  - WHY: some people are altruistic

Credit relevant cost and revenue diagrams if used appropriately

Markers note:

Answers that consider one alternative objective without the use of examples, maximum band 1 marks. (4 marks).

Answers that consider one alternative objective with the use of examples, maximum band 2 AO1 (3 marks), band 2 AO3 (2 marks). (5 marks)

Answers that consider more than one alternative objective without the use of examples, maximum band 2 AO1 (4 marks), band 2 AO3 (2 marks). (6 marks).

<b>2. (b)</b>	<b>The disadvantages of a firm choosing to profit maximise are greater than the advantages. Discuss the extent to which this statement is true. [20]</b>		
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	<b>AO4</b>
	<b>6 marks</b>	<b>6 marks</b>	<b>8 marks</b>
<b>3</b>	<p><b>5 – 6 marks</b> Excellent understanding of the advantages and disadvantages of profit maximisation for firms.</p> <p>Both breadth and depth of coverage is excellent.</p> <p>Excellent use of relevant terminology.</p> <p>Diagrams (if used) are accurate.</p>	<p><b>5 – 6 marks</b> An excellent analysis of the decision to choose profit maximisation for firms.</p> <p>Chains of argument are well developed.</p> <p>Diagrams (if used) are well integrated in the analysis.</p>	<p><b>6 – 8 marks</b> An excellent critical evaluation of the advantages and disadvantages of profit maximisation for firms.</p> <p>A clear judgement on the extent to which the statement is true is reached at the very highest level</p>
<b>2</b>	<p><b>3 – 4 marks</b> Good understanding of the advantages and/or disadvantages of profit maximisation for firms</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band</p> <p>Good use of appropriate terminology.</p>	<p><b>3 – 4 marks</b> A good analysis of the decision to choose profit maximisation for firms</p> <p>Answers in this band show developed chains of argument.</p> <p>Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct</p>	<p><b>3 – 5 marks</b> A good evaluation that includes most of the key issues.</p> <p>At least 2 issues are evaluated</p>
<b>1</b>	<p><b>1 – 2 marks</b> Limited understanding of the advantages and/or disadvantages of profit maximisation for firms</p>	<p><b>1 – 2 marks</b> Limited analysis of the decision to choose profit maximisation for firms</p> <p>Answer tends to lack key economic concepts and avoid technical analysis</p>	<p><b>1 – 2 marks</b> Limited evaluation; candidates may show awareness of some evaluative points but do not develop them</p>
<b>0</b>	<p><b>0 marks</b> No valid knowledge or understanding</p>	<p><b>0 marks</b> No relevant analysis</p>	<p><b>0 marks</b> No relevant evaluation</p>

### Indicative content:

- Understanding of the profit maximising condition  $MR = MC$
- Disadvantages:
  - Limited output (therefore fewer consumers able to buy) compared to normal profit (or other objectives) – could be shown on a cost and revenue diagram
    - BUT: output is higher if there is price discrimination, which profit-maximising firms may choose to use
    - BUT: higher output may lead to more negative externalities associated with production so profit maximisation might be best
  - Higher prices for consumers, reduces consumer surplus / welfare compared to a more competitive outcome
    - BUT: if a firm uses price discrimination some consumers may benefit from lower prices than they would in a competitive market
    - BUT: profits can be reinvested so that the business grows, and economies of scale may be achieved, which could lower prices in the long run
    - BUT: firms in perfect competition also maximise profits whilst also earning normal profit in the long run – in this case, it doesn't lead to excessively high prices
  - Rarely an efficient outcome unless the market is perfectly competitive
    - BUT: can lead to greater efficiency in the long run if profits are reinvested so the firm can achieve economies of scale
  - May result in over-exploitation of resources if there is a focus on short-termism and profits
    - BUT: depends on legislation and its effectiveness
  - May increase inequality if shareholders / business owners experience higher profits (and consequently dividends) and depress the wages of workers
    - BUT: profit maximisation does not necessarily imply high profits – it could be loss minimisation
- Advantages:
  - Incentives & motivation – can raise productivity
  - Easy source of finance for further growth / reinvestment without taking out a loan or issuing shares
  - Can be efficient if the market is competitive (e.g., dynamic efficiencies as a result of investment of profits)
- Credit any relevant and appropriately used diagrams

