

GCE A LEVEL

WJEC Eduqas GCE A LEVEL in ECONOMICS

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SPECIMEN ASSESSMENT MATERIALS

Teaching from 2015

For teaching from 2015
For award from 2017

GCE A LEVEL ECONOMICS

SPECIMEN ASSESSMENT MATERIALS

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Candidate Name	Centre Number				Candidate Number				



A LEVEL ECONOMICS

COMPONENT 1

Economic Principles

SPECIMEN PAPER

1 hour 30 minutes



ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in the spaces provided.

INFORMATION FOR CANDIDATES

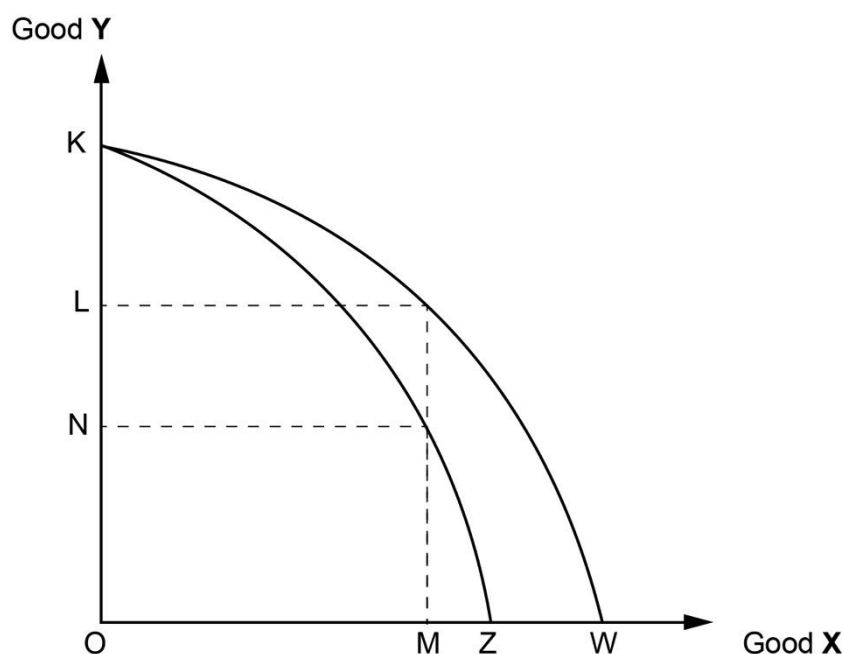
The number of marks is given in brackets at the end of each question or part-question.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

SECTION A

You are advised to spend approximately 30 minutes on this section.

1. The diagram below shows production possibility curves before and after a technical discovery affecting the production of good X.



Which one of the following distances represents the **reduction** in the total opportunity cost of producing OM of X in terms of Y?

[1]

ANSWER

*Tick **one** box only*

A KL

☐

B KN

☐

C LN

☐

D ZW

☐

E ZM

☐

2. The demand curve for a commodity is a downward-sloping straight line along which a change in price of 1 penny is accompanied by a change in quantity of 200 units.

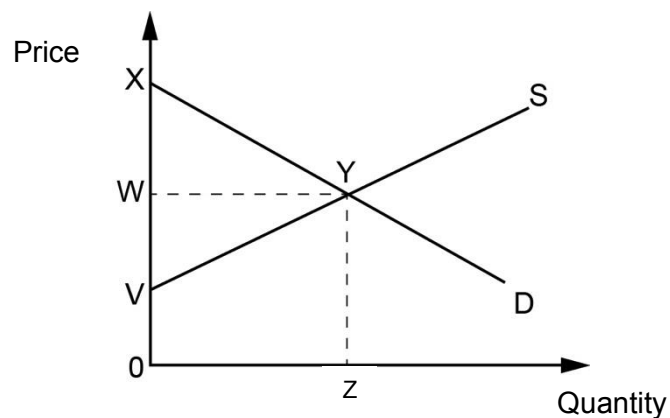
At the point on the demand curve where the price elasticity of demand is equal to -1, what would the price and quantity be? [1]

	Price (Pence)	Quantity (Units)	ANSWER Tick one box only
A	15	7000	<input type="checkbox"/>
B	20	6000	<input type="checkbox"/>
C	25	5000	<input type="checkbox"/>
D	30	4000	<input type="checkbox"/>
E	35	3000	<input type="checkbox"/>

3. Assuming that jam and honey are substitutes and that honey and beeswax are in joint supply, other things being equal, what will be the result of an increase in the price of jam? [1]

	Price of Honey	Price of Beeswax	ANSWER Tick one box only
A	Fall	Fall	<input type="checkbox"/>
B	Fall	No Change	<input type="checkbox"/>
C	Rise	Fall	<input type="checkbox"/>
D	Rise	Rise	<input type="checkbox"/>
E	Rise	No Change	<input type="checkbox"/>

4. The diagram below shows the demand and supply curves for a commodity.



Which area measures the total amount consumers would be willing to pay for the equilibrium level of output?

[1]

ANSWER

Tick **one** box only

A OWYZ

☐

B OXYZ

☐

C VWY

☐

D XYV

☐

E XYW

☐

5. The table below shows cost and revenue characteristics of two firms in long run equilibrium.

Firm X	Firm Y
AR exceeds MR	AR exceeds MR
AC equals AR	AR exceeds AC
AC exceeds MC	AC exceeds MC

Under which market structure does each firm operate?

[1]

	Firm X	Firm Y	ANSWER Tick one box only
A	Monopoly	Perfect Competition	<input type="checkbox"/>
B	Monopolistic Competition	Monopoly	<input type="checkbox"/>
C	Monopolistic Competition	Perfect Competition	<input type="checkbox"/>
D	Perfect Competition	Monopolistic Competition	<input type="checkbox"/>
E	Monopoly	Monopolistic Competition	<input type="checkbox"/>

6. Which **one** of the following is an internal economy of scale?

[1]

	ANSWER Tick one box only
A Cheaper loans from a local bank resulting from a merger between two firms	<input type="checkbox"/>
B Efficient local transport networks	<input type="checkbox"/>
C Specialist training facilities provided by a local college	<input type="checkbox"/>
D The reputation of an area for a particular product	<input type="checkbox"/>
E Technological change reducing the costs of all firms in an industry	<input type="checkbox"/>

7.

Price (£)	Quantity demanded
10	1
9	2
8	3
7	4
6	5

From the above data it can be deduced that as price falls from £10 to £6:

[1]

ANSWERTick **one** box only

- A** Marginal revenue = average revenue
- B** Marginal revenue is rising
- C** Marginal revenue is greater than average revenue
- D** Average revenue is rising
- E** Marginal revenue is less than average revenue

☐☐☐☐☐

8. Which one of the following is a characteristic of a pure public good?

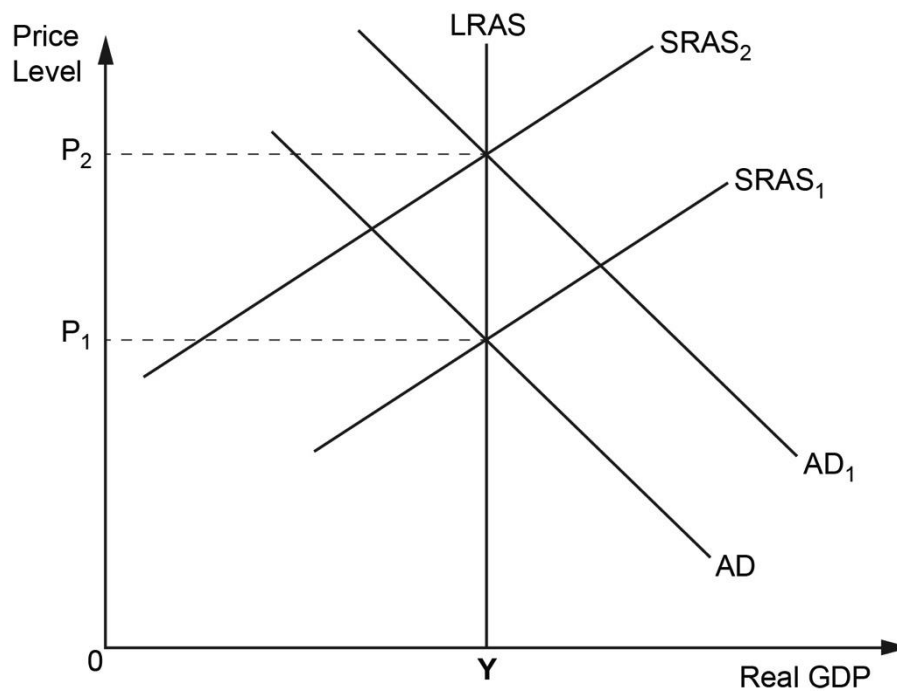
[1]

ANSWERTick **one** box only

- A** Consumption of the good by one individual prevents consumption by any other individual
- B** It confers benefits on consumers which are greater than they themselves perceive
- C** It is supplied by the government and financed out of taxation
- D** Non-payers cannot be prevented from using the good
- E** It is produced at zero opportunity cost

☐☐☐☐☐

9.



SRAS = Short run aggregate supply curve

LRAS = Long run aggregate supply curve

AD = Aggregate demand curve

In the above diagram an economy is originally in equilibrium at price level P_1 .

Which **one** of the following will shift the equilibrium to price level P_2 ?

[1]

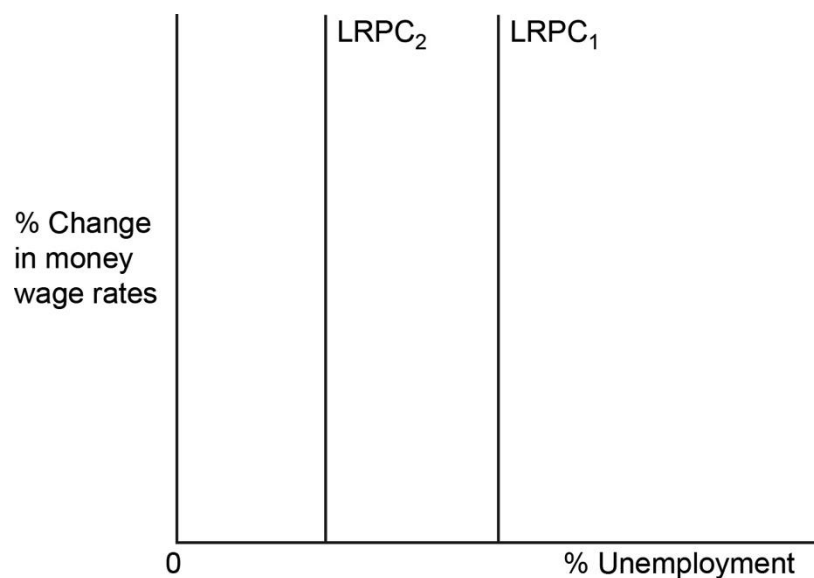
ANSWER

Tick **one** box only

- A** A fall in government spending followed by a rise in money wage rates
- B** A fall in the money supply followed by a rise in money wage rates
- C** A rise in government spending followed by a rise in money wage rates
- D** A fall in interest rates followed by a fall in money wage rates
- E** A rise in income tax rates followed by a rise in money wage rates

☐
☐
☐
☐
☐

10.



In the above diagram the long run Phillips Curve (LRPC) has moved from $LRPC_1$ to $LRPC_2$. This could have been brought about by:

[1]

ANSWER

Tick **one** box only

- | | | |
|----------|--|--------------------------|
| A | A reflationary fiscal policy | <input type="checkbox"/> |
| B | The successful implementation of supply side policies | <input type="checkbox"/> |
| C | A fall in both the foreign exchange rate and the interest rate | <input type="checkbox"/> |
| D | A rise in the nominal money supply | <input type="checkbox"/> |
| E | The introduction of a national minimum wage | <input type="checkbox"/> |

11. The table below gives information on employment and output in a particular firm.

Number of workers	Total output
1	30
2	60
3	100
4	150
5	190
6	180

Diminishing returns to labour begin when which worker is employed?

[1]

ANSWER

*Tick **one** box only*

A 2nd

☐

B 3rd

☐

C 4th

☐

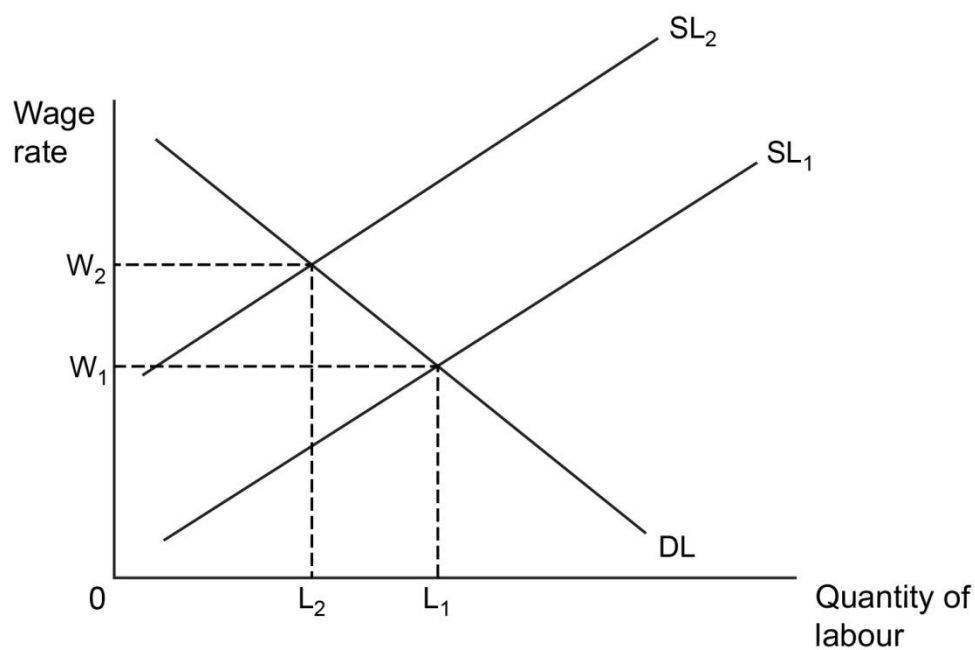
D 5th

☐

E 6th

☐

12.



In the labour market shown above the shift of the supply curve from SL₁ to SL₂ could have been caused by:

[1]

ANSWER

Tick **one** box only

A A rise in the wage rate from W₁ to W₂

☐

B An increase in emigration

☐

C The deregulation of the labour market

☐

D A rise in labour productivity

☐

E A fall in the price of capital

☐

13. GNP per capita measured in US dollars may be a poor indicator of comparative standards of living between developed countries and less developed countries because of a divergence in: [1]

ANSWER

Tick **one** box only

- | | | |
|----------|--|--------------------------|
| A | Market exchange rates from purchasing power parities | <input type="checkbox"/> |
| B | Population growth rates in different countries | <input type="checkbox"/> |
| C | Rates of price and wage inflation | <input type="checkbox"/> |
| D | Ratios of imports to national income | <input type="checkbox"/> |
| E | Inflation rates and unemployment rates | <input type="checkbox"/> |

14. If a less economically developed country has a GDP greater than its GNP, this could be due to: [1]

ANSWER

Tick **one** box only

- | | | |
|----------|--|--------------------------|
| A | A depreciation of its exchange rate | <input type="checkbox"/> |
| B | The repatriation of profits by a foreign multinational | <input type="checkbox"/> |
| C | A reduction in the level of aid given by developed countries | <input type="checkbox"/> |
| D | A fall in the price of the primary products that it exports | <input type="checkbox"/> |
| E | High levels of emigration by its skilled workers | <input type="checkbox"/> |

15. The information below relates to an economy.

Money supply = £10m

Number of transactions = 5m

Velocity of circulation = 2

According to the quantity theory of money, the average level of prices will be: [1]

ANSWER

*Tick **one** box only*

- | | | |
|----------|-----|--------------------------|
| A | £2 | <input type="checkbox"/> |
| B | £4 | <input type="checkbox"/> |
| C | £8 | <input type="checkbox"/> |
| D | £10 | <input type="checkbox"/> |
| E | £50 | <input type="checkbox"/> |

16. Which one of the following would be most likely to shift both the aggregate demand and aggregate supply functions to the right? [1]

ANSWER

*Tick **one** box only*

- | | | |
|----------|---|--------------------------|
| A | A fall in income tax rates | <input type="checkbox"/> |
| B | A rise in interest rates | <input type="checkbox"/> |
| C | A fall in government capital spending | <input type="checkbox"/> |
| D | A rise in government spending on benefits | <input type="checkbox"/> |
| E | A fall in the nominal money supply | <input type="checkbox"/> |

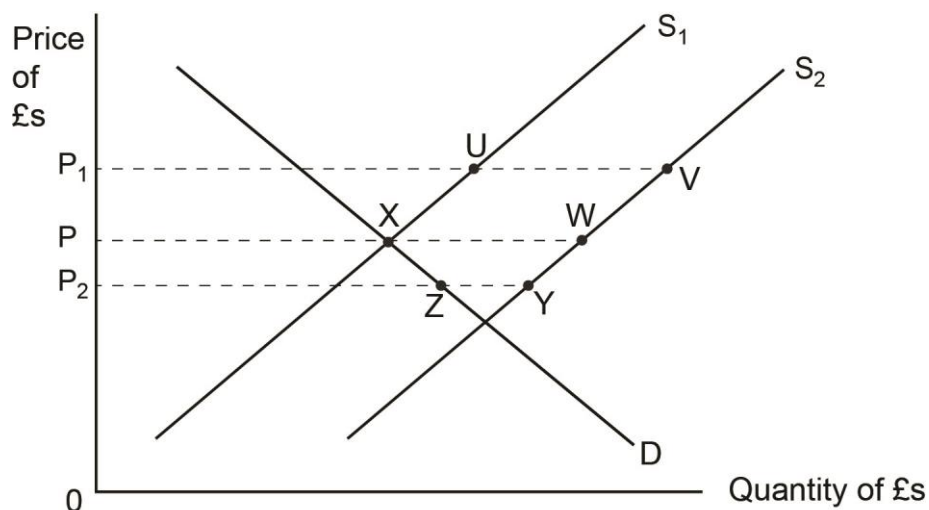
17. The natural rate of unemployment can best be defined as: [1]

ANSWER

*Tick **one** box only*

- | | | |
|----------|--|--------------------------|
| A | The unemployment caused by a lack of aggregate demand in the economy | <input type="checkbox"/> |
| B | Unemployment caused by a cyclical downturn | <input type="checkbox"/> |
| C | The unemployment in the economy when the labour market is in equilibrium | <input type="checkbox"/> |
| D | The total number of people of working age who are economically inactive | <input type="checkbox"/> |
| E | Those who are registered as unemployed but work in the hidden economy | <input type="checkbox"/> |

18. The diagram below shows the demand and supply of pounds. A government is determined to keep its foreign exchange rate between P_1 and P_2 and the supply of pounds has shifted from S_1 to S_2 .