<b>3. (a)</b>	<b>Explain how economic growth can reduce inequality in an economy. [10]</b>	
<b>Band</b>	<b>AO1</b>	<b>AO3</b>
	<b>6 marks</b>	<b>4 marks</b>
<b>3</b>	<p><b>5 – 6 marks</b></p> <p>Excellent, accurate and comprehensive understanding of economic growth and inequality.</p> <p>There is understanding of both short run (actual) and long run (potential) economic growth.</p> <p>Excellent use of relevant terminology.</p>	
<b>2</b>	<p><b>3 – 4 marks</b></p> <p>Good understanding of economic growth and inequality</p> <p>Good use of relevant terminology.</p>	<p><b>3 – 4 marks</b></p> <p>A good, accurate and comprehensive analysis of why economic growth can reduce inequality</p>
<b>1</b>	<p><b>1 – 2 marks</b></p> <p>Some recognition of economic growth and inequality</p> <p>Limited use of relevant terminology.</p>	<p><b>1 – 2 marks</b></p> <p>Limited analysis of why economic growth may reduce inequality.</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No valid understanding.</p>	<p><b>0 marks</b></p> <p>No valid analysis</p>

**Indicative content:**

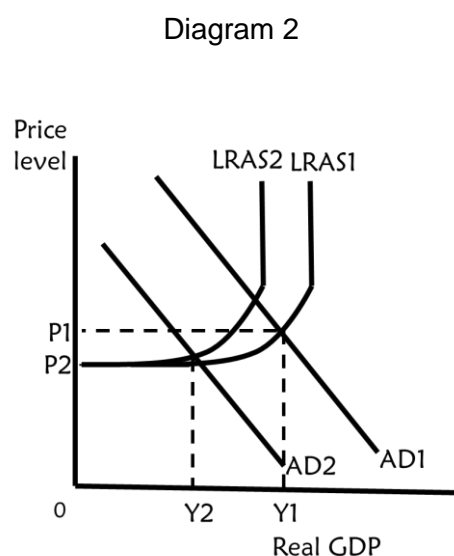
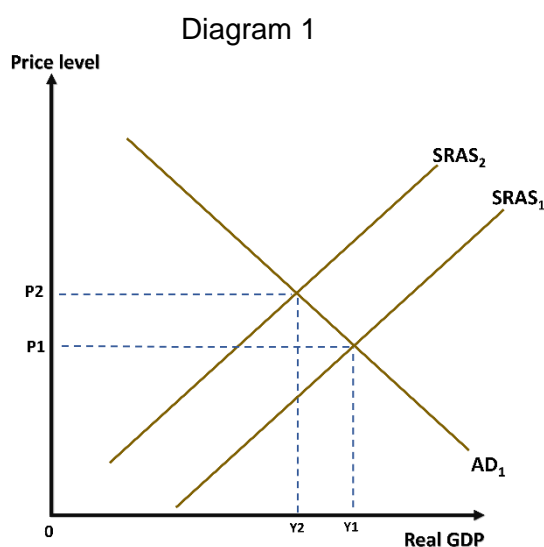
- Understanding of economic growth
  - Short run: increase in real GDP / increase in AD
  - Long run: increase in potential GDP / increase in LRAS
- Understanding of inequality – population distribution of income, wealth, opportunity etc
- SR growth can reduce inequality
  - Demand for labour will rise – may bring in people who have been on the fringes of the labour market or economically inactive, and so their income will rise
  - More tax revenue for the government, especially from the higher earners / spenders, which can be redistributed via transfer payments or spent on aspects of the economy that improve equality e.g. museums, libraries, transport infrastructure, education etc
  - Value of older people’s assets may rise
  - Multiplier effect
- LR growth can reduce inequality
  - More job opportunities and entrepreneurial opportunities (greater investment)
  - Effective supply-side policies such as greater access to education and training or ways to encourage FDI in poorer areas to close the inequality gap through the provision of greater opportunities to those more unequal.

<b>3. (b)</b>	<b>Discuss the likely impact on an economy of rising labour costs. Use relevant diagrams in your answer.</b>			<b>[20]</b>
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	<b>AO4</b>	
	<b>6 marks</b>	<b>6 marks</b>	<b>8 marks</b>	
<b>3</b>	<b>5 – 6 marks</b> Excellent understanding of the impact of rising labour costs on an economy.  Both breadth and depth of coverage is excellent.  Excellent use of Macroeconomic diagram(s)  Excellent use of relevant terminology.	<b>5 – 6 marks</b> An excellent analysis of the impact of rising labour costs on an economy.  Diagram(s) are well integrated into the analysis.  Chains of argument are well developed.	<b>6 – 8 marks</b> An excellent critical evaluation of the impact of rising labour costs on an economy.  A clear judgement on the likely impact is reached at the very highest level.	
	<b>2</b>	<b>3 – 4 marks</b> A good analysis of the impact of rising labour costs on an economy.  Answers in this band show developed chains of argument.  Diagram(s) may not always be well-integrated or completely correct  Answers in this band may lack depth.	<b>3 – 5 marks</b> A good evaluation that includes most of the key issues.  At least 2 issues are evaluated	
	<b>1</b>	<b>1 – 2 marks</b> Limited understanding of the impact of rising labour costs on an economy.  Limited or inaccurate diagram(s)	<b>1 – 2 marks</b> Limited evaluation; candidates may show awareness of some evaluative points but do not develop them	
	<b>0</b>	<b>0 marks</b> No valid knowledge or understanding	<b>0 marks</b> No relevant analysis	

**Indicative content:**

- Consideration of different types of labour costs e.g. wages, bonuses, employer NI contributions, pension payments etc
  - Impact may depend on which of these costs are rising
- Rising labour costs can reduce SRAS, raising the general price level and reducing real GDP, ceteris paribus (diagram 1 below)
  - BUT depends on whether higher wages incentivise higher productivity
  - BUT depends on what has caused rising labour costs – could be due to rising demand for labour due to economic growth, making labour scarcer – could use Neoclassical approach
- Substitute capital for labour – rising automation e.g. supermarket checkouts, airline check in, warehouse picking etc
  - BUT not relevant in every occupation
  - BUT depends on skill levels
  - BUT can take time so depends if labour cost increases are rising / permanent
- May cause production to shift overseas – could reduce domestic AD and LRAS (diagram 2 below)
  - BUT easier for goods than services
  - BUT firms also need to consider issues such as quality, additional transport costs, worker skill abroad etc
  - BUT depends on labour costs as a proportion of total costs
- Could lead to unemployment – NMW diagram / argument, if NMW / NLW / unionised pay is higher
  - BUT could depend on whether there are monopsony employers
  - BUT higher wages for lower paid jobs usually raises productivity – no empirical evidence that higher NMW raises unemployment
- Improved budget balance for the government – higher tax revenues from higher income, and less spending on welfare benefits / transfers
  - BUT depends on whether capital is substituted for labour
  - BUT depends on state of the economy
- General evaluative points:
  - All or some industries experiencing rising labour costs?
  - Consideration of other costs e.g. raw materials, energy
  - Consideration of the size of the increase and its distribution

Possible diagrams:



- There are a number of different diagrams that may be used to develop arguments. However, for band 3 the diagrams should focus on macroeconomic impacts.