To keep the exchange rate within the agreed range, the monetary authorities will have to:

[1]

ANSWER

*Tick **one** box only*

A Buy UV pounds

☐

B Sell XW pounds

☐

C Buy ZY pounds

☐

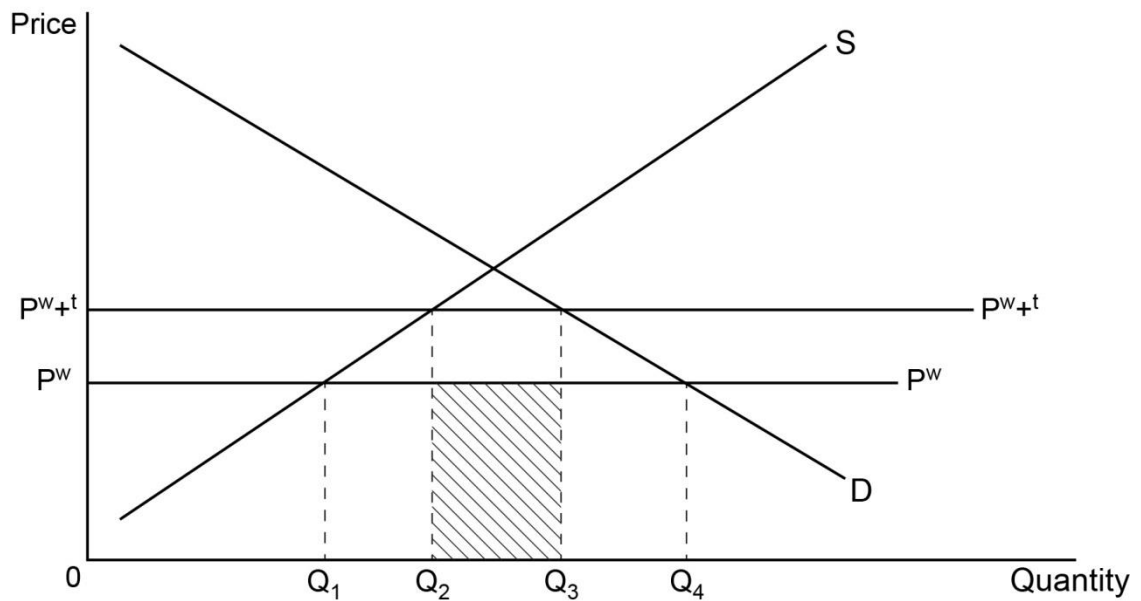
D Sell UV pounds

☐

E Sell ZY pounds

☐

19. The diagram below shows the market for an internationally traded product where P^w = world price and P^{w+t} = world price plus a tariff.



Following the imposition of a tariff, what does the shaded area on the diagram represent?

[1]

ANSWER

Tick **one** box only

- A** Tariff revenue for the government
- B** Revenue for domestic producers
- C** Revenue for importers
- D** The producer surplus for domestic producers
- E** The welfare loss as a result of imposing a tariff

☐
☐
☐
☐
☐

- 20.** In the table below, which combination of responses shows the most likely response of an economy to a sharp increase in base interest rates? [1]

ANSWER
Tick **one** box only

	Exchange rate	Inflation	Growth	
A	Increase	Increase	Fall	<input type="checkbox"/>
B	Increase	Fall	Increase	<input type="checkbox"/>
C	Fall	Increase	Increase	<input type="checkbox"/>
D	Increase	Fall	Fall	<input type="checkbox"/>
E	Fall	Fall	Increase	<input type="checkbox"/>

SECTION B

Answer **all** the questions in the spaces provided.

21. Hogmageddon – pork shortage drives up prices

Consumers can expect sharp increases in pork (pig meat) prices by summer 2014 as a viral disease that first appeared in U.S. swine herds earlier this year continues to kill young pigs.

The disease killed about 1.4 million piglets in the three months to December 2013 and appears to be accelerating in U.S. herds. Pig stocks are down 1% on a year earlier and analysts estimate that pork prices are likely to be 8% higher compared with a year earlier.

With the aid of a diagram, explain why pork prices were expected to rise 8% by summer 2014.

[6]

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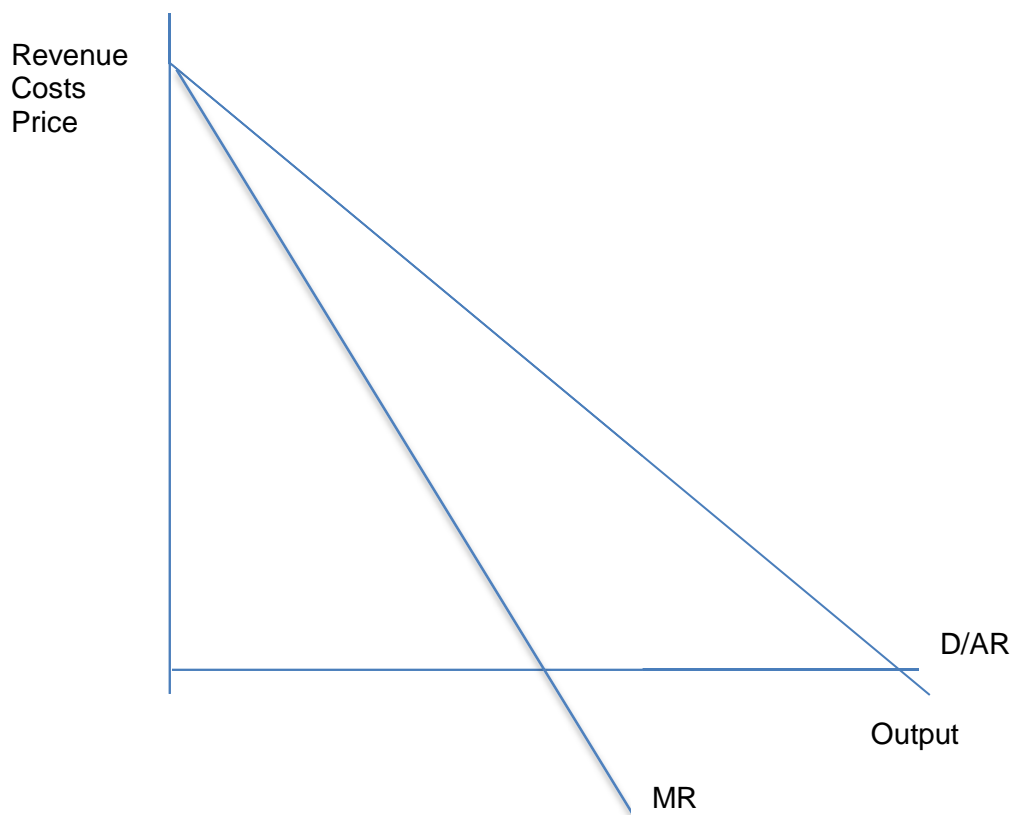
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22. Firms profits fall during economic downturns

As a result of an economic downturn, a firm in monopolistic competition discovers that it is no longer making normal profit.

Assuming that the firm is trying to minimise its losses, **complete** the diagram below to illustrate and **explain** the output and loss that the firm makes. [4]



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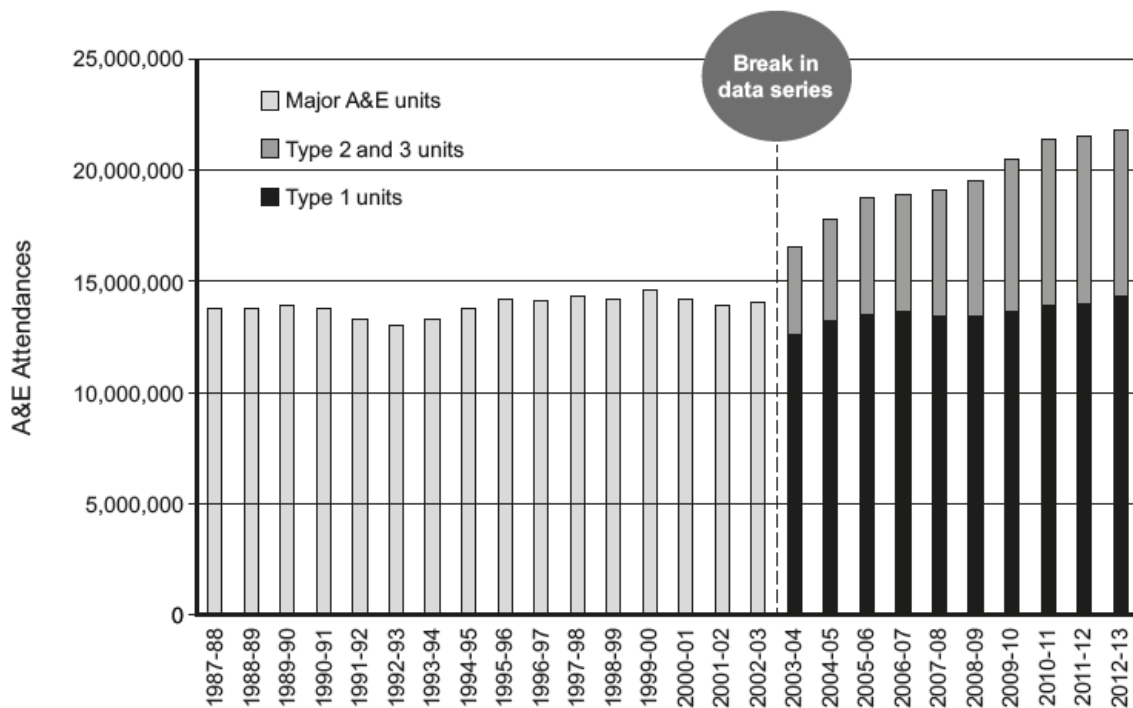
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23. Patients should pay £10 to visit A&E, say family doctors

Family doctors are demanding that patients pay £10 for every visit to a hospital accident and emergency (A&E) department.

Doctors have claimed that the fee would reduce the number of “inappropriate” A&E attendances and relieve pressure on casualty staff. But last night campaigners said the crisis in NHS hospitals was due to family doctors no longer providing a full service in the evenings and at weekends.

Figure 1: Annual attendances in A&E units: 1987/8 to 2012/13



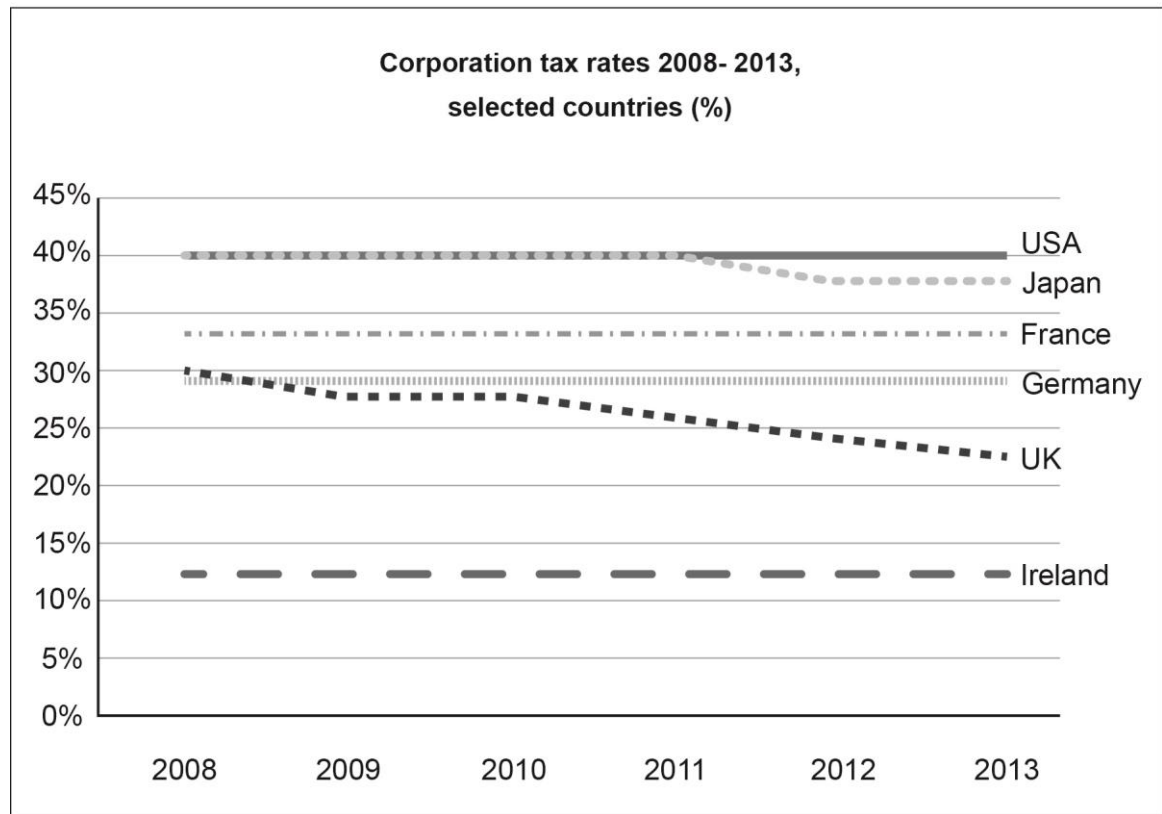
A third of family doctors questioned supported charging patients £5 or £10 for visiting A&E. Refunds were proposed if the trip was seen by hospital staff to be necessary. One doctor said: “If patients had to pay a £5 charge to attend A&E... I think they would get help for minor problems like coughs from their pharmacist instead of taking up space in hospitals, where more urgent cases need to be treated.”

Others, however, were very concerned to retain the principle that **access to the health service should be free at the point of use**. Joyce Robins for Patient Concern argued that: “If family doctors were more available then the A&E crisis wouldn’t have happened. If hospitals did charge for A&E visits, then presumably, ambulance crews would have to wait until a patient could find their purse.”

Source: www.express.co.uk 3 January 2014

With reference to the data, discuss whether it is right that *access to the health service should be free at the point of use*.

24.



Discuss the extent to which the trends shown in the chart above are likely to be beneficial for the UK economy.

[6]

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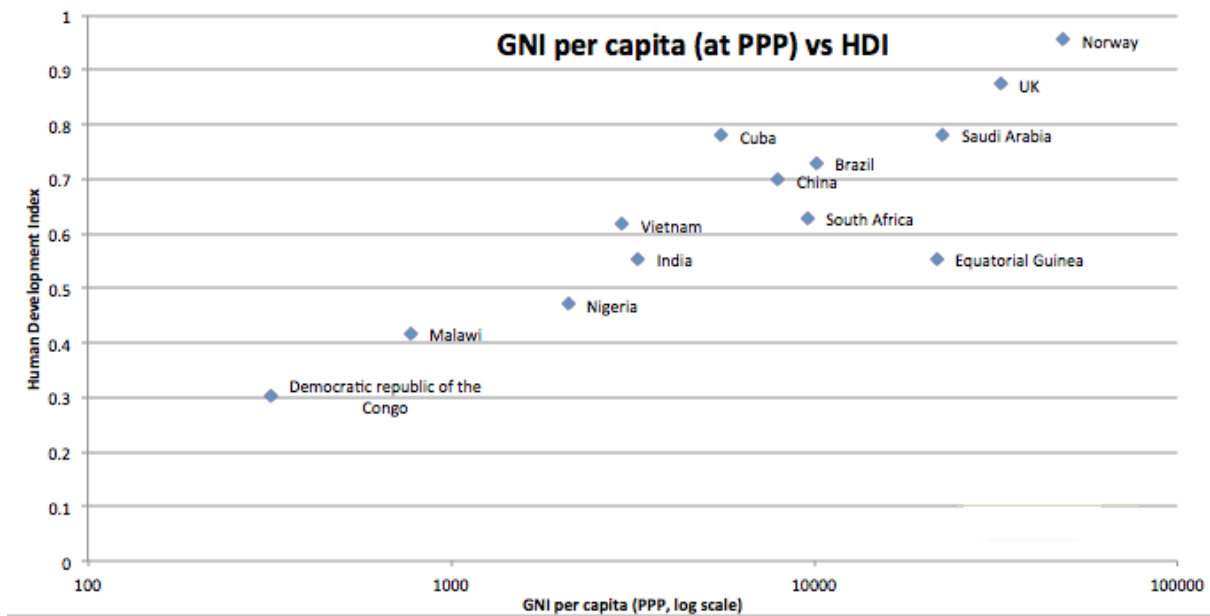
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25.



With reference to the chart above, discuss the extent to which GNI per capita is a good indicator of living standards within a country. [8]

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

26. Surprise jobless rise in Australia sparks interest rate cut speculation

The number of unemployed people in Australia rose to 722,000 in January 2014, the highest level in more than 15 years, as the national unemployment rate rose from 5.7 per cent to 5.8 per cent.

The surprise deterioration in the job market was worst in states producing primary products.

"We think the greatest risk to the Australian economy this year is the prospect of unemployment breaking out above 6 per cent", Market Analyst, Peter Esho, said.

The announcement of the unemployment figures caused the Australian dollar to fall immediately to a new annual low of US\$ 0.88, as investors considered the increased possibility that the Reserve Bank might decide to cut the base interest rate further in coming months.

Economists had expected employment to rise in December, in keeping with other indicators showing rising business and consumer confidence.

The participation rate - the share of the working age population looking for work - decreased slightly to 64.6 per cent, the lowest level since 2006.

Prior to the rise in unemployment, an interest rate cut had seemed less likely as inflation rose sharply in the second half of 2013, driven mainly by a fall in the Australian dollar which pushed up the price of petrol, clothes and international travel. Nevertheless the annualised inflation rate was still only 2.3 per cent, well within the Reserve Bank's target annual range of 2-3 per cent.

However, the central bank's preferred measure (the rate of underlying inflation, which strips out volatile items) rose at an annual pace of nearly 2.8 per cent, which was a little more quickly than economists had expected.

Discuss whether a cut in interest rates would be advisable in Australia at this point in time.

[8]

This image shows a full page of white paper with horizontal dashed lines, typical of primary-ruled notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



A LEVEL ECONOMICS

COMPONENT 2

Exploring Economic Behaviour

SPECIMEN PAPER

2 hours 30 minutes



ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator and a 20-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Answer all the questions.

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the need for good English and orderly, clear presentation in your answers.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

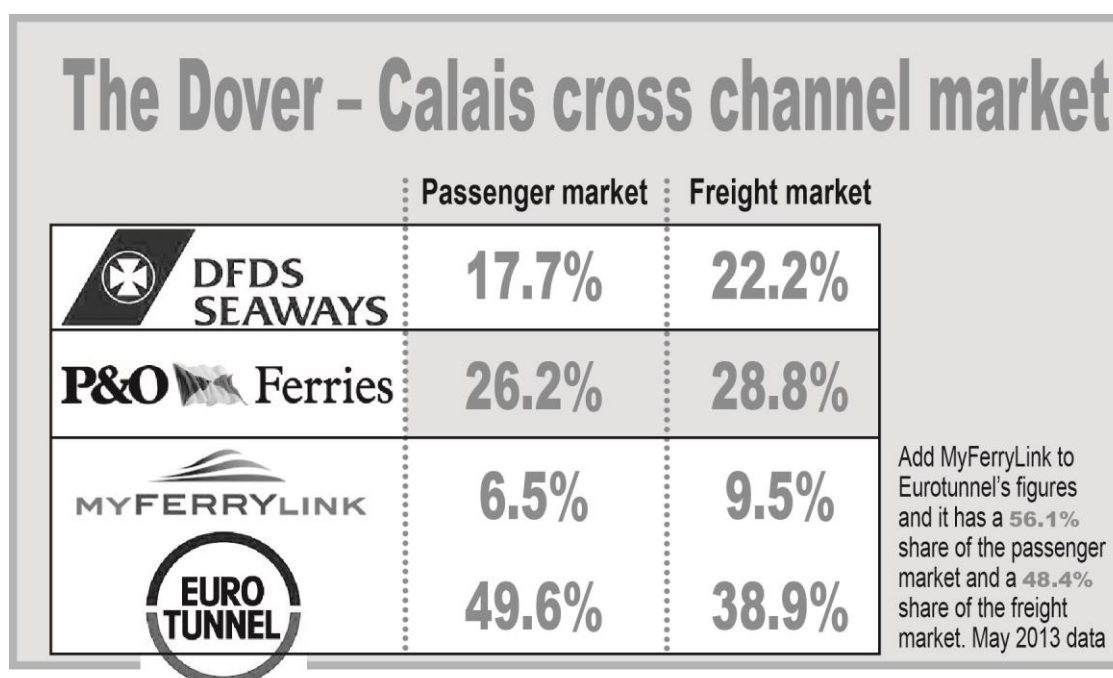
1. Eurotunnel in fight to control the English Channel

Crossing the English Channel has never been easier. Options are Eurotunnel via Eurostar, budget airlines, and ferry. For passengers and freight operators there is plenty of choice with low prices and heavy advertising. However, the English Channel has been the centre of a major dispute between ferry operators which has led to an investigation by the Competition Commission.