<b>4. (a)</b>	<b>Explain the possible supply-side causes of unemployment.</b>		<b>[10]</b>
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	
	<b>6 marks</b>	<b>4 marks</b>	
<b>3</b>	<p><b>5 – 6 marks</b></p> <p>Excellent, accurate and comprehensive understanding of supply side causes of unemployment.</p> <p>At least two supply-side causes are fully understood.</p> <p>Excellent use of relevant terminology.</p>		
<b>2</b>	<p><b>3 – 4 marks</b></p> <p>Good understanding of one or two supply side causes of unemployment.</p> <p>Good use of relevant terminology.</p>	<p><b>3 – 4 marks</b></p> <p>A good, accurate and comprehensive analysis of at least two supply side causes of unemployment.</p>	
<b>1</b>	<p><b>1 – 2 marks</b></p> <p>Some recognition of supply side causes of unemployment.</p> <p>Limited use of relevant terminology.</p>	<p><b>1 – 2 marks</b></p> <p>Limited analysis of at least one supply side causes of unemployment.</p>	
<b>0</b>	<p><b>0 marks</b></p> <p>No valid understanding.</p>	<p><b>0 marks</b></p> <p>No valid analysis.</p>	

**Indicative content:**

- Understanding of unemployment
- Structural unemployment – mismatched skills and experience for the jobs available
- Geographical immobility / regional unemployment – due to poor transport infrastructure, regional housing cost differences, family / education / social ties
- Frictional / search unemployment – poor information on the supply-side regarding job opportunities
- Classical / real wage unemployment – link with NMW / NLW / unionised wages / gov't employer contributions
- Voluntary unemployment – link with welfare, and the reasons why someone may refuse a job offer.
- Occupational immobility – barriers that exist that prevent switching of jobs e.g., mismatch of skills.

Note – do not accept cyclical or demand-deficient unemployment as this is not a supply-side cause.

AO1 must link to the “supply side” of the economy.

AO3 should consider why it causes a higher percentage of people out of work (link to unemployment).

<b>4. (b) Assess the policies that could be used to tackle deflation. Use relevant diagrams in your answer. [20]</b>			
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	<b>AO4</b>
	<b>6 marks</b>	<b>6 marks</b>	<b>8 marks</b>
<b>3</b>	<p><b>5 – 6 marks</b></p> <p>Excellent understanding of the policies that could be used to tackle deflation.</p> <p>Both breadth and depth of coverage is excellent.</p> <p>Excellent use of diagram(s)</p> <p>Excellent use of relevant terminology.</p>	<p><b>5 – 6 marks</b></p> <p>An excellent analysis of the policies that could be used to tackle deflation.</p> <p>Diagram(s) are well integrated into the analysis.</p> <p>Chains of argument are well developed.</p>	<p><b>6 – 8 marks</b></p> <p>An excellent critical evaluation of the policies that could be used to tackle deflation.</p> <p>A clear judgement on the most effective policies is reached at the very highest level</p>
<b>2</b>	<p><b>3 – 4 marks</b></p> <p>Good understanding of the policies that could be used to tackle deflation.</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band</p> <p>Good use of diagram(s)</p> <p>Good use of appropriate terminology.</p>	<p><b>3 – 4 marks</b></p> <p>A good analysis of the policies that could be used to tackle deflation.</p> <p>Answers in this band show developed chains of argument.</p> <p>Diagram(s) may not always be well-integrated or completely correct</p> <p>Answers in this band may lack depth.</p>	<p><b>3 – 5 marks</b></p> <p>A good evaluation that includes most of the key issues.</p> <p>At least 2 issues are evaluated</p>
<b>1</b>	<p><b>1 – 2 marks</b></p> <p>Limited understanding of the policies that could be used to tackle deflation.</p> <p>Limited or inaccurate diagram(s)</p>	<p><b>1 – 2 marks</b></p> <p>Limited analysis of the policies that could be used to tackle deflation.</p> <p>Answer tends to lack key economic concepts and avoid technical analysis</p>	<p><b>1 – 2 marks</b></p> <p>Limited evaluation; candidates may show awareness of some evaluative points but do not develop them</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No valid knowledge or understanding</p>	<p><b>0 marks</b></p> <p>No relevant analysis</p>	<p><b>0 marks</b></p> <p>No relevant evaluation</p>