The dispute stems from a company called Sea France, which began ferry operations between Dover and Calais in 1996. Although initially profitable, by 2008 it was losing 3m euros a month. Falling passenger numbers and declining freight traffic were to blame for the losses. Operations were suspended in 2011.

In 2012 Eurotunnel purchased three ferries for 65m euros from the liquidators of Sea France. It then relaunched the service as MyFerryLink which meant that three ferry operators were again operating between Dover and Calais, the fastest sea route from Britain to France. Existing British operator P&O Ferries and the Danish DFDS Seaways instantly complained to the Competition Commission which declared in June 2012 that Eurotunnel's actions were anti-competitive and ordered MyFerryLink to cease operations.

Figure 1
Dover-Calais cross channel market data



According to Alastair Smith, the Deputy Chairman of the Competition Commission, 'It cannot be good for competition when Eurotunnel, which already holds a market share of over 40 per cent, moves into the ferry business, particularly when it did so to stop a competitor from buying these three ferries. Customers would lose out from Eurotunnel increasing its market share even further and being able to raise prices on the tunnel services. By preventing Eurotunnel from operating ferry services out of Dover, we can protect the interests of customers.'

Figure 2
Port of Dover figures

	2012	2013
Passengers	9 609 677	10 323 693
Cars	1 962 085	2 031 627
Coaches	68 562	74 316
Lorries and vans	1 451 179	1 643 448
Total ferry crossings	12 131	14 449

Source: The Port of Dover, year to date figures

However, Eurotunnel appealed to the Competition Appeals Tribunal which overturned the original decision and referred it back to the Competition Commission for further consideration. The Eurotunnel Chief Executive Jacques Gounon declared the appeal verdict a “victory for the consumer”. Robin Wilkins, MyFerryLink Managing Director said: “We are delighted with the ruling. We are already the highest rated cross channel operator and have built a substantial business based on quality of service and value for money. This is a very good day for our staff, our customers and our future customers”.

Eurotunnel always claimed that buying the ferries helped to keep the cross channel market as it was previously, with three operators on the Dover-Calais route. This was not the view shared by DFDS or P&O who said that the original Competition Commission decision was correct, claiming that MyFerryLink was being subsidised by Eurotunnel. This was supported by evidence from Eurotunnel’s recent accounts that showed that MyFerryLink had a six month pre-tax loss of £16m at the same time it was offering cut-price deals for passengers.

P&O Ferries said: “Our main concern is that Eurotunnel’s support of MyFerryLink allows it to trade below cost, incurring huge losses and thus causing a damaging price war. Other competitors are also trading at a loss with what they admit are unsustainable prices. Price wars might seem great for customers in the short term, but they damage the ability of operators to invest and, at their most extreme, put rivals out of business”. DFDS claimed to be losing £1m per month due to the cheaper competition from MyFerryLink. A DFDS source said that if Eurotunnel were allowed to keep operating ferries, there was a real possibility that DFDS would pull out of the Dover-Calais route entirely in a move that could lead to reduced competition. Eurotunnel, would then have an even bigger market share, and would be able to increase prices for passengers and freight alike. Was this their intention all along? That is something only Eurotunnel can tell us.

Source: The Mail on Sunday 5 January 2014 (adapted)

- (a) Using Figure 2, calculate the 2013 index for total ferry crossings, using 2012 as the base year. [2]
- (b) With the aid of an appropriate diagram, explain how Sea France's profits had turned to losses by 2008 (paragraph 2). [6]
- (c) Using the data, consider the extent to which the Dover-Calais cross channel market might be considered to be an oligopoly. [8]
- (d) Consider the extent to which the Competition Commission was correct in banning Eurotunnel from operating cross channel ferry services. [12]
- (e) Assess the pricing and non-pricing strategies cross channel operators might use to increase their profits. [12]

2. Are Abe's arrows hitting the mark?

In 16th Century Japan, a famous lord, Mori Motonari, gave each of his three sons an arrow to break. Each managed it easily. He then tied three more arrows together in a bundle and asked them to try again – they were unable to do it. The point of the story was to show the power of co-operation, this idea of three things working together is at the heart of Japan's Abenomics.

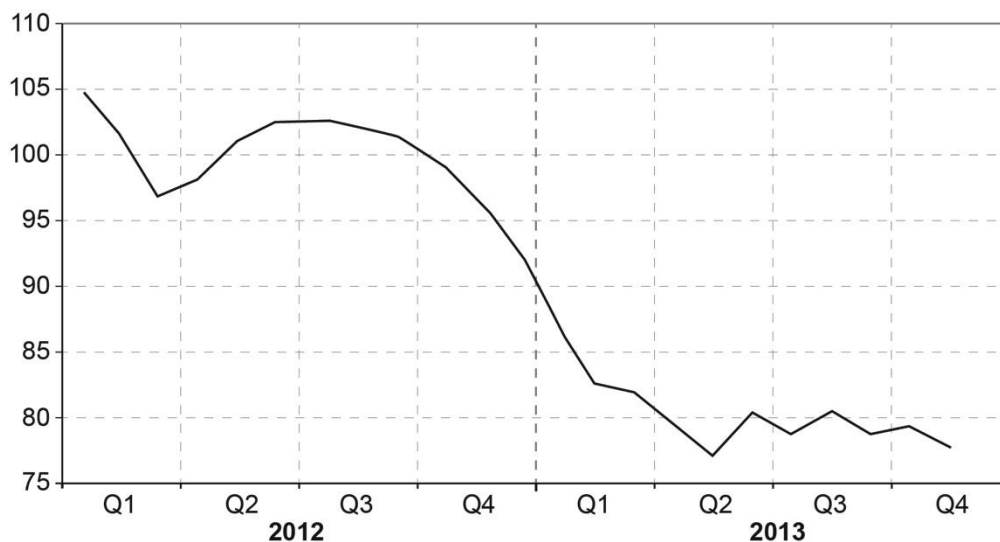
Abenomics is the name given to economic policies introduced by Japanese Prime Minister Shinzo Abe in December 2012. His aim was to revive the economy with "three arrows": aggressive monetary easing from the Bank of Japan, a massive fiscal stimulus and structural reforms to boost Japan's competitiveness.

Japan has been struggling with deflation for more than a decade. Falling prices decrease spending as consumers delay purchases in the hope of lower prices in the future. Deflation also deters businesses from borrowing to invest as deflation increases the real value of debt.

The first arrow

Monetary easing involved the Bank of Japan doubling its inflation target to 2% and increasing its purchases of government bonds by 50 trillion Yen (\$500bn; £330bn) per year. The move has also resulted in a sharp depreciation of the Yen (Figure 1), which it is hoped will boost the profits of exporters, in turn leading to investment in facilities and higher salaries for workers.

Figure 1 (Japanese Yen, trade weighted exchange rate index, 2010 = 100)



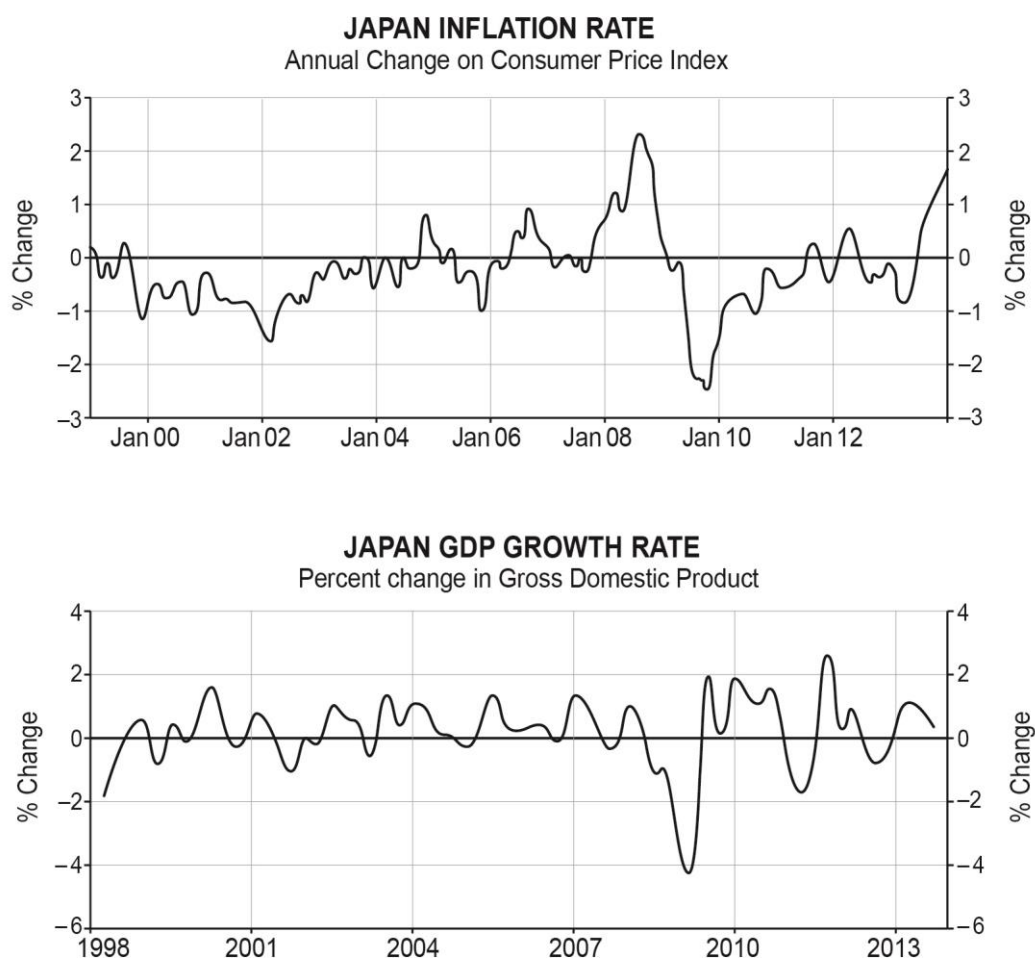
Critics of the policy point out that rising inflation may drive up interest rates, which will increase the cost of the government servicing its huge national debt (240% of GDP) and force the government into the type of austerity measures seen in Spain and Greece. Likewise, the falling Yen drives up the costs of imports, particularly energy, of which Japan is having to import more after its nuclear reactors were shut down following the 2011 tsunami and earthquake.

The second arrow

The second part of Abenomics involved boosting government spending to help stimulate growth. In just three months, from January to April 2013, Mr Abe said that his government would spend an extra \$114bn (£75bn). He said the extra funds would be used to fix schools and roads and reinforce earthquake defences. He also said that the government would make funds available for scientific research and renewable energy.

Critics say that Japan has been doing this for many years already, with little effect. Too much has already been spent on wasteful roads and bridges, and not enough in areas such as education and social services, which studies show have more impact on growth in the longer run rather than infrastructure spending. Further projects will simply add to Japan's already mountainous debt levels.

Figure 2



The third arrow

The third Abenomics arrow is structural reform in sectors such as agriculture, healthcare and labour markets. Labour market reforms are being introduced, with the aim of making it easier to hire and fire and to increase the female participation rate, which is one of the lowest in the developed world. Critics, however, point out that the pace of change is extremely slow, and a further worry is that increased flexibility might depress wages in the short term, reducing consumption.

Japan is also engaged in free-trade talks with the US and 10 other countries, which will create a free-trade area with a combined population of 650 million workers (the Trans-Pacific Partnership). The agreement is expected to substantially reduce tariffs between member countries and boost investment flows. The biggest risk is to agriculture, because tariffs (which can be very high in Japan, most famously the 777% tariff on rice) will fall sharply. A concern is that this may lower the incomes of Japan's many ageing farmers, who would then rely more on government support, adding to the burden on government finances and worsening regional inequalities.

Since Abenomics was launched, the output gap (the difference between actual and potential output) has dropped from roughly three percentage points to below 1.5. This suggests that the first two arrows are increasing actual GDP growth, but that the third arrow is not yet stimulating potential growth. Since December 2013, the stock exchange has soared by 40% (driven partly by the Bank of Japan's monetary easing), unemployment has fallen to 4% and the ratio of applicants to jobs has reached around 1:1. Growth in the first half of 2013 was close to 4% and inflation in November was at a five-year high of 1.2%.

The report card therefore reads "so far so good". The first and second arrows seem to be driving actual growth, but the big question is what happens when the output gap is eliminated. That is when the third arrow, which aims to boost Japan's potential growth through structural change (including increased private investment, technological innovation, improved trade links and reformed corporate-tax policy) will become far more important. Mori Motonari would no doubt agree.

Sources: BBC, New York Times, FT, adapted.

- (a) With reference to the data and Figure 1, explain:
 - (i) What is meant by an exchange rate index; [2]
 - (ii) Why a fall in the Yen might increase the profits of Japanese firms. [2]
- (b) Explain how the first arrow of Abenomics might have helped to end deflation in the Japanese economy. [6]
- (c) With reference to the data and Figure 2, discuss the ways in which GDP growth and deflation might be linked. [8]
- (d) Discuss whether Japan's entry into the Trans-Pacific Partnership is likely to be beneficial for the Japanese economy. [10]
- (e) To what extent do you feel that Abenomics will be effective in creating sustained economic growth in Japan? [12]



A LEVEL ECONOMICS

COMPONENT 3

Evaluating Economic Models and Policies

SPECIMEN PAPER

2 hours 30 minutes



ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 20-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black-ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Answer **one** question from Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the need for good English and orderly, clear presentation in your answers.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

SECTION A

Answer **one** question from this section.

1. Income inequality at highest level since the 1930s

- (a) Using appropriate diagrams and examples, explain why some UK workers earn higher wages than others. [10]
- (b) Evaluate the most appropriate policies that the government could implement when trying to reduce income inequality in the UK. [20]

2. Monopoly water market in the UK to be opened up to competition

- (a) Explain, using examples, why some markets may be harder to enter than others. [10]
- (b) Discuss the extent to which monopoly markets are economically desirable in developed economies. [20]

SECTION B

Answer **one** question from this section.

3. Unemployed under-25s pose huge problems for the economy

- (a) Explain why high levels of unemployment might be considered undesirable within an economy. [10]
- (b) Evaluate the most appropriate policies the government could use to reduce unemployment significantly in the UK at the present time. [20]

4. UK falls from eighth place in 2012 to tenth in 2013 in the Global Competitiveness Index

- (a) Explain factors which might have caused the decrease in the international competitiveness of UK businesses. [10]
- (b) Evaluate strategies which may be used by the government to improve the competitiveness of UK businesses. [20]

SECTION C

Answer **one** question from this section.

5. Oil in Nigeria: More of a curse than a blessing?

- (a) Explain, with examples, why having significant amounts of natural resources can damage the economic development of a country. [10]
- (b) To what extent is encouraging inward foreign direct investment (FDI) the most appropriate policy for countries aiming to increase their level of economic development? [20]

6. US current account deficit drops to \$98.9 billion (2nd quarter 2013)

- (a) Using diagrams, explain measures a country such as the US could introduce to reduce its current account deficit. [10]
- (b) Discuss whether a country should always try to reduce a deficit on the current account of its balance of payments. [20]

COMPONENT 1: Economic Principles**MARK SCHEME****GENERAL MARKING GUIDANCE****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 response 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.

For each question in Section B there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in learners' answers.

SECTION A

Question	Answer	Assessment Objective	Element
1	C	AO2	1b
2	C	AO2	1a
3	C	AO2	1a
4	B	AO1	1a
5	B	AO1	1a
6	A	AO1	1a
7	E	AO2	1a
8	D	AO1	1a
9	C	AO2	1b
10	B	AO1	1c
11	D	AO2	1a
12	B	AO1	1b
13	A	AO1	1a
14	B	AO1	1a
15	B	AO2	1a
16	A	AO1	1a
17	C	AO1	1a
18	C	AO2	1c
19	C	AO1	1a
20	D	AO2	1c

SECTION B

Q.	Mark scheme	Total
21	<p data-bbox="261 288 1326 356">With the aid of a diagram, explain why pork prices were expected to rise 8% by summer 2014.</p> <p data-bbox="261 378 587 412">AO1: 2 marks 1c</p> <p data-bbox="261 434 852 602">Award 2 marks for a complete diagram that has supply shifting to the left with a clear rise in price shown. It should be clear that the price has risen more than supply has fallen – hence demand is inelastic.</p> <p data-bbox="261 624 836 748">Award 2 marks for a diagram that has both supply shifting to the left and demand to the right as long as the shift to the right is justified.</p> <p data-bbox="261 770 1027 882">Award 1 mark for diagrams that have key features missing, such as failure to label significant features like the new price or new supply curve.</p> <p data-bbox="261 904 1235 972">Award 1 mark for diagrams which shift demand to the right if there is some justification in AO2 or 3 such as panic buying or speculation.</p> <p data-bbox="261 994 587 1028">AO2: 2 marks 1c</p> <p data-bbox="261 1050 1358 1140">Award 2 marks for a full explanation which references the data fully. Answers in this level will need to make specific reference to the data, commenting on the fact that, for example:</p> <p data-bbox="261 1151 580 1184">Supply has fallen by 1%</p> <ul data-bbox="261 1184 1307 1285" style="list-style-type: none"> • 1.4 million young pigs have been killed. • Prices have risen by 8%. • 2 marks cannot be gained for approaches that are not based around supply. <p data-bbox="261 1308 963 1341">Award 1 mark for an incomplete explanation such as:</p> <ul data-bbox="261 1341 987 1476" style="list-style-type: none"> • Disease will reduce the supply of pigs. • Pig stocks have fallen. • There might be panic buying. • Speculators might enter the market for pork futures. <p data-bbox="261 1498 453 1532">AO3: 2 marks</p> <p data-bbox="261 1554 1283 1621">Award 2 marks for a developed answer that explains that although supply has fallen by only 1%, prices are expected to rise by 8% and explains this:</p> <ul data-bbox="261 1621 1347 1789" style="list-style-type: none"> • By reference to the idea that demand is likely to be price inelastic for a necessary/agricultural/primary/basic product. • Demand may be inelastic because pork is essential for big food producers, who have to acquire supplies. • Speculators may pour into the market causing demand to shift to the right. <p data-bbox="261 1812 820 1845">Award 1 mark for a brief analysis, such as:</p> <ul data-bbox="261 1845 1347 2047" style="list-style-type: none"> • Disease will reduce the supply of pigs, hence shifting supply of pork (a derivative) to the left and thus causing price to rise. • Disease will reduce supply because there will be less pork available on the market, hence shifting supply to the left. • Panic buying and speculative purchases would shift demand to the right, hence increasing prices. 	6



Q.	Mark scheme	Total
22	<p>Assuming that the firm is trying to minimise its losses, complete the diagram below to illustrate and explain the output and loss that the firm makes.</p> <p>AO1: 2 marks 1a</p> <p>Correct diagram: 2 marks</p> <div data-bbox="268 443 817 896"> </div> <div data-bbox="850 405 1332 929" style="border: 1px solid black; padding: 5px;"> <p>1 mark for Profit maximising output correct, loss not marked/incorrect. Profit maximising output incorrect, but loss right at that output. Correct diagram with 2 or more missing labels or drawing errors. MC clearly not through min AC.</p> <p>0 marks for Profit making firm Correct diagram with no price and output or profit marked on.</p> </div> <p>AO2: 2 marks 1a</p> <p>Award 2 marks for good explanation of why output is at $MC=MR$ and why the loss is the area shown.</p> <p>Award 1 mark for good explanation of either why output is at $MC=MR$ or why the loss is the area shown.</p> <p>Indicative content</p> <p>Profit maximising/loss minimising output is the one at which $MC=MR$, because at this output the firm has made all units which add more to revenue than to cost, but none of the ones which add more to cost than revenue.</p> <p>The loss/sub-normal profit is the gap between total cost and total revenue. Total cost is $AC.Q$ and total revenue is $AR.Q$, therefore the loss is the difference between the two. The loss is the difference between AC and AR, because costs are above revenue.</p> <p>Note: A learner who marks in AVC and shows that AR is below this and then explains that the profit maximising output is zero and that the loss will be equal to the firm's fixed costs should be awarded 2 marks for an accurate diagram (subject to labelling rules above, although obviously the output will not be where $MC=MR$ and the loss cannot be shown) and 2 marks for a strong explanation of shutdown or 1 for a reasonable explanation of shutdown.</p> <p>To access 3 - 4 marks, learners must attempt the diagram and explanation.</p>	4

Q.23	With reference to the data, discuss whether it is right that ‘access to the health service should be free at the point of use’.			[8]
Band	AO2 1a	AO3	AO4 1abc	
	2 marks	2 marks	4 marks	
	How well has the case/context been used?	How well have the issues been developed?	How good is the judgement of the arguments made?	
2	<p>2 marks</p> <p>Clear reference to issues from the case study. Could be:</p> <ul style="list-style-type: none"> • Use of figures from the chart • Reference to the £5/£10 fee • Reference to the idea that a refund might be possible • Reference to A&E vs health system as a whole • Reference to practicalities • Other case-study relevant point. <p>The key for this band is that the answer uses the context of the data to support most of the points that are made; the answer is centred around the context rather than vice versa.</p>	<p>2 marks</p> <p>Well-reasoned developments of one side of the case making it clear why free health care/charging for health care would or would not be ‘right’.</p> <p>It is the quality of argument that is being judged here.</p>	<p>3-4 marks</p> <ul style="list-style-type: none"> • Well-reasoned judgements of at least one side of the case, showing a depth of analysis. • Alternatively the answer might judge each side to a more limited extent, but clear counter-arguments and qualifications are present on both sides. • Answers in this band are likely (but not certain – this is neither necessary nor sufficient for band 2) to have an overall conclusion as to how advisable a cut in interest rates is likely to be, in context. <p>It is the quality of the evaluation that is being judged here.</p>	
1	<p>1 mark</p> <p>The case is used, but references are sporadic, perhaps picking just 1 or 2 points of interest, which are not well developed in the context. Answer feels like it is theoretical with examples tacked on rather than the response really focussing on the context.</p>	<p>1 mark</p> <p>One side of the case is argued (advisable or inadvisable), making some undeveloped points, or perhaps has only 1 point with some development.</p> <p>Superficial development of both sides would also be in this level.</p>	<p>1-2 marks</p> <p>One side of the argument is qualified, showing an awareness that costs or benefits may not always be true, or that there are counter-arguments.</p> <p>Learners might directly contrast the advantages and disadvantages, but not simply listing +/- points – there is an attempt to match the advantages to the disadvantages.</p>	
0	<p>0 marks</p> <p>No relevant points of application made.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	

Indicative content

Learners might refer to issues to do with:

- Inequality – poor people may be unable to access healthcare unless it is free at the point of use; this could be particularly problematic in the case of A & E.
 - **But**, perhaps a system where it is means-tested might overcome this problem.
 - Externalities – healthcare is often assumed to have external benefits, meaning that free healthcare is advisable. Might refer to idea of merit goods here. Effective use of a diagram to support this, showing welfare loss from under-provision in a market would count as band 2 analysis.
 - **But**, external costs are more of an issue with some types of healthcare than others, meaning that a universal free service may actually be a waste of resources – government failure.
 - Free healthcare might create issues in terms of being over-used. It is clear from the data that hospital admissions are rising, and that this might be deterred by using a fee.
 - **But**, in the data, it is only proposed to charge for A & E admissions, not general healthcare, and a refund has been proposed if the treatment is seen as necessary. Hence it is not a tax on the poor, but a tax on misuse.
- Free healthcare is very expensive, creating opportunity costs. Healthcare costs over £100bn per year and we still have a budget deficit and very significant national debt.
 - **But** failing to provide healthcare for free may stack up problems for the future, spreading diseases, damaging productivity and reducing potential growth.
- Free healthcare may suppress the operation of market forces, perhaps meaning that quality and innovation may be reduced.
 - **But** systems like the US suffer from the Principal-Agent problem, meaning that market forces encourage doctors to provide the most expensive but not necessarily most cost-effective treatment.
- Might not be practical to charge – in some cases this is an emergency. Who would be paid; ambulance drivers? Receptionists? What if patients have no way of paying immediately?

Q.24	Discuss the extent to which the trends shown in the chart above are likely to be beneficial for the UK economy.			[6]
Band	AO2 1a	AO3	AO4 1abc	
	2 marks	2 marks	2 marks	
	How well is the chart used?	Are there well developed arguments about the cut?	How good is the judgement of the arguments made?	
2	<p>2 marks</p> <p>The chart is used effectively to support analysis, observing the 2 key features, commenting on the absolute (UK corporation tax has fallen) and relative (UK tax rates are lower than most leading competitors except Ireland) features of the data.</p> <p>Alternatively, the learner makes very good use of 1 or the other features, by applying it effectively to the context of the UK economy (for example a response to threat posed by English speaking Ireland, given its position as member of the eurozone).</p>	<p>2 marks</p> <p>Well-reasoned developments of one side of the case making it clear why the reduction in corporation tax rates is or is not likely to be beneficial to the UK.</p> <p>It is the quality of argument that is being judged here.</p>	<p>2 marks</p> <p>Well-reasoned judgements of at least one side of the case, showing a depth of analysis in judgements.</p> <p>Alternatively learners might judge each side to a more limited extent, but clear counter-arguments and qualifications are present on both sides.</p> <p>It is the quality of the evaluation that is being judged here.</p>	
1	<p>1 mark</p> <p>The chart is not fully used to support the learner's analysis. Answers lack precision in terms of raw data use, and ignore either the absolute or relative effect without compensating for it with depth on the other one.</p>	<p>1 mark</p> <p>One side of the case argued (beneficial or not), making some undeveloped points, or perhaps has only 1 point with some development.</p> <p>Superficial development of both sides would also be in this level.</p>	<p>1 mark</p> <p>One side of the argument is qualified, showing an awareness that costs or benefits may not always be true, or that there are counter-arguments.</p> <p>However, judgements are under-developed, lacking the depth or context of response needed for a band 2 answer.</p>	
0	<p>0 marks</p> <p>Learner makes some use of the data, but it is not well developed or makes no use of the data at all.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted</p>	

Indicative content

Beneficial

UK firms will have higher retained profit for investment, hence enhancing dynamic efficiency and increasing the chance of potential growth. But, many firms have been hoarding cash, and cuts in corporation tax may not lead to rising investment.

UK firms will have higher retained profits allowing higher dividend payouts, which is important given historically low interest rates. But these may only benefit small sectors of society – not everyone has private pensions/share portfolios and may therefore serve only to exacerbate already rising income inequalities.

The UK will be more attractive as a destination for FDI, hence increasing both actual and potential growth, creating jobs etc. But, many multinationals pay very little tax in the UK anyway (Starbucks, Amazon) so it may not make much difference. FDI may increase GDP but not GNI – Ireland's GNI is far lower than its GDP, therefore not as beneficial as might at first be thought.

Sends out a signal that Britain is open for business, increasing business confidence in an intangible way.

Not so beneficial

Might reduce tax yield for the UK government, hence reducing scope for manoeuvre when the fiscal position is already stretched. But, depends on Laffer curve style issues although tax rates are already low relative to competitors, so probably not a big issue. Also corporation tax is a relatively small source of tax revenue for the government, so might not make that much difference.

Opportunity cost – money might have been better spent elsewhere to achieve similar or better results, whilst not widening inequality.

Irish corporation tax rates are still much lower, than those in the UK.

Q.25	With reference to the chart above, discuss the extent to which GNI per capita is a good indicator of living standards within a country. [8]		
Band	AO2 1a	AO3	AO4 1ab
	2 marks	2 marks	4 marks
	Is there good use of the data provided?	Are there well-developed arguments about how good an indicator it is?	How good is the judgement of the arguments made?
2	<p>2 marks</p> <p>Learners make good use of the data to support their answer. For example:</p> <ul style="list-style-type: none"> • They make clear use of the readings from both axes to illustrate the correlation between the two. • They pick specific counter-examples to show that the trend is not perfect. <p>The key here is direct, specific use of the data to support a given point. 1 good example of data use is all that is required here.</p>	<p>2 marks</p> <p>Well-reasoned developments of at least one side of the case making it clear why GNI is or is not a good indicator of living standards.</p> <p>It is the quality of argument that is being judged here, not the range of points.</p>	<p>3-4 marks</p> <p>Well-reasoned judgements of at least one side of the case, showing a depth of analysis in their judgements. Alternatively they might judge each side to a more limited extent and come to a conclusion.</p> <p>Answers in this level are likely to have an overall conclusion as to how good GNI/capita statistics are as an indicator of living standards, probably rooted to some extent in the data.</p>
1	<p>1 mark</p> <p>Learners make fair use of the data to support their answer. Answers may lack precision in terms of the use of raw data from the two axes, or may fail to pick specific examples and counter-examples, focussing on the broad trend of the data.</p>	<p>1 mark</p> <p>Learners argues one side of the case (good/not good), making some undeveloped points, or perhaps has only 1 point with some development.</p>	<p>1-2 marks</p> <p>Learners qualifies one side of the argument, possibly by directly contrasting the advantages and disadvantages, but not simply listing +/- points – there is an attempt to match the advantages to the disadvantages.</p> <p>Learners might qualify a side by looking directly at its merits – in other words, how GNI is used within the economy may influence its effectiveness – inequality, corruption and so on may make it less effective.</p> <p>Learners might evaluate by using the data to point out that there are irregularities and inconsistencies that SOL is not HDI and so on.</p>
0	<p>0 marks</p> <p>Data use is vague, for example simply stating that there is a correlation or naming counter-examples without attaching the data to them.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

Yes

GNI is well correlated with HDI – with the exception of Equatorial Guinea there is strong linearity. This suggests that increases in GNI/capita are well correlated with health and education. This is possibly because increasing per capita incomes gives:

- (i) Citizens better access to diet, education and healthcare
- (ii) Governments a stronger tax base, implying better public services.

But

Which way does the correlation work – might better health and education be preconditions for higher income?

GNI per capita is a logarithmic scale meaning that in absolute terms the significance of income begins to diminish – the move from \$1,000 to \$10,000 is clearly more important than the move from \$10,000 to \$20,000 in terms of impact on HDI.

HDI doesn't directly measure living standards – living standards encompass a broader variety of indicators than life expectancy, income and years of schooling.
HDI is course reflects GNI/capita because GNI/capita is part of the HDI.

The correlation isn't perfect – countries with high levels of inequalities or other issues deviate negatively from the main band (Equatorial Guinea, South Africa), whereas other countries, often with a more socialist context seem to punch above their weight in HDI terms (Cuba, Vietnam) – learners might compare countries with the same level of HDI and different income levels (for example Vietnam and South Africa) or the same level of income and different HDI (for example South Africa, Brazil).

General criticisms of GNI/capita – inequality, measurement, role of the state, need for PPP, etc.

Overall

Correlation is very good, but HDI isn't the same as a measurement of living standards. There are deviations, so not guaranteed.

Works better for some countries than others (with examples).

Q.26	Discuss whether a cut in interest rates would be advisable in Australia at this point in time.			[8]
Band	AO2 1c	AO3	AO4 1abc	
	2 marks	2 marks	4 marks	
	How well is the case study used?	How well is the impact of a cut developed?	How good is the judgement of the arguments made?	
2	<p>2 marks</p> <p>Clear reference to the case study with strong use of actual numerical and qualitative data to support most points – the answer is wholly informed by an Australian context.</p>	<p>2 marks</p> <p>Well-reasoned developments of one side of the case making it clear why a cut in interest rates would be either advisable or inadvisable.</p> <p>It is the quality of argument that is being judged here.</p>	<p>3-4 marks</p> <p>Well-reasoned judgements of at least one side of the case, showing a depth of analysis in their judgements. Alternatively each side might be judged to a more limited extent and a conclusion reached.</p> <p>Answers in this level are likely to have an overall conclusion as to how advisable a cut in interest rates is likely to be, in context.</p> <p>It is the quality of the evaluation that is being judged here.</p>	
1	<p>1 mark</p> <p>The case is used, but references are sporadic, perhaps picking just 1 or 2 points of interest, which are not well developed in the context. Answer feels like it is theoretical with examples tacked on rather than the response really focussing on the context.</p>	<p>1 mark</p> <p>Learner argues one side of the case (advisable or inadvisable), making some undeveloped points, or perhaps has only 1 point with some development.</p> <p>Superficial development of both sides would also be in this level.</p>	<p>1-2 marks</p> <p>Learner qualifies one side of the argument, possibly by directly contrasting the advantages and disadvantages, but not simply listing +/- points – there is an attempt to match the advantages to the disadvantages.</p> <p>Learner might qualify a side by looking directly at its merits – in other words, how significant a cut in interest rates is likely to be, with justification. Simple lines such as ‘it depends on the size of the cut should not be credited unless developed.</p>	
0	<p>0 marks</p> <p>Answer is largely theoretical with only very occasional and non-specific use of the context. Hence, to get to band 1, use of the context has to be at least fair.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	

Indicative content

Advisable

Unemployment is rising (highest for 15 years, 722,000, 5.7% to 5.8%) and a cut in interest rates might help with this; interest rates will stimulate AD, hence helping to forestall an increase in unemployment.

Good answers will develop how a cut in interest rates might help to increase AD, perhaps with the assistance of a diagram.

Inadvisable

Inflation is rising, so a cut in interest rates might make this worse; description of the mechanism through which this might happen (possible increases C, I and X together with reduced M through weaker A\$). Australian dollar might weaken further, explained. Good answers will have a chain of reasoning – hence will be showing why problems are likely, not just asserting that they will be so.

Evaluation ideas

Unemployment is mainly in primary product producing states which are dependent on the global marketplace. Broad cuts in interest rates might not have much effect on demand in those states and may fuel inflationary pressure elsewhere.

If the A\$ falls further, jobs may actually be lost in import-dependent sectors, meaning the effect on unemployment might not be that large.

Cuts in interest rates aren't guaranteed to have an impact on jobs – time lags, confidence, central vs. market rates etc.

The A\$ may not fall if interest rates are cut because a fall in interest rates is already priced into the market.

Inflation is still well within the Australian central bank's target range, so no need for action.

COMPONENT 2: Exploring Economic Behaviour**MARK SCHEME****GENERAL MARKING GUIDANCE****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.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in learners' answers.

1. Eurotunnel in fight to control the English Channel

Q.	Mark scheme	Total
1 (a)	<p>Using Figure 2, calculate the 2013 index for total ferry crossings, using 2012 as the base year.</p> <p>AO2: 2 marks 1a</p> <p>Award 2 marks Accept: 119, 119.1 or 119.11</p> <p>Award 1 mark for correct calculation of absolute difference (2 318) but incorrect final answer.</p>	2

Q.1(b)	With the aid of an appropriate diagram, explain how Sea France's profits had turned to losses by 2008 (paragraph 2).			[6]
Band	AO1 1b	AO2 1b	AO3	
	2 marks	2 marks	2 marks	
	Is the diagram correct?	Is the data well used?	Is it clear why losses have come about?	
2	2 marks Diagram is essentially completely correct (or 2 separate diagrams) – see below.	2 marks Learner makes effective use of data, identifying the exact losses (3m euros per month) and identifying the reasons for this (falling passenger numbers and declining freight traffic).	2 marks Learner explains carefully why losses are being made. It is clear that they understand that because demand has fallen, AR is now below AC, meaning that TC is now below TR.	
1	1 mark Diagram has original normal or abnormal profit shown correctly and shifts demand inwards. Loss is shown ($AC > AR$) but MR may not have been shifted, and/or profit maximising output might not be correct.	1 mark Learners understand that demand is falling, but fail either to (i) identify the reasons for it or (ii) identify the scale of the losses.	1 mark Learner explains that the fall in demand means that revenue has fallen, but does not explicitly link their analysis back to losses – does not make it clear that a loss is made because AR is now below AC.	
0	0 marks Only the original profit is correctly shown (or worse).	0 marks Learner simply states that demand is lower – purely theoretical answer.	0 marks No logical chain of argument.	

Indicative content

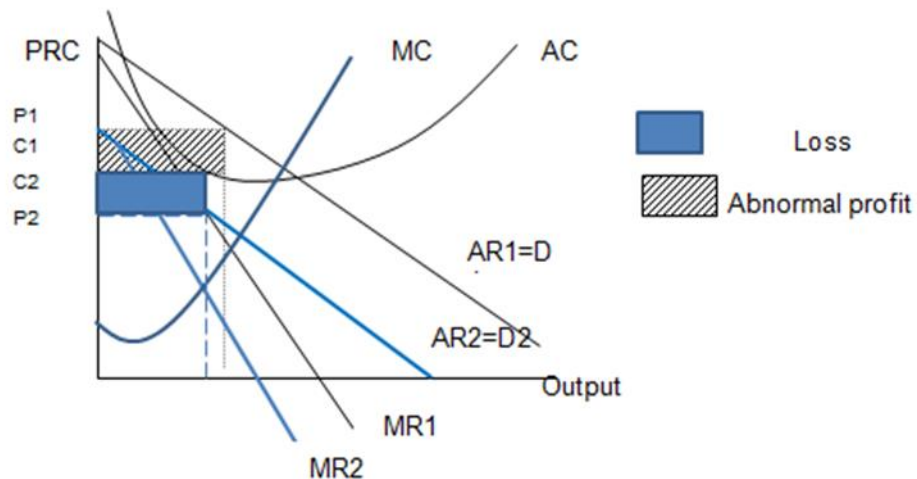
Losses have occurred because of falling passenger and freight numbers. This has shifted the demand curve to the left.

A diagram will be drawn showing a firm making normal or abnormal profits and then losses following a shift of the demand curve and MR to the left.

Ideally this will be all on one diagram but possibly on two separate diagrams.

The learner will explain the diagram.

A demand and supply diagram has a maximum level 1 answer.



Q.1(c) Using the data, consider the extent to which the Dover-Calais cross channel market might be considered to be an oligopoly.[8]				
Band	AO1 1a	AO2 1a	AO3	AO4 1abc
	2 marks	2 marks	2 marks	2 marks
	What are the characteristics of an oligopoly?	Are the characteristics applied to the cross channel market?	How well does the learner explain why characteristics indicate an oligopoly?	How good is the judgement of the arguments made?
2	<p>2 marks</p> <p>Learner has a good understanding of oligopoly, identifying 3 or more theoretical characteristics.</p>	<p>2 marks</p> <p>Learner applies the characteristics of oligopoly effectively to the case – at least 3 of the theoretical characteristics have been developed in the context of the cross-channel market.</p>	<p>2 marks</p> <p>Learner is clear about why the characteristics identified in AO1 make a market oligopolistic – learner explains, for example that interdependence is a hallmark characteristic of this market because there are few enough firms to interact.</p> <p>Overall, learner produces a well-argued case as to why the market is an oligopoly. Answers in this band might contrast with other market structures to make their case.</p>	<p>2 marks</p> <p>Learner effectively qualifies at least some of their arguments in coming to a final conclusion about whether the market is an oligopoly. Good use of the data. Probably the most likely discussion will be over the extent to which the market is really a monopoly, especially now Eurotunnel has launched MyFerryLink, giving it 56.1% of the passenger market and 48.4% of the freight market.</p> <p>Answers in this band might also highlight differences between the freight and passenger market, arguing that the freight market is more of a three-way split than the passenger market.</p>
1	<p>1 mark</p> <p>Learner has some understanding of an oligopoly, but can identify only 2 key characteristics.</p>	<p>1 mark</p> <p>Learner only manages to apply 1 or 2 characteristics closely to the case.</p>	<p>1 mark</p> <p>Learner has only partially explained why the characteristics of the market they have identified make it an oligopoly. Learner is unlikely to contrast with other market structures, but is able to show why at least some of the characteristic identified are unique to markets with a small number of players.</p>	<p>1 mark</p> <p>Learner has qualified at least some of their arguments, probably mainly arguing that the market is more of a monopoly, however, the answer probably does not make use of the data effectively to support this view. There is some sensible questioning of the idea that the market is a classic oligopoly, but the answer is unlikely to come to a clear conclusion.</p>
0	<p>0 marks</p> <p>Learner can identify only 1 or 0 key characteristics.</p>	<p>0 marks</p> <p>Purely theoretical response.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>No developed qualification shown</p>

Indicative content

- Oligopolistic market: a few large firms/high level of market concentration. In this case the cross channel market has three dominant firms, but Eurotunnel has 56.1% of the passenger market and 48.4% of the freight market once the ferry and rail arms are considered together, making the market perhaps closer to a monopoly.
- Low levels of contestability/high entry and exit barriers. Could refer to costs of acquiring ferries, existing customer loyalty and so on.
- Interdependence: firms react to the price/non price decisions of others. Some implication that pricing decisions are interdependent in the case study.
- Firms try to anticipate the next move of other rivals. Could argue that the use of the Competition Commission itself is a form of interdependence.
- Uncertainty – firms do not know how other firms will respond to their own strategic moves.
- Oligopolies are often characterised by occasional price wars, which appears to be the case here, although learners might argue that price stability is also normal, perhaps in this case prices being low and stable.
- Possibility of collusion.
- Oligopolies are also often characterised by non-price competition and there is clear reference to quality of service in the context.
- Reference to more sophisticated concepts such as game theory might well be used to illustrate interdependence.