**Indicative content:**

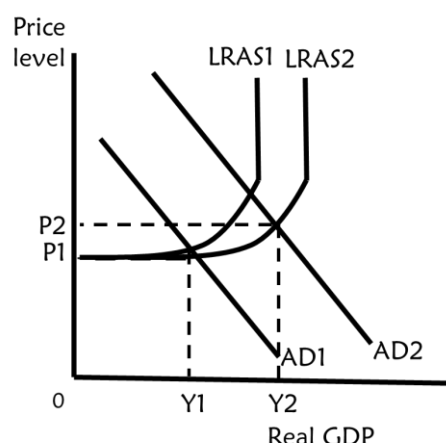
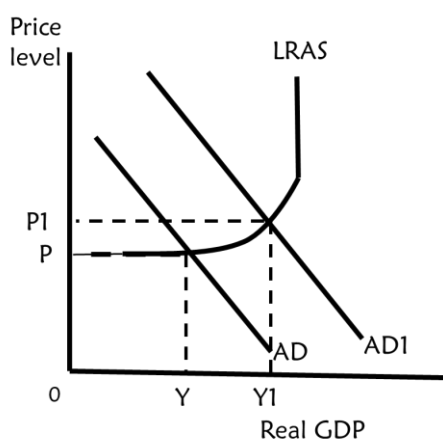
- Understanding of deflation (not to be confused with disinflation)
- Consideration of why a government / monetary authority might want to tackle deflation
  - Can lead to recession due to delayed spending
  - Raises real value of debt, reducing confidence and growth
  - Real wage unemployment
- Expansionary fiscal policy i.e. cut taxes and raise spending, which should raise AD and create a multiplier effect – possibly target spending on those households with a high MPC (i.e. poorer households)
  - BUT people may choose to save (because real interest rates are positive, and deflation is good for savers)
  - BUT public spending could simply replace private spending (as occurred in Japan)
  - BUT incurs government / public sector debt, and the government may not be in a position to borrow easily or cheaply
- Expansionary monetary policy – QE, low base rate of interest, devalue the currency
  - BUT QE doesn't necessarily work if people don't want to borrow from the financial sector
  - BUT risk of a liquidity trap, and, deflation raises real rates of interest which could counteract any changes
  - BUT devaluation may not stimulate exports, given that deflation has already made exports more price competitive
- Alternative policies
  - Negative base rate of interest
  - Change how inflation is measured i.e. change the basket of goods and official measures, to manipulate data and create a positive wage-price spiral by altering expectations
  - Legislation making it difficult to cut prices / wages
  - Subsidise spending
- General evaluative comments
  - Depends on depth and longevity of the deflationary period – small blips in inflation figures may have little impact, but entrenched deflation requires more attention
  - Range / mix of policies may be needed
  - Depends on the causes of the deflation – could be supply side positive/benign deflation caused by rising productivity and increasing LRAS which wouldn't need tackling

Use of diagrams may include:

- Rise in AD as a result of reflationary monetary policy
- Rise in AD as a result of reflationary fiscal policy (Demand-targeted fiscal policy)
- Rise in AD and AS as a result of reflationary fiscal policy (Demand and supply targeted fiscal policy)
- SRAS or LRAS

Accept any diagram used for either side of the argument.

Diagrams should show the effect on the price level correctly, e.g. price level rising to show the movement from deflation to inflation.