Q.1(d)	Consider the extent to which the Competition Commission was correct in banning Eurotunnel from operating cross channel ferry services.		
Band	AO2 1b	AO3	AO4 1abc
	4 marks	4 marks	4 marks
	How well has the case been used?	How well have the arguments been developed?	How good is the judgement of the arguments made?
2	<p>3-4 marks</p> <p>Clear reference to the case study – at least 3 relevant pieces of evidence are used to support arguments on one side or the other.</p> <p>Arguments are related clearly to the CCs decision to ban Eurotunnel.</p>	<p>3-4 marks</p> <p>Learner makes decent arguments on both sides of the debate, using economic theory.</p> <p>Probably at least 2 solid lines of discussion on each side of the case (or 3-1, if the learner skews their answer one way or the other).</p> <p>Clear chain of argument is present outlining both sides of the case study.</p>	<p>3-4 marks</p> <p>The evaluation is well-explained. The learner gives a balanced argument.</p> <p>Learners try to qualify the arguments that they make. The answer will probably have a final judgement which has support.</p> <p>Lines of evaluation are well-developed.</p>
1	<p>1-2 marks</p> <p>Limited use made of the case study.</p> <p>The case is used, but references are sporadic, perhaps picking just 1 or 2 points of interest, which are not well developed in the context. Answer feels like it is theoretical with examples tacked on rather than the response really focussing on the context.</p>	<p>1-2 marks</p> <p>Learner's answer covers only one side of the debate, or covers both sides without much analytical depth – diagrams may be present, but they are not well integrated and chains of argument are generally short.</p>	<p>1-2 marks</p> <p>The evaluation is either one-sided or two-sided with limited qualification.</p> <p>Evaluation is not well-developed – explanation is weak and the answer is unlikely to have a well-reasoned final conclusion.</p>
0	<p>0 marks</p> <p>Learner only occasionally uses the data, and when they do it is only appended as “e.g. x”.</p>	<p>0 marks</p> <p>Learner makes scattered points on either or both sides of the debate, which are generally not well-developed.</p>	<p>0 marks</p> <p>Learner does not qualify arguments and the answer is likely to be at best purely for and against.</p>

Indicative content

Competition Commission was correct

- ET is using MyFerryLink as a loss leader (evidence from the case - £16m loss while offering cut-price deals). Consumers will lose out in the long term as the number of players in the ferry market is reduced to two (DFDS is threatening to withdraw).
 - **But** ET's losses may simply be penetration prices – once established, things may return to normal, allowing all three operators to continue.
- ET already has a 40% market share and the acquisition of three ferries will consolidate this position further. The CC was right to view the market as cross-channel travel, not as two separate markets. If DFDS left the Dover-Calais route, prices would rise further in the long term.
 - **But** there is no guarantee that price will rise in the long term – ET might have economies of scale, the market could be regulated.
- ET has been accused of buying the ferries only to prevent other firms from doing so.
 - **But**, a firm can only enter the market if they buy some ferries.
- ET is cherry-picking – they are operating only the Dover-Calais route, therefore undermining the socially desirable possibility of full ferry services on other routes (because of the losses that P&O and DFDS would make).
 - **But** *ET may not be cherry-picking – this may only be the start of further expansion plans.*
- ET's entry will reduce profits for all, reducing the possibility of further investment and dynamic efficiency.
 - **But** as a big operator, ET has more potential to invest, and its services are already highly rated.

Competition Commission was incorrect

- ET may be able to generate scale economies by combining the two services, hence resulting in lower prices for consumers.
 - **But** economies of scale are not really that likely – rail and sea services are quite different.
- ET is increasing competition on the Dover-Calais route, which had become a duopoly, hence expanding choice for passengers and resulting in lower prices.
 - **But** with shrinking passenger numbers, ET's entry is clearly an attempt to destroy one of the other firms.

- ET's actions are no different from those of the mainstream airlines which opened their own low-cost operations to compete with EasyJet and Ryanair.
- ET's cross-channel services are highly regarded by consumers as providing a good quality service. If DFDS is driven out, then it is their own fault and customers will be better off with the two remaining firms – certainly they will be no worse off than with the two firms that existed before.
 - **But**, Eurotunnel will then clearly be much larger than the one remaining operator, and, with the possibility to cross-subsidise from the rail services, it may be able to establish a complete stranglehold over the quick crossing market.

Overall evaluation

It is too late – ET has bought ferries now, so it is unfair to stop the company from using them.

It is only one of the routes to France – there are many others. Even if ET monopolise this route, there will still be competition on Portsmouth-Cherbourg etc.

CC has created uncertainty in the market therefore deterring investment and other new entrants.

Ultimately ET's entry has made all firms loss-making, therefore the decision was a correct one – the market simply isn't big enough for three firms.

It is a free market – ET has made an investment that they believe will be ultimately profitable. It is the nature of conglomerates to use profits from one part of the business to support others (Jaguar Land Rover?). Quality is rising and customers are satisfied. Therefore CC was wrong.

Q1(e)	Assess the pricing and non-pricing strategies cross channel operators might use to increase their profits.			[12]
Band	AO2 1c	AO3	AO4 1abc	
	4 marks	4 marks	4 marks	
	How well has the context been used?	How well have the strategies been developed?	How good is the judgement of the arguments made?	
2	<p>3-4 marks</p> <p>Strategies are clearly anchored into the context of the case – strategies apply well to ferries, not just generic ‘increase quality’ or ‘advertise’ – answers feel clearly travel related. At least 2 of the strategies identified are clearly developed in the context of this specific market.</p>	<p>3-4 marks</p> <p>Learner shows clearly why a given strategy will lead to an increase in profits. Theory of the firm diagrams are likely to be used to support this, but it is not essential – a strong explanation based around revenue and costs could gain full marks in this band.</p> <p>Learner will need to cover both price and non-price strategies.</p>	<p>3-4 marks</p> <p>At least 3 strategies have been qualified in terms of whether or not profits will actually increase in the context of the situation given.</p> <p>Evaluation is in context and applies the strategies well to the market in a qualified fashion.</p>	
1	<p>1-2 marks</p> <p>Strategies refer to oligopoly and are appropriate to an oligopoly structure, but do not have enough specific reference to the ferry market. At most 1 strategy is well contextualised.</p>	<p>1-2 marks</p> <p>Strategies are not clearly anchored back to profits – may explain how the firm will ‘benefit’, (might increase revenue, demand or market share), but does not make the final link to profitability.</p> <p>Learner might deal only with price or non-price strategies.</p>	<p>1-2 marks</p> <p>Strategies have been qualified, but:</p> <p>Only 1 or 2 have been qualified, or the qualifications feel rather abstract – they have not been put fully into the context of the market.</p>	
0	<p>0 marks</p> <p>Answer is purely theoretical and could be talking about any market at all.</p>	<p>0 marks</p> <p>Strategies are identified, but there is no explained linkage through to demand, revenue and so on – linkages are simply asserted.</p>	<p>0 marks</p> <p>Strategies have not been qualified.</p>	

Indicative content

Pricing strategies might include

- predatory pricing (must be linked to increased long run profits)
- limit pricing (must be linked to increased long run profits)
- profit maximisation ($MC=MR$ assuming the firms were not operating at profit maximisation beforehand)
- price discrimination
- collusion (this could be used as a pricing or non-pricing strategy)

Non-pricing strategies might include

- improving quality (more ferry crossings/comfort/catering)
- advertising
- loyalty schemes
- mergers and acquisitions

Reward the use of game theory to explain strategies.

Evaluation might include

- why strategies might not increase profits in the short or long run, e.g. a price war might develop
- the use of game theory
- action of the competition authorities, e.g. fines or imprisonment for anti-competitive practices
- advertising could be ineffective/costly; other firms might retaliate
- improving quality increases costs and can reduce profit
- loyalty schemes cost money to set up/other firms retaliate, thus profits do not increase

2. Are Abe's arrows hitting the mark?

Q.	Mark scheme	Total
2 (a) (i)	<p>With reference to the data and Figure 1, explain:</p> <p>What is meant by an exchange rate index;</p> <p>AO1: 2 marks 1a</p> <p>Award 2 marks for a full definition and a clear understanding of what is meant by an exchange rate index – in particular learners understand that it is a weighted average.</p> <p>Award 1 mark for an incomplete definition of an exchange rate index such as it is calculated against a number of different currencies.</p> <p>Indicative content</p> <p>The exchange rate index, is compiled as a weighted average of exchange rates of home versus foreign currencies, with the weight for each foreign country equal to its share in trade. It is expressed as an index number, so that it can be compared with the value in a base year.</p>	2
2 (a) (ii)	<p>With reference to the data and Figure 1, explain:</p> <p>Why a fall in the Yen might increase the profits of Japanese firms.</p> <p>AO1: 2 marks 1a</p> <p>Award 2 marks for an understanding that links back to profits. Award 1 mark for a basic understanding that export prices fall.</p> <p>Indicative content</p> <p>Learner understands that the falling Yen reduces the price of Japanese exports in foreign currency terms, hence sales and revenue will rise.</p>	2

Q.2(b)	Explain how the first arrow of Abenomics might have helped to end deflation in the Japanese economy.			[6]
Band	AO1 1a	AO2 1a	AO3	
	2 marks	2 marks	2 marks	
	What are the elements of the first arrow?	How well have the elements been applied to Japan?	How good is the explanation of the process through which deflation might end?	
2	2 marks Learners identify the 2 elements and understands how they work.	2 marks Clear reference how the elements helped to end deflation in the Japanese economy with direct reference to the case/data.	2 marks Learner links the policy back to inflation with a clear chain of argument.	
1	1 mark Learners identify at least 1 appropriate element but offers limited or no explanation.	1 mark Limited reference to the Japanese economy showing only superficial understanding.	1 mark Learner is able to link the policy back to rising inflation with limited development and explanation.	
0	0 marks Response not credit worthy or not attempted.	0 marks Response not credit worthy or not attempted.	0 marks Response not credit worthy or not attempted.	

Indicative content

The first arrow involves monetary expansion and has two key elements:

- An increase in the inflation target which should increase inflationary expectations, therefore feeding through into the pay bargaining and financial systems.
- An asset purchase scheme (in this case 50tn Yen of government bonds). This has pushed up the value of the stock exchange, creating wealth effects and driving down bond yields. Hence demand would be expected to rise, pushing up inflation. A secondary effect has been to push down the value of the Yen, which apart from making Japanese goods look more attractive has driven up import prices, especially energy.

Q.2(c)	With reference to the data and Figure 2, discuss the ways in which GDP growth and deflation might be linked.			[8]
Band	AO2 1a	AO3	AO4 1ab	
	2 marks	4 marks	2 marks	
	Is the chart used effectively to support the answer?	How good is the explanation of the links between growth and inflation?	How well is the strength/causation of the relationship judged?	
2	<p>2 marks</p> <p>Learner understands the links between growth and deflation and demonstrates an understanding that both are percentage changes.</p> <p>Raw data is used to illustrate the relationship with named years, or at least there are clearly identified periods of key trends.</p>	<p>3-4 marks</p> <p>Understand that changes in GDP affect inflation and will be able to explain:</p> <ul style="list-style-type: none"> • how the low and negative growth in the 00s led to deflation in most years. • how deflation, once established may continue to push down AD (as explained in the passage) hence contributing to low or negative growth. <p>Top end answers (4 marks) will have a good command of the theory and may support their answers with an appropriate diagram.</p> <p>Generally a top end answer (4) will have a good understanding of the data, will have used specific examples and will have clearly explained 1 direction of causation between GDP and deflation.</p> <p>3 mark responses may have less depth on one of the directions of causation or may make only superficial use of the data.</p>	<p>2 marks</p> <p>Learner is aware that the data is a mixture of causations and other factors and that it is not easy to be clear from the data exactly what the relationship is going to be.</p> <p>They need to be clear that any given time-frame has both effects going on, or that a specified third factor (e.g. global recession) may mess up the relationship.</p> <p>To be in band 2 learners need to support their evaluation with evidence from the data – e.g. rapidly rising inflation in late 2008 had little to do with GDP growth – as it was caused by global commodity shock.</p> <p>Or</p> <p>Learner is aware of and points to anomalies within the data that do not fit the expected causation – 2000, late 2005, 2008, 2010 and comes up with a plausible hypothesis as to why such an anomaly might be occurring.</p>	

Q.2(c) (cont)	With reference to the data and Figure 2, discuss the ways in which GDP growth and deflation might be linked. [8]		
Band	AO2 1a	AO3	AO4 1ab
	2 marks	4 marks	2 marks
	Is the chart used effectively to support the answer?	How good is the explanation of the links between growth and inflation?	How well is the strength/causation of the relationship judged?
1	<p>1 mark</p> <p>Identifies links between growth and deflation, but does not demonstrate understanding that the idea that both charts are % change graphs and will talk about GDP and price levels rising and falling, when in fact this may not be the case.</p> <p>Or, understanding of percentage change is present, but the data is used in only a superficial manner.</p>	<p>1-2 marks</p> <p>Learner is likely to have analysed the linkages in only 1 direction (falling GDP leads to falling prices, or falling prices leads to falling GDP).</p> <p>2 mark answers will have a clear and well developed line of reasoning and may use a diagram to support the analysis.</p> <p>1 mark answers will tend to assert causations, or may have missing links in the chain of argument.</p> <p>Alternatively, they may have identified links in both directions, but there is not enough analysis to be worthy of band 2.</p>	<p>1 mark</p> <p>Learner is aware that the data is a mixture of causations and other factors and that it is not easy to be clear from the data exactly what the relationship is going to be.</p> <p>To be worthy of credit, they need to be clear that any given time-frame has both effects going on, or that a specified third factor (e.g. global recession) may mess up the relationship.</p> <p>Or</p> <p>Learner is aware of and points to anomalies within the data that do not fit the expected causation – 2000, late 2005, 2008 and 2010 but does not come up with a plausible hypothesis as to why.</p>
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

GDP growth may affect deflation

- Falling GDP growth may lead to deflation because firms come under pressure to reduce costs in response to falling AD. By cutting workforce and other costs, it may be possible to reduce prices to stay competitive with other firms in the market.
- Falling GDP growth weakens the wage-price spiral by increasing competition in product markets and weakening the negotiating power of workers (because of fears over job losses and long-term unemployment).

Deflation may affect GDP growth

- Falling prices deter consumers from spending because prices will be lower in the future, hence reducing AD and growth.
- Falling prices increase the real value of debt, meaning that households will be more likely to try to pay off some of the capital they owe, reducing consumption in the short run, hence cutting AD.
- Once inflation becomes negative, real interest rates start to rise and central banks can't cut nominal interest rates below zero, possibly creating a deflationary monetary policy spiral.
- The rising value of debt may deter firms from investing, hence again putting further downward pressure on demand and growth.

Data

- There are some clear links – between 1998 and 2007, Japanese growth never exceeds 2% and in most years prices are falling. Shortly before the credit crunch, inflation does surge (associated with a commodity price boom globally), but the relationship generally continues after that. In 2013, the Japanese economy seems to have entered a period of positive inflation, although growth remains low.
- Good data use will tend to use the raw data, although good trend-style descriptions may be just as effective.

Q.2(d)	Discuss whether Japan's entry into the Trans-Pacific Partnership is likely to be beneficial for the Japanese economy.			[10]
Band	AO2 1ac	AO3	AO4 1ab	
	4 marks	2 marks	4 marks	
	How well are the positive and negative points applied to Japan?	How well are the arguments explained?	How good is the judgement of the arguments made?	
2	<p>3-4 marks</p> <p>Good application to the TPP – most points are put into the context of Japan either qualitatively or quantitatively, for example:</p> <ul style="list-style-type: none"> • Unrestricted access to a market of 650m workers, including the US • 777% Tariff on rice • Japan's strength in consumer electronics • Unproductive agricultural sector • Ageing farmers damaged • Implications of higher short term unemployment on national debt of 240% of GDP 	<p>2 marks</p> <p>Learner makes sound arguments on both sides of the debate, using economic theory such as comparative advantage, AD/AS analysis or the tariff diagram well.</p> <p>Arguments are well developed with reasonable chains of reasoning.</p>	<p>3-4 marks</p> <p>The evaluation of points is well-explained. The learner gives a balanced argument.</p> <p>Learners qualify the arguments that they make. The answer will probably have a final judgement which has at least some support.</p> <p>Lines of evaluation are well-developed.</p>	
1	<p>1-2 marks</p> <p>The case is used, but references are limited, perhaps picking just 1 or 2 points of interest, which are not well developed in the context.</p> <p>Limited application to the context.</p>	<p>1 mark</p> <p>Learner's answer covers only one side of the debate, or covers both sides with limited analytical depth – diagrams may be present, but they are not well integrated and chains of argument are generally short.</p>	<p>1-2 marks</p> <p>The evaluation is either one-sided or two-sided with limited qualification. Evaluation is probably not well developed – explanation is weak and the answer is unlikely to have a well-reasoned final conclusion.</p>	
0	<p>0 marks</p> <p>Very limited use of the data, and when they do it is only appended as "e.g. x".</p>	<p>0 marks</p> <p>Learner makes scattered points on either or both sides of the debate, which are generally not well developed. Costs or benefits to the Japanese economy are likely to be asserted rather than explained.</p>	<p>0 marks</p> <p>Learner does not qualify arguments.</p>	

Indicative content

Beneficial

Unrestricted access to a market of 650m workers, including the US. Given Japan's renowned strength in consumer electronics and manufacturing, this is likely to give a significant boost to the Japanese economy.

Trade agreements are an important supply side reform, which should encourage Japanese firms to invest, innovate and increase productivity/efficiency.

Free trade should lead to falling prices for consumers, especially for agricultural products, which is important given how high tariffs have tended to be (777% on rice).

Generally free trade stimulates growth through increased use of comparative advantage – unproductive agricultural resources can be put to better use in other sectors of the economy.

Learners may support analysis using an AD/AS diagram, to show growth.

Not beneficial

Jobs are likely to be lost in unproductive sectors such as agriculture, putting further downward pressure on prices, possibly recommencing the deflationary spiral.

Vulnerable groups are likely to be hit, increasing inequalities – e.g. ageing farmers as referred to in the passage.

Higher unemployment etc. may worsen the government's finances, which are already in a very poor state – debt 240% of GDP.