<b>5. (a)</b>	<b>Explain the possible causes of a structural deficit on the current account of the balance of payments.</b>		<b>[10]</b>
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	
	<b>6 marks</b>	<b>4 marks</b>	
<b>3</b>	<b>5 – 6 marks</b>		
	Excellent, accurate and comprehensive understanding of the causes of a structural deficit on the current account.		
	Clear understanding of both a current account and a structural deficit.		
	At least two causes are fully understood.		
	Excellent use of relevant terminology.		
<b>2</b>	<b>3 – 4 marks</b>	<b>3 – 4 marks</b>	
	Good understanding of one or two causes of a structural deficit on the current account.	A good, accurate and comprehensive analysis of the causes of a structural deficit.	
	Good use of relevant terminology.	Two causes are analysed	
<b>1</b>	<b>1 – 2 marks</b>	<b>1 – 2 marks</b>	
	Some recognition of the causes of a structural deficit.	Limited analysis of the causes of a structural deficit.	
	Limited use of relevant terminology.	Analysis of at least one cause.	
<b>0</b>	<b>0 marks</b>	<b>0 marks</b>	
	No valid understanding.	No valid analysis	

**Indicative content:**

- Understanding of the current account on the balance of payments
  - Balance of trade, net primary income, net secondary income
- Understanding of a structural deficit i.e. not caused by changes in the pattern of economic activity (the economic / trade / business cycle)
- Causes include:
  - Poor quality / undesirable exports
    - Low skill levels, weak business environment, poor access to raw materials etc
  - Exports that are not price competitive (due to high domestic prices and/or overly high exchange rate)
  - Inability to produce goods domestically therefore requiring high levels of imports
  - Poor trading infrastructure e.g. lack of transport, ports, customs officials etc, or overly high levels of bureaucracy

<b>5. (b)</b>	<b>Evaluate the impact of a rising terms of trade index for economies at different stages of development.</b>			<b>[20]</b>
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	<b>AO4</b>	
	<b>6 marks</b>	<b>6 marks</b>	<b>8 marks</b>	
<b>3</b>	<p><b>5 – 6 marks</b> Excellent understanding of the impact of a rising ToT index at different stages of development.</p> <p>Both breadth and depth of coverage is excellent.</p> <p>Excellent use of relevant terminology.</p>	<p><b>5 – 6 marks</b> An excellent analysis of the impact of a rising ToT index for economies at different stages of development.</p> <p>Clear and direct reference to “different stages of development” using development indicators.</p> <p>Chains of argument are well developed.</p>	<p><b>6 – 8 marks</b> An excellent critical evaluation of the impact of a rising ToT index for economies at different stages of development.</p> <p>A clear judgement is reached at the very highest level</p>	
	<b>2</b>	<p><b>3 – 4 marks</b> Good understanding of the impact of a rising ToT index at different stages of development.</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band</p> <p>Good use of appropriate terminology.</p>	<p><b>3 – 4 marks</b> A good analysis of the impact of a rising ToT index at for economies different stages of development.</p> <p>Answers in this band show developed chains of argument.</p> <p>Clear reference to economies at different stages of development.</p> <p>Answers in this band may lack depth.</p>	<p><b>3 – 5 marks</b> A good evaluation that includes most of the key issues.</p> <p>At least 2 issues are evaluated</p>
<b>1</b>	<p><b>1 – 2 marks</b> Limited understanding of the impact of a rising ToT index at different stages of development.</p>	<p><b>1 – 2 marks</b> Limited analysis of the impact of a rising ToT index for economies at different stages of development.</p> <p>Answer tends to lack key economic concepts and avoid technical analysis</p>	<p><b>1 – 2 marks</b> Limited evaluation; candidates may show awareness of some evaluative points but do not develop them</p>	
<b>0</b>	<p><b>0 marks</b> No valid knowledge or understanding</p>	<p><b>0 marks</b> No relevant analysis</p>	<p><b>0 marks</b> No relevant evaluation</p>	