Overall

It depends on exactly which other countries are involved – access to the US is good, but Japan might face strong competition from other Asian countries in areas such as agriculture.

May depend on factor mobility within the Japanese economy – how quickly can resources be switched into areas in which Japan has comparative advantage?

Q.2(e)	To what extent do you feel that Abenomics will be effective in creating sustained economic growth in Japan? [12]		
Band	AO2 1ac	AO3	AO4 1abc
	4 marks	4 marks	4 marks
	How well are the arguments applied to Japan?	How well explained are the arguments?	How good is the judgement of the arguments made?
2	<p>3-4 marks</p> <p>Good application to Japan, showing a sensitive understanding of how the arrows might or might not be expected to create growth. Relevant points might include:</p> <ul style="list-style-type: none"> • Current spurt in growth (4%) • 40% surge in the stock exchange • Labour market is tightening (applicant: jobs ratio 1:1) • Infrastructure spending • Falling Yen driving up import costs • Investment in science • Previous white elephants • Ageing population makes SS reforms essential • Pace of SS reforms has been slow <p>A band 2 answer will embed these answers in the context of AO3 – hence they are not simply mentioned, but are used to build and support an argument. An answer in this band is likely to develop 3-4 real-world relevant features, not necessarily constrained to the list above.</p>	<p>3-4 marks</p> <p>Answers in this band will anchor the policies clearly back to both actual (AD) and potential (AS) growth.</p> <p>The chain of reasoning from the three arrows to AD and AS is clear and well-developed theoretically.</p> <p>The learner deals with all three elements of Abenomics. They are likely use AD/AS diagrams to support their analysis.</p>	<p>3-4 marks</p> <p>Learner's evaluation of points is well-explained. The learner gives a well-balanced argument.</p> <p>Learners qualify the arguments that they make and the qualifications are explained in detail.</p> <p>The answer will probably have a final judgement which has at least some support.</p> <p>Answers in this band will discuss the policies in the context of the Japanese experience.</p>

Q.2(e) (cont)	To what extent do you feel that Abenomics will be effective in creating sustained economic growth in Japan?			[12]
Band	AO2 1ac	AO3	AO4 1abc	
	4 marks	4 marks	4 marks	
	How well are the arguments applied to Japan?	How well explained are the arguments?	How good is the judgement of the arguments made?	
1	<p>1-2 marks</p> <p>The learner uses some pieces of supporting data, but not really consistently and development is likely to be limited.</p> <p>May only refer to a small number of pieces of evidence, although these may be developed, or may refer to a wider (4+) number of points which are not really embedded in the answer.</p>	<p>1-2 marks</p> <p>The learner may only develop actual or potential growth in detail, giving only cursory development to the other one.</p> <p>Bottom level answers are likely to cover actual and potential growth, but without strong chains of reasoning – hence they may briefly explain why growth is created, but are not convincing in their detail. Alternatively, there may be some depth to the answer, but it may focus on only one of the three arrows.</p>	<p>1-2 marks</p> <p>Attempts to qualify some of their points in terms of either effectiveness of creating growth or side effects, but the evaluation is not well-developed. Explanation of the evaluative points is underdeveloped and the answer may have an unsupported final conclusion.</p>	
0	<p>0 marks</p> <p>Learner only occasionally uses the data (maybe a couple of relevant ideas), and when they do it is only appended as “e.g. x”.</p>	<p>0 marks</p> <p>Learner makes scattered points on either or both sides of the debate, which are generally not well developed. Costs or benefits to the Japanese economy are likely to be asserted rather than explained.</p>	<p>0 marks</p> <p>Learner does not qualify arguments.</p>	

Indicative content

Actual growth

Abenomics is producing a clear monetary and fiscal stimulus to the economy.

QE is likely to push down interest rates and is already pushing up share values. This is likely to create wealth effects, and increased confidence. The Yen has fallen, which should in principle increase exports and might encourage FDI.

But there is a risk that the monetary stimulus will be excessive, creating too much inflation and forcing up interest rates. These might increase the cost of financing the huge national debt, forcing Japan to adopt austerity style packages like those seen in Greece and Spain, which could choke off growth.

Rising interest rates might also damage private sector investment, hence undermining both actual and potential growth.

Uncontrolled inflation would also be likely to damage business confidence, which again might restrict business investment.

The falling Yen is driving up import costs, which is a problem in Japan which is so dependent on imports of key natural resources; rising energy costs could trigger cost-push inflation and choke off growth.

The second arrow

Fiscal expansion is proposed in terms of infrastructure projects (repairing roads and schools) and projects in terms of scientific research and sustainable energy. These might both create actual growth through multiplier effects as well as creating potential growth through improved technology and by reducing reliance on foreign energy sources.

But, this has been tried before and has resulted in the construction of large numbers of white elephants in the form of bridges to nowhere and under-used regional airports. The danger is therefore that growth will not be sustained.

Spending of this nature may simply add to government debt, adding to the risk of crowding out private sector investment and damaging business confidence, again slowing growth in the medium term.

The stimulus may help Japan to recover from its slump, but may not lead to a sustained improvement in GDP – hence it may just be a short term shot in the arm rather than a policy which promotes sustained growth.

The third arrow

Labour market reforms are clearly going to be very important with Japan's ageing population. Making it easier to hire and fire may allow productivity improvements to be pushed through – Japan has been lagging behind other G8 countries in recent years due to surplus labour. Increasing female participation will also be important in helping to deal with the costs of an ageing population, costs which might slow down growth due to the high tax burden needed to finance them.

Entry into the TPP forms *part* of these reforms and learners may well re-hash arguments here. If they do, these should be credited if they are targeted on growth specifically and provided the learner looks at the third arrow as a whole. A strong answer here will need to deal with labour market reforms.

Without some form of reform here, Japan may soon run out of steam as the output gap narrows.

But:

There are signs that the reforms may be very slow and that 'the pace of change is extremely slow'. Also increased participation and flexibility in the labour market may depress wages and restart the deflationary spiral.

Japan's labour market remains culturally resistant to change – the fact that unemployment remained so low during the credit crunch indicates this.

Overall

It seems clear that the reforms are producing some sort of stimulus. Growth and inflation have both risen (data use), but this sort of false dawn has been seen before (data use) where a short term stimulus has simply petered away and led to an increase in national debt.

However, the authorities seem to be more determined this time – maybe this sign of backbone will permanently change expectations.

But, sustained growth implies supply side improvement, and here the signs are much more uncertain.

COMPONENT 3: Evaluating Economic Models and Policies

MARK SCHEME

GENERAL MARKING GUIDANCE

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 response 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.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in learners' answers.

Q.1(a)	Using appropriate diagrams and examples, explain why some UK workers earn higher wages than others.		[10]
Band	AO1 1a	AO3	
	6 marks	4 marks	
	What are the factors and the diagrams?	Why do the differentials occur?	
3	5-6 marks A clear understanding of supply side and demand side factors. At least 3 factors are identified and well-explained. A good range of real/hypothetical scenarios/examples are clearly referenced. Use of correct and relevant diagrams. Include well-developed theoretical parts to the answer rather than focusing solely on social/positional factors.		3-4 marks Clear development and analysis as to why differentials occur with good theoretical linkages back to diagrams.
2	3-4 marks At least 2 factors have been identified and explained, but: May not look at both demand and supply side factors. Examples may be limited – not explained fully in context or the range may be limited. Diagrams are present but may have a few errors, or there may only be one diagram covered well.		1-2 marks Limited development and analysis as to why wage differentials occur. Linkages are short and under-developed.
1	1-2 marks Learner lists a number of possible factors for wage differentials. A diagram may be included but will be incomplete or is not referenced/explained. Limited explanation as to why the possible factors affect wages in the UK.		
0	0 marks Relevant factors not identified.		0 marks No lines of argument.

Indicative content

- Could be short term response to demand side factors – labour is a derived demand and hence a surge in demand in certain sectors (search optimisation consultants, life coaches, etc.) may create short term wage differentials because labour mobility will be low in the short run.
- Could be due to occupational immobility – lack of relevant skills and training or access to appropriate education and training.
- Could be barriers to entry into certain sectors that restrict supply – doctors, dentists, accountants, etc.
- Could be regional immobility – North/South divides, which are not eliminated due to regional immobilities such as house price issues, social factors, etc.
- Could be relative desirability/risk of different jobs – equalising wage differential argument.
- Could be discrimination within the work-force on the grounds of gender, race and/or disability.
- Impact of trade unions in supporting pay by (theoretically) restricting supply or counteracting the monopsony power of employers.
- Could be part time/full time work (but do not over-credit this point).

Q.1(b)	Evaluate the most appropriate policies that the government could implement when trying to reduce income inequality in the UK. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What are the policies and how do they operate?	How well is the process through which income inequalities will be reduced explained by the learner?	How good is the judgement of why the policies might be ineffective or have side effects/unintended consequences?
3	<p>5-6 marks</p> <p>At least 3 strategies are identified with a clear understanding of how they work and of their link to income inequality.</p>	<p>5-6 marks</p> <p>At least 3 policies are analysed with a clear line of argument. Thorough understanding of how inequality will be reduced, how precisely the policy is supposed to operate and what problem is to be overcome.</p>	<p>6-8 marks</p> <p>Learner fully evaluates at least 3 policies, pointing out their strengths and weaknesses. The learner demonstrates in-depth understanding of the ways these weaknesses might be overcome.</p> <p>Evaluation includes both the effectiveness of the policy in reducing income inequalities and the possible side effects of the policy. Both are qualified in terms of how serious side effects are and the probable effectiveness of the policy.</p> <p>The answer probably contains a well-reasoned judgement to the question in which the most appropriate policies are recommended and defended.</p>

Q.1(b) (cont)	Evaluate the most appropriate policies that the government could implement when trying to reduce income inequality in the UK.			[20]
Band	AO1 1abc	AO3	AO4 1ab	
	6 marks	6 marks	8 marks	
	What are the policies and how do they operate?	How well is the process through which income inequalities will be reduced explained by the learner?	How good is the judgement of why the policies might be ineffective or have side effects/unintended consequences?	
2	<p>3-4 marks</p> <p>At least 2 policies are identified with some understanding of how they work and of their link to income inequality.</p>	<p>3-4 marks</p> <p>At least 2 policies are analysed. There is a clear link between the policy and income inequality, but details of the operation of the policy are missing or learner is unclear as to how inequality will be reduced.</p>	<p>3-5 marks</p> <p>The learner evaluates at least 2 policies, pointing out their strengths and weaknesses. The learner demonstrates good understanding of the ways these weaknesses might be overcome.</p> <p>Evaluation is likely to include either the effectiveness of the policy in reducing income inequalities or the possible side effects of the policy. These are qualified in terms of how serious side effects are and the probable effectiveness of the policy.</p> <p>Learners might evaluate by contrasting the relative strengths of several policies.</p>	
	<p>1-2 marks</p> <p>Policies are identified but understanding is not demonstrated.</p>	<p>1-2 marks</p> <p>Limited analysis of how the policies will reduce income inequality. Policy is understood, but learner asserts rather than explains its mechanics.</p>	<p>1-2 marks</p> <p>The learner shows an awareness that policies have limitations and may explain the weaknesses to a limited extent. Only 1 or 2 policies are evaluated, but with limited development, or a wider range is looked at, but evaluation is generic.</p> <p>Answers in this level are likely to have evaluation that is either asserted, or else is very general – not specific to the policies that have been stated.</p>	
0	<p>0 marks</p> <p>No relevant policies identified.</p>	<p>0 marks</p> <p>No developed lines of reasoning.</p>	<p>0 marks</p> <p>Policies are not qualified or discussed.</p>	

Indicative content

Raising incomes of lower income groups

National minimum wage. But only affects a small range of workers, it's not very high, could actually cause unemployment, worsening income inequalities etc.

Income tax changes. Depends on how it is done, but many of the lowest paid workers do not pay much income tax anyway. On the other hand, might create incentives to work.

Tax credits/income guarantees for those in full time work. Used in conjunction with a minimum wage, might prevent unemployment trap, create incentives to work and narrow income inequalities. Could be quite expensive because all relevant workers will be covered. Expensive to administer.

Legislative approaches to discrimination, but difficult to enforce, drive up business costs, therefore putting UK/EU firms at a disadvantage.

Improved benefit system and welfare state to support the poorest members of society. But impact on incentives to work, cost of policies, may require tax increases slowing growth.

Improved education and training. But, long term, government not always best informed about what is appropriate education and training (risk of government failure?).

Credit other appropriate policies to raise the incomes of low income workers.

Reducing the incomes of high earners

Increases in top rate of income tax. But this creates avoidance, evasion and alternatives to income like better fringe benefits. Laffer curve.

Salary caps – top earners can earn no more than a certain amount more than bottom earners in organisations. But might make it difficult to recruit top quality staff, creating problems for the economy in the longer run.

Supply side policies to improve labour mobility and increase competition in higher income jobs – deregulation, policies to reduce occupational geographical mobility of labour.

Inheritance tax increases – if income inequalities persist because of wealth inequalities, could prevent assets being passed on, but hard to prevent avoidance and evasion. Might be viewed as unfair, depending on the level that taxes begin to bite.

Overall

Probably will require a mix of both sets of policies, but in an increasingly internationally mobile labour market, single country approaches to this can be difficult.

Evaluation (AO4) is likely to centre on

- (i) the effectiveness of the policy in reducing income inequalities (policy doesn't work very well) or
- (ii) the possible side effects of the policy meaning that it works but is still undesirable, but both of these are qualified in terms of how serious side effects are or how poorly the policy is likely to work/circumstances in which it might be more or less effective.

Learners might evaluate by contrasting the relative strengths of several policies – e.g. this policy is more appropriate under these circumstances, but this other policy is better under those circumstances, with good analysis as to why this might be the case.

Q.2(a)	Explain, using examples, why some markets may be harder to enter than others.		[10]
Band	AO1 1a		AO3
	6 marks		4 marks
	What are the examples of key barriers to entry in different markets?		Why are the barriers identified hard to overcome?
3	<p>5-6 marks</p> <p>Learner demonstrates good understanding of actual barriers or industries from different sectors. Examples may be broad based to do with types of industry and barrier – precise specific case-studies are not required. For example, when talking about entry costs, learners might talk about the high cost of mobile phone licences, but in-depth knowledge is not required.</p> <p>Examples are given of both easy-to-enter and not so easy to enter markets.</p>		<p>3-4 marks</p> <p>Clear chain of argument that analyses the factors and shows a clear connection between the factors and different types of markets. It is clear why some markets are easier to enter than others – learner explains clearly why barriers might or might not be high.</p>
2	<p>3-4 marks</p> <p>Limited understanding of textbook barriers to entry, but lacks convincing context; answer may explain economies of scale, for example, but be unable to supply convincing situations in which economies of scale are likely to arise.</p> <p>Alternatively, the learner may demonstrate an excellent real-world understanding, but the answer feels anecdotal, lacking depth of explanation as to why the barrier identified is a barrier.</p>		<p>1-2 marks</p> <p>Limited development and analysis with a basic link between the factors and different types of markets. Learner may explain only why some markets are easy or difficult to enter without making the contrast, or they may do both but the level of analysis may not be developed.</p>
1	<p>1-2 marks</p> <p>Learner lists a number of factors/barriers to entry, but does not show understanding of what the barrier really means. Low band answers will not have examples.</p> <p>If examples are given, they may only be demonstrating barriers to entry rather than illustrating relative size of barrier.</p> <p>Examples may be rather superficial, where industries and barriers are used, but it is not made fully clear why the barrier is or is not significant in the context of the industry.</p>		
0	<p>0 marks</p> <p>Relevant factors not identified.</p>		<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

Understanding shown of the meaning of contestability.

Points that could be introduced

- Financial factors
 - economies of scale
 - start-up costs
 - first mover advantage
 - sunk costs
- Strategic factors
 - product differentiation/brand loyalty
 - advertising
- Legal factors
 - intellectual property issues such as patents/copyright
 - licences, etc
- Structural factors
 - vertical integration
- Anti-competitive practices (limit and predatory pricing)

Explanation of how these factors could be significant in some markets (oligopoly/monopoly) and less significant in others (monopolistic competition).

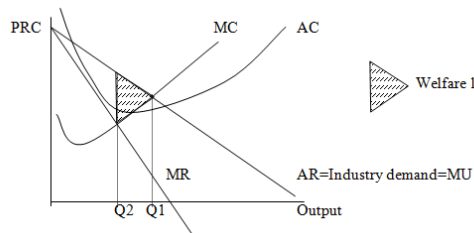
Use of real world examples such as the water industry, aircraft manufacture, banking, hairdressers, restaurants, etc.

Q.2(b)		Discuss the extent to which monopoly markets are economically desirable in developed economies.		[20]
Band	AO1 1ab	AO3	AO4 1ab	
	6 marks	6 marks	8 marks	
	Are there relevant factors identified and exemplified on both sides of the debate?	How good is the theoretical development of the advantages and disadvantages of monopoly?	How good is the judgement of the circumstances under which monopoly might be more or less desirable?	
3	<p>5-6 marks</p> <p>At least 4 points are identified with a clear understanding of how they work, covering both sides of the debate. Points are exemplified in the context of an actual economy, probably using examples at both micro and macro level.</p> <p>Learners construct relevant and accurate diagrams.</p>	<p>5-6 marks</p> <p>At least 4 points are analysed with a clear line of argument linking them to the desirability or undesirability of monopoly. Answers in this level will use appropriate diagrams to support their analysis.</p>	<p>6-8 marks</p> <p>At least 3 points are critically evaluated. Evaluation points are well-explained. There is a very well-developed argument. A well-reasoned conclusion may be included which looks at the circumstances in which monopoly might be more or less desirable.</p>	
2	<p>3-4 marks</p> <p>2 or 3 points are developed with some understanding. Limited examples of how they impact on the real world are present, but these may not be well developed.</p> <p>Learners construct relevant diagrams with some inaccuracies.</p>	<p>3-4 marks</p> <p>At least 2 or 3 points are analysed with a sound explanation of how they show desirable or undesirable outcomes for monopoly. Analysis may lack depth, diagrams may not always be well integrated or completely correct, or key points are missing.</p>	<p>3-5 marks</p> <p>At least 2 points are evaluated with a clear understanding of why monopoly may not always be desirable or undesirable. Answers in this level will tend to qualify arguments (for example, the consumer loses out but ... the market may be inefficient in some ways but ...) without giving an overview of what will make monopoly more or less likely to produce beneficial or undesirable outcomes.</p>	
1	<p>1-2 marks</p> <p>Several advantages and disadvantages of monopoly are identified, demonstrating limited understanding and examples are not present. Diagrams not present or incorrect.</p>	<p>1-2 marks</p> <p>Limited analyses of how monopoly is undesirable. Answer lacks key economic concepts and tends to avoid technical analysis.</p>	<p>1-2 marks</p> <p>A basic attempt to show that monopoly may not always produce desirable or undesirable outcomes. There is some attempt to evaluate points, but evaluation tends to be asserted rather than explained.</p>	
0	<p>0 marks</p> <p>No relevant content.</p>	<p>0 marks</p> <p>No relevant analysis.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>	

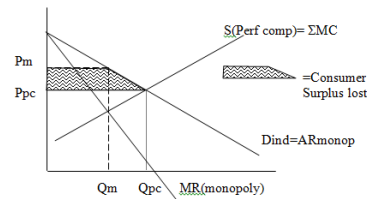
Indicative content

Monopolies have higher prices, lower output and welfare loss compared to competition.
 Monopolies engage in anti-competitive practices (predatory/limit pricing/price discrimination).
 Quality and customer service decline with monopoly.
 Productive and allocative inefficiency.
 Complacency and X-inefficiency.

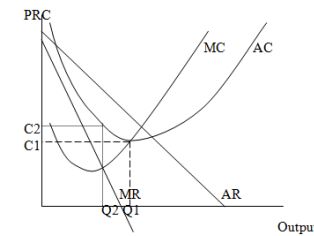
Appropriate diagrams to illustrate X-inefficiency, productive and allocative inefficiency and economies of scale.