### Indicative content:

- Understanding of the terms of trade index i.e. average price of exports/average price of imports x 100
- A rising ToT index means that export prices are rising relative to import prices
  - Could be export prices rising and/or import prices falling
- A rising ToT is usually seen as positive because it means that for each unit of exports sold, more than a unit of imports can be bought
- Relatively cheaper imported goods/services
  - LEDCs – improves living standards if essentials such as food, medicine etc are cheaper
    - BUT – could be dumping, and undercutting infant domestic industries
  - All economies – could import cheaper capital, which can lead to long run growth
    - BUT – could be used to substitute for labour
  - MEDCs – cheaper imported raw materials that can't be produced in the domestic economy, reduces inflationary pressure (SRAS shifting outwards)
    - BUT – may be importing cheaper non-commodities e.g. electronics, consumer goods etc – can lead to more negative externalities etc
- Relatively more expensive exported goods / services
  - LEDCs – if they export commodities with inelastic PED then higher prices leads to higher revenue, which can raise living standards through higher income
    - BUT – gains may not be equally distributed – revenue more likely to accrue to business owners (but trickle-down effect? Redistribution measures?)
  - All economies – less competitively priced exports may reduce demand for them, worsening the trade balance and AD
    - BUT – depends on the Marshall-Lerner condition and elasticity
    - BUT – depends on use of futures contracts
- General points:
  - Need to consider relative size of the changes in the prices of exports and imports
  - May be unlikely to affect the service sector as much as these are not as easily traded
  - Depends on whether it is a prolonged trend or temporary
  - Depends on the reason for the change i.e. floating exchange rates due to speculation, impact of trade barriers such as tariffs, changes in efficiency, natural disasters etc

<b>6. (a)</b>	<b>Explain the ways in which living standards can be measured in economies at different stages of development.</b> [10]	
<b>Band</b>	<b>AO1</b>	<b>AO3</b>
	<b>6 marks</b>	<b>4 marks</b>
<b>3</b>	<b>5 – 6 marks</b> Excellent, accurate and comprehensive understanding of the ways in which living standards can be measured.  Clear understanding of at least two ways living standards can be measured.  Excellent use of relevant terminology.	
	<b>3 – 4 marks</b> Good understanding of one or two ways in which living standards can be measured.  Good use of relevant terminology.	<b>3 – 4 marks</b> A good, accurate and comprehensive analysis of the ways in which living standards can be measured in economies at different stages of development.  At least two ways are analysed.
<b>1</b>	<b>1 – 2 marks</b> Some recognition of the ways in which living standards can be measured.  Limited use of relevant terminology.	<b>1 – 2 marks</b> Limited analysis of the ways in which living standards can be measured in economies at different stages of development.  At least one way is analysed.
	<b>0 marks</b> No valid understanding.	<b>0 marks</b> No valid analysis

**Indicative content:**

- Understanding of what is meant by living standards i.e. quality of life, links to income / opportunities, health, education, access to essential services, freedom from oppression etc
- Understanding of the link between living standards and development
- GDP per capita is a simple measure that is relatively easy to calculate, although not perfectly aligned with “living standards”
- HDI – weighted index combining GNI per capita, life expectancy at birth, and no. of years of schooling (expected for children and mean for adults)
- Alternatives e.g. OECD Better Life Index, Human Poverty Index (used in the poorest countries), simpler measures such as access to doctors / clean water / primary education etc
- Could also consider measures such as absolute and relative poverty
- The purchasing power of the median wage.
- Consideration that different measures are relevant in different economies e.g. HPI not relevant in developed economies. Developing economies have more of their economic activity “off the record” impacting their GDP / GNP / per capita.

N.B. For AO3, the focus should be on the relevance of the measures for economies at different stages of development rather than just analysing the pros / cons of each measure.

<b>6. (b)</b>	<b>Assess the view that free international trade is always beneficial for developing economies.</b>			<b>[20]</b>
<b>Band</b>	<b>AO1</b>	<b>AO3</b>	<b>AO4</b>	
	<b>6 marks</b>	<b>6 marks</b>	<b>8 marks</b>	
<b>3</b>	<p><b>5 – 6 marks</b></p> <p>Excellent understanding of the benefits and drawbacks of international trade for developing economies.</p> <p>Both breadth and depth of coverage is excellent.</p> <p>Excellent use of relevant terminology.</p>	<p><b>5 – 6 marks</b></p> <p>An excellent analysis of the benefits of international trade for developing economies.</p> <p>Chains of argument are well developed.</p> <p>Clear and direct reference to the situations faced by developing economies (LEDCs) and/or links to development indicators.</p>	<p><b>6 – 8 marks</b></p> <p>An excellent critical evaluation of the benefits of international trade for developing economies.</p> <p>A clear judgement is reached at the very highest level, focusing on the word “always”.</p>	
<b>2</b>	<p><b>3 – 4 marks</b></p> <p>Good understanding of the benefits and/or drawbacks of international trade for developing economies.</p> <p>Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band</p> <p>Good use of appropriate terminology.</p>	<p><b>3 – 4 marks</b></p> <p>A good analysis of the benefits of international trade for developing economies.</p> <p>Answers in this band show developed chains of argument.</p> <p>Clear reference to developing economies (LEDCs).</p> <p>Answers in this band may lack depth.</p>	<p><b>3 – 5 marks</b></p> <p>A good evaluation that includes most of the key issues.</p> <p>At least 2 issues are evaluated</p>	
<b>1</b>	<p><b>1 – 2 marks</b></p> <p>Limited understanding of the benefits or drawbacks of international trade for developing economies.</p>	<p><b>1 – 2 marks</b></p> <p>Limited analysis of the benefits of international trade for developing economies.</p> <p>Answer tends to lack key economic concepts and avoid technical analysis</p>	<p><b>1 – 2 marks</b></p> <p>Limited evaluation; candidates may show awareness of some evaluative points but do not develop them</p>	
<b>0</b>	<p><b>0 marks</b></p> <p>No valid knowledge or understanding</p>	<p><b>0 marks</b></p> <p>No relevant analysis</p>	<p><b>0 marks</b></p> <p>No relevant evaluation</p>	

### **Indicative content:**

- Understanding of “free international trade” i.e. reduction / removal of trade restrictions / protectionist measures such as tariffs, quotas, non-tariff barriers, export subsidies
- Benefits of free trade:
  - Use of comparative advantage analysis to show that rising specialisation leads to greater output and productive efficiency from the same resources
    - BUT – there are issues with comparative advantage theory e.g. 2 goods/2 countries, assumes perfect factor mobility, no need for strategic industries, no economies of scale, constant opportunity cost, no externalities etc
  - Greater access to larger markets that could be more lucrative than the domestic market alone, leading to rising profits – greater investment – greater tax revenue for the government etc
    - BUT – inefficient tax systems, lack of confidence for further investment, sending of remittances overseas rather than ploughing back profit etc
  - Greater access to a broader range of goods and services for domestic consumers
    - BUT – may just need the essentials (i.e. satisfying needs not wants due to low income), may lead to dumping, may reduce spending on domestic products
  - Import essential technology / knowledge along with capital etc, especially if it encourages more inwards FDI
    - BUT – could lead to capital being substituted for labour therefore having little impact on living standards
    - BUT – could be heavily concentrated in already-rich urban areas
- Issues with free trade for developing economies
  - More pollution / negative externalities
  - Wiping out of local culture and traditions due to exposure to international corporate brands
  - Inwards FDI may be footloose, profits may be repatriated
  - May have weaker negotiating skills than MEDC partners
  - Excessive specialisation in primary commodities can lead to problems such as the resource curse / Dutch disease, and the Prebisch-Singer hypothesis, and little opportunity to diversify into secondary or tertiary sectors
- Broader evaluative issues
  - Free trade within a trade bloc/region or internationally?
  - Free trade in every good/service or in selected goods?
  - Initial level of development – there is a significant difference between very low income LEDCs and middle income LEDCs
  - Depends on comparative advantages / where the revenues / profits are spent / how goods / services are produced (wage costs / negative externalities).

**Note: this answer is reversible**