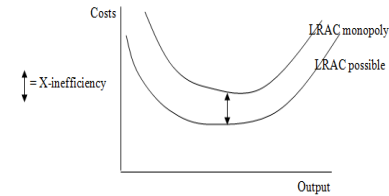
Allocative inefficiency



Loss of consumer surplus



Productive inefficiency



X inefficiency

But

Monopoly desirable because:

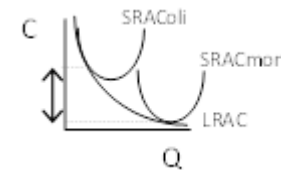
Natural monopoly.

Economies of scale: lower costs leading to lower prices.

High abnormal profits to fund R&D (dynamic efficiency).

National monopolies are needed to compete successfully internationally.

Relevant real world examples.



Econ scale

Overall

Depends on stage/type of monopoly.

Contestability will be important.

Role of shareholders in preventing X inefficiency.

May contrast with other market structures.

May depend on regulation.

Relevant real world examples.

Q.3(a)	Explain why high levels of unemployment might be considered undesirable within an economy.		[10]
Band	AO1 1a	AO3	
	6 marks	4 marks	
	Why does the cost arise?	Why is this undesirable for an economy?	
3	<p>5-6 marks</p> <p>Learner has a good understanding of the major costs of unemployment and has explained clearly why costs may arise from unemployment. A top band response will have a well-developed understanding of 3 or 4 costs of unemployment. A bottom level within this band response will have fewer costs developed, or development of a wider range may not be so full.</p>	<p>3-4 marks</p> <p>Generally there are well-developed lines of reasoning between the cost being identified and the negative impact being shown. There is a logical development of 3 to 4 of the impacts.</p>	
2	<p>3-4 marks</p> <p>Answers in this band will have fewer costs developed than a band 3 answer or development of a wider range may not be so full.</p> <p>Answers in this level are likely to show a good understanding of only 2 main costs of unemployment, although top band answers may also have partial development of another 1 or 2 costs.</p>	<p>1-2 marks</p> <p>Reasoning is generally not well-developed. There is some explanation and development, but this is either superficial or covers only 1 or 2 of the points identified.</p>	
1	<p>1-2 marks</p> <p>Learner can only demonstrate a knowledge of the costs of unemployment and lacks explanatory development. For the top of this band it is likely that 3 to 4 costs of unemployment will have been simply identified.</p> <p>Alternatively learner illustrates a basic understanding of only 2 costs of unemployment.</p>		
0	<p>0 marks</p> <p>No knowledge or understanding present.</p>	<p>0 marks</p> <p>No chains of argument present.</p>	

Indicative content

- High unemployment is Pareto inefficient – economy will be operating inside its PPF, learner might use a diagram to illustrate.
- High unemployment is likely to worsen the fiscal position because tax receipts will fall and benefit expenditure will rise.
- High unemployment is likely to damage firms' profitability, hence damaging funds for innovation and reducing potential growth.
- Persistent high unemployment may create deskilling and worsen the NAIRU/NRU (Hysteresis), hence making it more difficult for an economy to return to high levels of GDP.
- High unemployment widens inequality within society and damages the living standards of those who are unable to find jobs.
- High unemployment has social consequences and has been shown to be correlated with family breakdown, damaged life-chances for the children of unemployed, health issues (putting a strain on health infrastructure) and rising crime.
- Other relevant and well developed points should be credited.

Q.3(b)	Evaluate the most appropriate policies the government could use to reduce unemployment significantly in the UK at the present time. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What is the policy and how does it operate in the context of the UK?	How well is the process through which unemployment will be reduced explained by the learner? What types of unemployment will be affected?	How well is the effectiveness or potential side-effects of the policy judged?
3	<p>5-6 marks</p> <p>At least 3 policies are explained with a clear understanding of how they work.</p> <p>Policies described are linked to the UK economy at the present time.</p>	<p>5-6 marks</p> <p>Policies are well-developed, covering within them the main different types of unemployment. The answer must cover, at the very least, both demand side and supply side unemployment when developing the analysis of policies. At least 3 policies have been well developed – learner has described the policy clearly, shows understanding about how it is supposed to work and why unemployment might be reduced – policies have lines of reasoned argument.</p> <p>High end responses will anchor policies clearly to types of unemployment showing a good understanding of underlying economic theory.</p>	<p>6-8 marks</p> <p>Learner fully evaluates at least 3 policies, pointing out their strengths and weaknesses, perhaps the ways the weaknesses might be overcome or contrasting them with other policies.</p> <p>Evaluation should consider which policies face the biggest obstacles, and this will feed into the final conclusion.</p> <p>The answer is likely to contain a well-reasoned conclusion to the question in which the most appropriate policies (in the context of the UK at the present time) are recommended and defended (most likely to be a package of policies).</p>
2	<p>3-4 marks</p> <p>At least 2 policies are explained in some detail, showing an understanding of how they work.</p> <p>Possibly 3 or more policies have been explained, but some are not clearly relevant to the UK situation at the present time.</p>	<p>3-4 marks</p> <p>Learner develops a range of policies, but these are not always fully understood or are not well linked to different types of unemployment. Learner may well treat unemployed workers as an homogenous group and apply policies to this group in general rather than targeting policies at particular types of unemployment. Answers which look only at supply side or demand side unemployment are unlikely to score more than band 2, unless the learner fully justifies the reason for looking at only one side of the divide e.g. neoclassical approach – cyclical is irrelevant in the long run, Keynesian, it's demand deficient that is the key in the short run – in other words has made a conscious choice to focus the essay in a particular direction.</p>	<p>3-5 marks</p> <p>There is developed evaluation of at least 2 of the policies that are given which shows that the learner understands the policy and its limitations. Evaluation is specific to the policy mentioned and explained in context. Answers in this level will have developed lines of evaluation – hence the evaluation has been analysed.</p> <p>Learner might evaluate by contrasting the relative strengths of several policies – e.g. this policy is more appropriate under these circumstances, but this other policy is better under those circumstances, with good analysis as to why this might be the case.</p>

Q.3(b) (cont)	Evaluate the most appropriate policies the government could use to reduce unemployment significantly in the UK at the present time. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What is the policy and how does it operate in the context of the UK?	How well is the process through which unemployment will be reduced explained by the learner? What types of unemployment will be affected?	How well is the effectiveness or potential side-effects of the policy judged?
1	<p>1-2 marks</p> <p>Policies are identified but understanding of more than 1 policy is not demonstrated. It doesn't matter how many policies are identified, if understanding of what the policy is intended to do is not shown, no more than 1 mark can be awarded.</p>	<p>1-2 marks</p> <p>Policies are outlined and learners show some understanding, but there is only a limited link back to unemployment – there is limited understanding and analysis of why unemployment will be reduced.</p> <p>Policy is understood, but learner asserts rather than explains its mechanics.</p>	<p>1-2 marks</p> <p>Learner shows an awareness that policies have limitations and may explain the weaknesses to a limited extent. Probably only 1 or 2 policies are evaluated, but with limited development, or a wider range are looked at, but evaluation is generic.</p> <p>Answers in this level are likely to have evaluation that is either asserted, or else is very general – not specific to the policies that have been stated. General evaluation points (e.g. time lags) that have been made specific (learner has explained exactly why time lags would be a problem in the case of the policy stated) will be part of a band 2 or 3 answer.</p>
0	<p>0 marks</p> <p>No relevant policies identified.</p>	<p>0 marks</p> <p>No logical chains of reasoning.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>

Indicative content

Demand side solutions

Monetary: cut interest rates/QE: increase C and I, exchange rate falls, exports rise, imports fall. Growth rises, creating jobs.

But: Liquidity trap, failure of market rates to respond, confidence issues, overall existing level of debt, exports may not be price sensitive, QE may be stuck in banking system, falling interest rates cuts interest income, risk of bubble even if it works, etc.

Fiscal: Increase G/cut T: AD expands, multiplier effects therefore jobs are created.

But: High levels of government debt may make this inappropriate due to risks of bond vigilantes, crowding out and increased opportunity cost of debt. Projects may not be shovel ready (HS2 etc.). Tax cuts may not have much effect because of confidence issues/Ricardian equivalence/rational expectations. Time lags. Depends on which areas money is invested into – capital vs. labour intensive areas. Risk of white elephants driving up current spending in the longer term, depends on size of mpc etc.

General evaluation – demand side solutions are unnecessary if product and factor markets are fully flexible because the economy will self-stabilise back to the NAIRU/NRU. Expanding demand will therefore be counter-productive sowing the seeds for another bust (2001-08?).

Supply side solutions

Some of these may be quite small scale and highly varied if learners have studied unemployment policies in other countries; the range of supply side job-creation programmes is quite impressive, so they will have to be marked on their merits. However some broad themes are likely:

- Cuts in employment costs (targeting real wage unemployment): Abolish/reduce minimum wage, reduce TU power, reduce employment protection legislation, reduce administrative costs of employing workers – easier to hire.
 - **But** – costs may not be the issue, side effects on equality, minimum wage doesn't cover that many workers.
- Improve education and training (targeting youth, occupational immobilities and long term unemployment).
 - **But** – long term, government not best equipped to know what employers want, what does 'improve' education really mean, expensive etc.
- Regional policies (aimed at regional immobilities). Improved infrastructure, targeted subsidies and tax breaks, housing market reforms, etc.
 - **But** nothing seems to have worked very well due to the lure of the southeast and London.

- Tax and benefit reform (aimed at frictional and voluntary). Create better information and incentives to work – restrict access to benefits or cut overall levels, cut income tax/increase personal allowance/minimum income guarantees etc. Improve job-centres, use of contracted out employment agencies etc.
 - **But**, some unemployment will always exist regardless of policies, impact on equality and fairness, etc.
- Final conclusion will be likely to weigh up policies in the context of other available policies and the situation facing the UK at the time of the exam (difficult to forecast here).

Q.4(a)	Explain factors which might have caused the decrease in the international competitiveness of UK businesses. [10]	
Band	AO1 1ab	AO3
	6 marks	4 marks
	What are the factors that might affect the UK's international competitiveness?	Why do the factors identified actually reduce competitiveness?
3	<p>5-6 marks</p> <p>Clear reference to how at least 3 factors contributed to a decrease in the international competitiveness of the UK – answers in this level will be clearly referring to problems affecting the UK rather than just any economy.</p> <p>Factors are clearly identified and explained, showing good understanding.</p> <p>Learner shows understanding as well as knowledge.</p>	<p>3-4 marks</p> <p>Clear chain of argument that analyses the factors and shows a clear connection between the factors and competitiveness.</p> <p>Learner has a clear understanding of what international competitiveness might mean and probably links to more than just cost factors (although if cost factors are done in depth, then this band is possible for a well-reasoned argument).</p>
2	<p>3-4 marks</p> <p>Answers in this level will have explained factors impacting on international competitiveness, but may lack either range or context.</p> <p>For example, answers may have only 2 main factors explained, or may have more factors explained, but lack an appreciation of the current situation in the UK.</p>	<p>1-2 marks</p> <p>Limited development and analysis with a basic link between the factors and competitiveness.</p> <p>Learner is likely simply to assume an understanding of competitiveness and relate factors back broadly to this.</p>
1	<p>1-2 marks</p> <p>Limited reference to how the identified factors contributed to a decrease in the international competitiveness of the UK.</p> <p>Answer clearly refers to the sorts of issues affecting developed economies generally, but there is nothing tying it closely to the UK.</p> <p>To get more than 1 mark, learner must show good understanding of at least one factor. Other points are identified but not developed.</p>	
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>

Indicative content

- Lower level of productivity, widening productivity gap with most of G7.
- Higher unit labour costs, both wage and non-wage could be a factor.
- Rise in/high domestic inflation rate relative to those of international competitors.
- Decline in non-price factors affecting competitiveness, i.e. lower investment, poor R & D, lower skills etc. leading to a decline in quality, design, technological standards etc. These may be counted as separate factors if explained separately. UK's poor record on investment and numeracy skills might be a factor here.
- Improved quality/design/price of competitor countries.
- Rise in the exchange rate, especially against the euro and dollar, because they are major trading partners.
- Protectionist policies by other countries.

Any other relevant factors should be credited.

Anecdotal examples of the sorts of issues that face specific industries are likely to enhance the quality of answers.

4 (b)	Evaluate strategies which may be used by the government to improve the competitiveness of UK businesses.			[20]
Band	AO1 1abc	AO3	AO4 1ab	
	6 marks	6 marks	8 marks	
	What are the strategies to be used and how will they be relevant to UK competitiveness?	How well explained is the process through which the strategy will operate to increase competitiveness?	How good is the judgement of why the strategies might be ineffective or have undesirable side effects? Why might some strategies be more effective than others?	
3	<p>5-6 marks</p> <p>At least 3 strategies are well developed with a clear understanding of their link to the competitiveness of the UK economy. Answers in this band will have policies that are clearly UK focused, or will be targeted at UK outcomes. Not just policies to improve competitiveness.</p> <p>Strategies are identified with a clear understanding of how they work.</p>	<p>5-6 marks</p> <p>At least 3 strategies are analysed with a clear line of argument linking it to the improvement of competitiveness. In-depth understanding of how competitiveness will be improved, how precisely the policy is supposed to work and what problem is to be overcome.</p>	<p>6-8 marks</p> <p>At least 3 strategies are critically evaluated, considering how serious the weaknesses really are and the extent to which they might be overcome.</p> <p>Evaluation points are well-explained looking at how problematic objections are – a sense of which strategies are likely to be the most effective.</p> <p>A well-reasoned conclusion is likely to be included in which the most appropriate strategies are recommended and defended.</p>	
2	<p>3-4 marks</p> <p>At least 2 strategies are developed with limited understanding of their link to competitiveness of UK businesses.</p>	<p>3-4 marks</p> <p>At least 2 strategies are analysed with a sound explanation of how the strategies will affect competitiveness. There is a clear link between the strategy and UK competitiveness but details of how the strategy will work are missing, or it is not always made clear how competitiveness will be improved.</p>	<p>3-5 marks</p> <p>There is developed evaluation of at least 2 of the strategies, which show that the learner understands the policy and its limitations. In other words, evaluation is specific to the policy mentioned and explained in context. Answers in this band will have developed lines of evaluation – hence evaluation has been analysed.</p> <p>Evaluation is likely to centre on the effectiveness of the strategy, or possibly on its side effects.</p> <p>Conclusion will have limited or no support.</p>	
1	<p>1-2 marks</p> <p>One limited or unclear application to competitiveness. Policies may be appropriate, but they are not well linked to the UK situation, or understanding of the strategies is not clearly demonstrated.</p>	<p>1-2 marks</p> <p>Limited analyses of how the strategies will affect competitiveness. Strategy is understood, but learner asserts rather than explains its mechanics.</p>	<p>1-2 marks</p> <p>The answer shows an awareness that strategies have limitations and may explain the weaknesses to a limited extent. Probably only 1 or 2 strategies are evaluated with limited development, or a wider range are looked at, but evaluation is generic.</p>	
0	<p>0 marks</p> <p>Appropriate strategies are not identified.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Strategies are not qualified or discussed.</p>	

Indicative content

- Depreciate the exchange rate to decrease export prices.
 - **But**, this will not deal with the underlying causes of a lack of competitiveness.
- Education and training programmes to increase skill levels.
 - **But**, these are very costly and will take time to take effect and there is the potential for government failure.
- Improvements in transport/communications infrastructure.
 - **But**, these are costly and take time to take effect. Using private capital has its problems (PFI).
- Tax breaks for investment/R & D programmes/patent development.
 - **But**, schemes need to be well crafted to work and not be subject to abuse. They can also conflict with EU regulations.
- Macroeconomic stability (low stable inflation/low government debt).
 - **But**, external and political factors make these difficult to achieve.
- Attract FDI
 - **But**, foreign firms take their profits out of the country and may have little loyalty to the location.
- Increase productivity.
 - **But**, requires spending on training and new investment which is costly for firms. New working practices/redundancies can run into trade union opposition.
- Efficient goods and factor markets/banking and financial sector.
 - **But**, potential for failure unless the policy framework is robust.

Evaluation will focus on the limitations of the above policies qualifying their importance in increasing the level of competitiveness. Learners may focus on which strategies are most important particularly in relation to the relative importance of price and non-price competitiveness.

The best learners will examine the role of businesses in improving competitiveness and that it cannot all be achieved by the government.

Q.5(a)	Explain, with examples, why having significant amounts of natural resources can damage the economic development of a country. [10]	
Band	AO1 1abc	AO3
	6 marks	4 marks
	What are the key issues with having significant amounts of natural resources?	Why is economic development damaged?
3	<p>5-6 marks</p> <p>Learner has a good understanding of the major issues facing LEDCs with large amounts of resources. They have explained clearly why the presence of resources is actually problematic.</p> <p>At least 3 separate issues are identified and developed.</p> <p>Learner has applied the points that they made to specific examples and scenarios. Often named countries will be used with details that show that the problem has been contextualised, or perhaps countries facing similar problems have been grouped together, but again the learner explains clearly why the problem applies to them.</p> <p>Bottom level responses may have well-developed factors but weaker examples or good examples with a narrower range of factors.</p>	<p>3-4 marks</p> <p>Generally there are well-developed lines of reasoning between the problem being identified and the impact on economic development being shown. There is a logical development of how at least 2 of the issues impact on the economy.</p> <p>This need not be in context. A good theoretical development is enough.</p>
2	<p>3-4 marks</p> <p>Answers in this band have explained factors dealing with the problems stemming from an abundance of natural resources, but may lack either range or context.</p> <p>At least 2 separate issues are identified and explained, or may have more factors explained, but lack convincing examples of situations in which abundant natural resources have been problematic.</p>	<p>1-2 marks</p> <p>Reasoning is generally not well-developed. There is basic explanation and development, of at least 1 issue and how it impacts on the economy.</p> <p>This need not be in context. Theoretical development is enough.</p>
1	<p>1-2 marks</p> <p>Learner can only demonstrate a knowledge of the problems faced and lacks detailed explanatory development of at least 1 issue.</p> <p>Answers in this level may have dealt with a wide range of issues, but not really demonstrated an understanding as to why they actually cause problems, or may have developed only 1 main issue.</p> <p>Learner has some examples, but these are not generally well developed. At the bottom of the band, there may only be scattered examples ("e.g. x").</p>	
0	<p>0 marks</p> <p>No key issues identified and no convincing examples are used.</p>	<p>0 marks</p> <p>No chains of argument present.</p>

Indicative content

Possible problems include:

Risk of over-specialisation in primary products which may

- Create disincentives to invest in education at both a state and individual level.
- Create import dependency making the country vulnerable to exogenous shocks.

Price and supply volatility (can be explained with a supply and demand diagram illustrating low PED and PES and volatile S and D due to weather and speculation). This may

- Deter FDI.
- Impact on government tax receipts making it harder to fund infrastructure projects.

Risk of Dutch Disease. Countries dependent on a narrow range of resources find that inward investment into those sectors (most often minerals) together with demand for the final product drives up the exchange rate, making other sectors uncompetitive and therefore narrowing the economy's industrial base.

Risk of Resource Curse. Most common in high value minerals and oil. The high value of these products and the ease with which production can be controlled can create a number of issues, such as;

- Political instability as different groups vie for control of the resource – hence military coups and unstable government which then deter I and FDI.
- Separation of the political elite from the population as a whole – the government is not dependent on the population for tax revenue, and hence may become less responsive to them.
- Corruption – high levels of wealth can be concentrated in the hands of a few, meaning that resources may not be used to the best advantage of the country as a whole.
- Production may be concentrated in the hands of foreign multinationals, which may or may not be beneficial to the population as a whole (repatriation of profit, etc.).

Q.5(b)	To what extent is encouraging inward foreign direct investment (FDI) the most appropriate policy for countries aiming to increase their level of economic development?			[20]
Band	AO1 1abc	AO3	AO4 1ab	
	6 marks	6 marks	8 marks	
	What understanding is there of FDI and how it might help overcome an obstacle and what examples are there?	How well explained is the theoretical link between FDI and economic development?	How well judged are the circumstances under which FDI might be more or less likely to assist in economic development?	
3	<p>5-6 marks</p> <p>Learner clearly understands that FDI is different from simply buying shares/portfolio investments. FDI involves setting up subsidiaries, creating joint ventures or acquiring a majority shareholding in an overseas business with the intention of operating it.</p> <p>Learner understands at least 4 clear ways in which FDI might help to improve economic development in LEDCs.</p> <p>Learner has applied the points that they made to specific examples and scenarios. Often named countries will be used with details that show that the problem has been contextualised, or perhaps countries facing similar problems have been grouped together, but again the learner explains clearly why the problem applies to these countries.</p>	<p>5-6 marks</p> <p>The links between FDI and economic development are well-developed, and at least 4 main issues have been developed (probably more), in-depth of analysis is the key here.</p> <p>Answers in this band are well-developed as to how FDI might or might not create economic development.</p> <p>Learner has an in-depth understanding of the advantages and disadvantages of FDI and gives good explanations to the links to economic development.</p>	<p>6-8 marks</p> <p>Learner comes to a clear judgement about the circumstances in which FDI might be beneficial to economic development and puts it into context. Answers in this band will have a broad range of examples on both sides of the debate and the answer will use these to draw out the principles behind whether or not FDI will be likely to create economic development.</p> <p>The answer is likely to contain a well-reasoned conclusion to the question to which extent FDI can contribute to economic development.</p>	

Q.5(b) (cont)	To what extent is encouraging inward foreign direct investment (FDI) the most appropriate policy for countries aiming to increase their level of economic development? [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What understanding is there of FDI and how it might help overcome an obstacle and what examples are there?	How well explained is the theoretical link between FDI and economic development?	How well judged are the circumstances under which FDI might be more or less likely to assist in economic development?
2	<p>3-4 marks</p> <p>Learner understands 2 or 3 ways in which FDI might help to improve economic development.</p> <p>FDI is not consistently linked to specific country examples.</p> <p>Either the links are not fully developed, or some are well-developed, but only sporadically.</p> <p>Generally the answer is in context.</p>	<p>3-4 marks</p> <p>The links between FDI and economic development are well-developed, but the development may be uneven, with some well-developed ideas and others where the development is more limited.</p> <p>Learner has a good understanding of the advantages and disadvantages of FDI, but may not always explain the links clearly to economic development.</p>	<p>3-5 marks</p> <p>There is developed evaluation of most of the factors that have been identified which shows that the learner understands the impact of FDI and the extent to which the factor will always apply. Evaluation is specific to the factor mentioned and explained in context. Answers in this level will have developed lines of evaluation – hence the evaluation has been analysed.</p> <p>Learner might evaluate by contrasting the relative strengths of positive and negative aspects of FDI, but band 2 evaluation is not just good points, bad points or advantages/disadvantages.</p>

Q.5(b) (cont)	To what extent is encouraging inward foreign direct investment (FDI) the most appropriate policy for countries aiming to increase their level of economic development? [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	What understanding is there of FDI and how it might help overcome an obstacle and what examples are there?	How well explained is the theoretical link between FDI and economic development?	How well judged are the circumstances under which FDI might be more or less likely to assist in economic development?
1	<p>1-2 marks</p> <p>Learner only has knowledge rather than understanding of ways in which FDI might help to deal with obstacles. At most 1 way has been explained. Or Learner does not really understand what FDI is, but has some relevant points.</p> <p>Examples are likely to be superficial and scattered ("eg x").</p>	<p>1-2 marks</p> <p>Policies are outlined and learners show basic understanding, but there is limited or no linkage to economic development; the answer is more the advantages and disadvantages of FDI than whether or not it will increase growth and development.</p>	<p>1-2 marks</p> <p>Learner shows an awareness that FDI has limitations and may explain the weaknesses to a limited extent. Probably only 1 or 2 of the benefits are evaluated, but with limited development, or a wider range are looked at, but evaluation is generic.</p> <p>Alternatively, the learner's main line may be that FDI is not very helpful at all, but will show an awareness that this may not always be so, again development is limited, often without country specific examples.</p> <p>Answers in this level are likely to have evaluation that is either asserted, or else is very general – not specific to countries and scenarios. General evaluation points that have been made specific (perhaps through the use of a short case study) will be part of a level 2 or 3 answer.</p>
0	<p>0 marks</p> <p>Learner briefly identifies only 1 or 2 ways in which FDI might help.</p>	<p>0 marks</p> <p>No logical chains of reasoning.</p>	<p>0 marks</p> <p>No relevant evaluation.</p>

Indicative content

FDI allows funds to come in from abroad hence overcoming problems with low domestic savings and investment.

FDI may create jobs, increasing incomes locally, increasing the government's tax base and build regional multiplier effects amongst possible suppliers.

However, in some sectors jobs may be destroyed and supply bases may actually not be within the local economy. Sometimes jobs may not be created at all (firms employing staff from their home nation), or the jobs that are created may be low skilled.

FDI may allow specialist skills to be harnessed, allowing resources to be utilised more efficiently (e.g. high pressure, variable temperature drilling in oil and gas). This expertise (which may include management skills) may then be disseminated more widely throughout the economy. This will be especially the case if there are joint ventures between MNCs and local firms.

But commercial secrecy, IP rights and so on may mean that these benefits are not so great.

In some cases multinationals may build infrastructure to go with their investment (notably China in Africa), which can have major external benefits for other businesses, the health sector and so on.

But the quality of this investment has been questioned in a number of cases.

MNCs may bring technology that might not otherwise be available to the country.

But

MNCs may actually encourage primary product dependency and some of the other issues listed in part (a).

MNCs may actively support corrupt regimes.

MNCs may have very poor pay and working conditions (although how much poorer than existing domestic firms is open to question).

Profits may be repatriated, reducing the benefits to the economy as a whole and the tax base.

Competition may drive local businesses in the same sector to the wall.

Economy may become dependent on MNCs, which may in any case be internationally footloose, hence creating significant problems were they to leave (or threaten to leave) – governments may be exploited.

Environmental issues – MNCs may be far less concerned about external costs in countries other than their own, and may put pressure on government to relax standards (or not impose legislation).

Overall evaluation

May depend on the current stage of development of the LEDC – not all MNCs will want to go to the world's least economically developed countries and in any case may not be able to control MNCs adequately so as to get the most out of them.

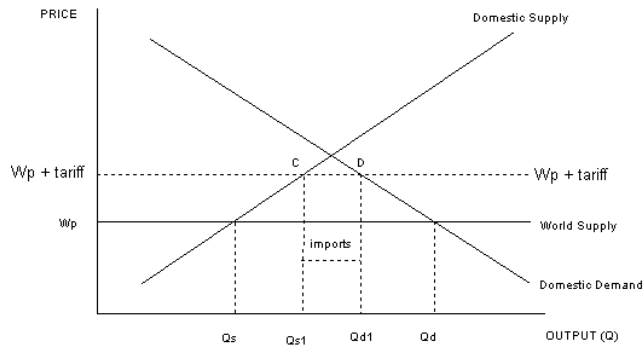
FDI is likely to be at best a partial solution, and its effectiveness will depend on the other policies that are in place.

Much will depend on the nature of the FDI and the intentions of the firms that are investing.

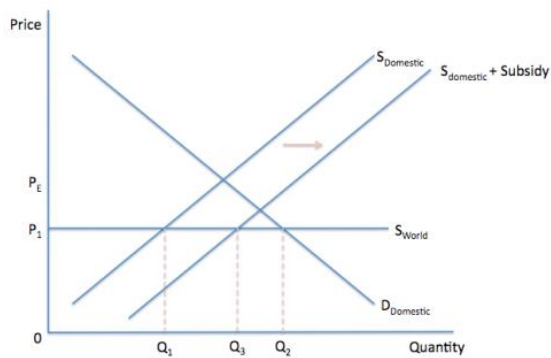
Q.6(a)	Using diagrams explain measures a country such as the US could introduce to reduce its current account deficit.		[10]
Band	AO1 1ac	AO3	
	6 marks	4 marks	
	What is meant by a current account deficit and how can it be reduced?	How do the policies work to reduce the deficit?	
3	<p>5-6 marks</p> <p>Learner draws at least 2 appropriate diagrams to illustrate the points that they are trying to make.</p> <p>Learner also clearly understands at least 2 or 3 ways in which it might be reduced. Definition is not required.</p> <p>Bottom band answers are likely to lack a little in either range or depth.</p>	<p>3-4 marks</p> <p>Clear chain of argument that analyses the measures and shows a clear connection between the measures and a reduction in the current account deficit. Learner deals directly with both imports and exports.</p>	
2	<p>3-4 marks</p> <p>Responses in this band may have flawed diagrams but good understanding of measures, or good diagrams, but more limited understanding shown.</p>	<p>1-2 marks</p> <p>Limited development and analysis with a basic link between the measures and the current account deficit.</p>	
1	<p>1-2 marks</p> <p>Learner draws only 1 good diagram or 2 diagrams which are flawed in significant ways.</p> <p>Learner fails to demonstrate good understanding of at least 2 ways in which it might be reduced.</p>		
0	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	<p>0 marks</p> <p>Response not credit worthy or not attempted.</p>	

Indicative content

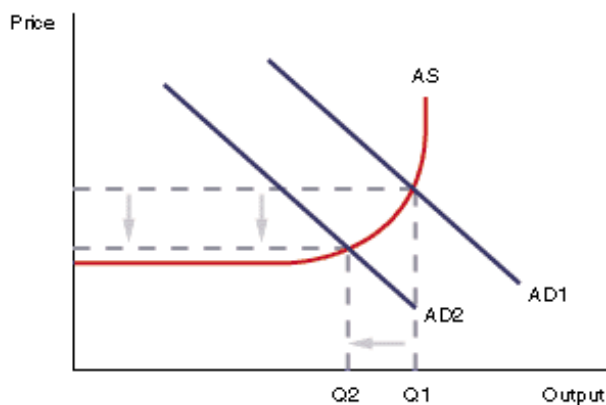
- Tariffs could be imposed to drive up the final price of imports.



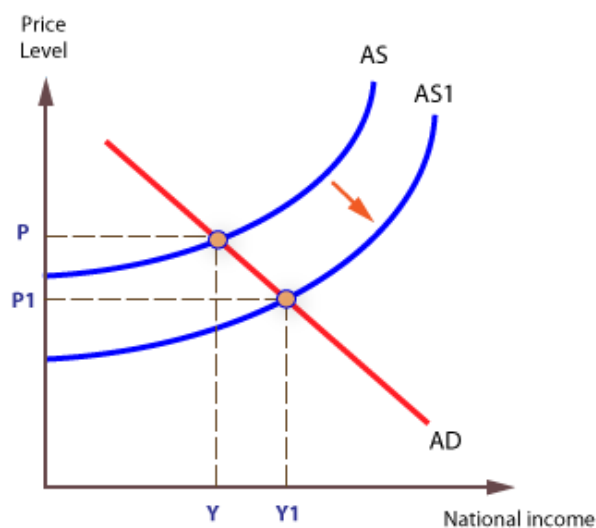
- Quotas by volume, value or market share.
- Non-price protectionism in the form of regulations, bureaucracy, technical specifications, etc.
- Subsidies to domestic producers/exporters.



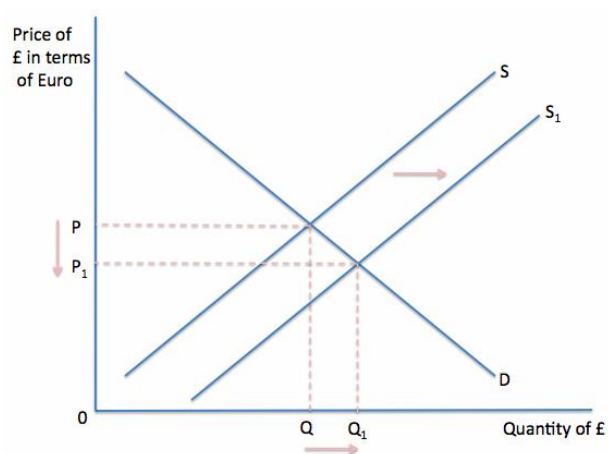
- Higher income tax rates, reduced government spending, reducing total demand in the economy, hence reducing imports.



- Supply side policies to boost the productivity of domestic firms and exporters.



- Devaluation of the exchange rate, currency wars by increasing the supply of domestic currency onto the forex market.



- Other plausible policies should be credited.

Q.6(b)	Discuss whether a country should always try to reduce a deficit on the current account of its balance of payments. [20]		
Band	AO1 1abc	AO3	AO4 1ab
	6 marks	6 marks	8 marks
	Does the learner know whether a current account deficit might be good or bad?	Learner can explain in detail why a deficit might or might not be a good thing and can explain why a country might or might not try to reduce it.	How good is the judgement of whether a government should attempt to reduce a current account deficit?
3	5-6 marks At least 4 issues are identified to do with the extent to which a current account deficit might or might not be a good or a bad thing.	5-6 marks Learner has a clear line of argument on both sides of the case which argues not just that a current account deficit might or might not be a bad thing, but also makes it clear whether a country should try to reduce it. It is likely that there will be 4 key lines of argument, all of which are tightly related back to the question set.	6-8 marks Learner comes to a clear view as to the circumstances under which a current account deficit will or will not be problematic and whether or not it will be appropriate to reduce it. Alternatively, evaluation may focus on which policy is used – whether we should reduce a deficit may depend on what tools are available. All points are well-developed.
2	3-4 marks At least 2 or 3 appropriate issues are identified with the learner showing that they understand what the point means.	3-4 marks Answer may be one sided, mainly arguing that current account deficits are or are not a problem. It is likely that there will be at least 2 lines of argument. Alternatively learner may have a good idea as to why current account deficits might be a problem, but does not make the further step to argue whether or not it is important to deal with them.	3-5 marks Answers in this band will have qualified arguments ('but it depends on ...') but have not discussed the circumstances under which it would be more or less sensible to try to reduce the deficit. Hence points have been well-evaluated, but the learner has not judged the issue at hand.
1	1-2 marks 1 or 2 points are identified, or a wider range of points where it does not seem clear that the learner understands the link to the current account.	1-2 marks Limited analysis of how a current account deficit has problems. Learner focuses on the advantages and disadvantages of current account deficits rather than linking back to why they need to be dealt with (or not). At least 1 line of argument.	1-2 marks A basic attempt to show that a current account deficit may not always produce undesirable outcomes. Points are qualified to a limited extent, but there is little depth of explanation.
0	0 marks Response not credit worthy or not attempted.	0 marks Response not credit worthy or not attempted.	0 marks Response not credit worthy or not attempted.

Indicative content

Current account deficits can be problematic:

- Current account deficits are a concern as they can lead to lower AD and loss of employment.
- Current account deficits indicate a lack of price and/or non-price competitiveness.
- Explanation of the processes showing how unemployment can rise and GDP fall as a result of a current account deficit.
- Danger of surplus on the financial account leads to a high proportion of assets owned by foreigners.
- Danger of loss of foreign exchange reserves/IMF intervention.
- Collapse of the exchange rate/capital flight.

But

- Can allow higher short term living standards, consume outside PPF.
- Size (% of GDP) and persistence of the deficit.
- Structural or cyclical.
- Components of the deficit matter – it may be mainly capital goods, promoting long term growth.

Evaluation

- A floating exchange rate will self-correct any current account deficit (could mention J-curve and Marshall-Lerner).
- Deficit on the current account will be balanced by a surplus on the financial account, so much will depend on the nature of this surplus – could be central bank purchases of foreign exchange, short term inflows into banks, shares and property or longer term flows in the form of FDI, and each will have different impacts.
- Depends on how the deficit is reduced and on its original cause.

MAPPING GRID OF ASSESSMENT OBJECTIVES

Question	ASSESSMENT OBJECTIVES					Quantitative skills marks
	AO1 marks	AO2 marks	AO3 marks	AO4 marks	Total marks	
COMPONENT 1: Economic Principles						
Multiple choice Questions 4, 5, 6, 8, 10,12, 13, 14, 16, 17, 19	11 1a – 9 1b – 1 1c – 1	0	0	0	11	4,12,19 3 marks
Multiple choice Questions 1, 2, 3, 7, 9, 11, 15, 18, 20	0	9 1a – 5 1b – 2 1c – 2	0	0	9	1, 2, 7, 9, 10 11, 15, 18 8 marks
21	2 1c	2 1c	2	0	6	4
22	2 1a	2 1a	0	0	4	4
23	0	2 1a	2	4 1abc	8	2
24	0	2 1a	2	2 1abc	6	4
25	0	2 1a	2	4 1ab	8	2
26	0	2 1c	2	4 1abc	8	4
Total	15	21	10	14	60	31
COMPONENT 2: Exploring Economic Behaviour						
1 (a)	0	2 1a	0	0	2	2
1 (b)	2 1b	2 1b	2	0	6	6
1 (c)	2 1a	2 1a	2	2 1abc	8	0
1 (d)	0	4 1b	4	4 1abc	12	0
1 (e)	0	4 1c	4	4 1abc	12	0
2 (a) (i)	2 1a	0	0	0	2	2
2 (a) (ii)	2 1a	0	0	0	2	2
2 (b)	2 1a	2 1a	2	0	6	0
2 (c)	0	2 1a	4	2 1ab	8	8
2 (d)	0	4 1ac	2	4 1ab	10	0
2 (e)	0	4 1ac	4	4 1abc	12	0
Total	10	26	24	20	80	20
COMPONENT 3: Evaluating Economic Models and Policies						
1 (a)	6 1a	0	4	0	10	0
1 (b)	6 1abc	0	6	8 1ab	20	0
2 (a)	6 1a	0	4	0	10	0
2 (b)	6 1ab	0	6	8 1ab	20	0
3 (a)	6 1a	0	4	0	10	0
3 (b)	6 1abc	0	6	8 1ab	20	0
4 (a)	6 1ab	0	4	0	10	0
4 (b)	6 1abc	0	6	8 1ab	20	0
5 (a)	6 1abc	0	4	0	10	0
5 (b)	6 1abc	0	6	8 1ab	20	0
6 (a)	6 1ac	0	4	0	10	0
6 (b)	6 1abc	0	6	8 1ab	20	0
Total per essay	12	0	10	8	30	0
Total	36	0	30	24	90	0
Total marks per series	61	47	64	58	230	51
Total marks as %	27%	20%	28%	25%	100%	22%
AO% range	26-28%	20-22%	26-28%	24-26%	100%	Min 20%

MAPPING GRID OF CONTENT COVERAGE

Specification Content	Component 1	Component 2	Component 3
Scarcity, choice & opportunity cost	1		
PPFs	1		
Specialisation, division of labour & exchange		2(d)	
Factors influencing demand & supply in product markets	3, 4, 21		
The determination of equilibrium price & output in a freely competitive market	3, 21		
Consumer & producer surplus	4,		
Price, income & cross price elasticities of demand, price elasticity of supply	2, 21		
Wage determination			1 (a)
Labour market issues	12		1 (b)
How resources are allocated in a free market economy			
Costs, revenues & profits	5, 6, 7, 11, 22	1 (b) 1 (e)	2 (a)
The growth of firms		1 (d)	
Efficiency		1 (d)	4 (a)
Background to market structures			2 (a)
Business objectives			
Perfect competition	5		2 (a)
Monopolistic competition	5, 22		2 (a)
Monopoly	5		2 (a) 2 (b)
Oligopoly		1 (c) 1 (e)	2 (a)
Competition policy		1 (d)	
Privatisation			
Understanding market failure	8, 23		1 (b)
Why & how governments intervene in markets	23		
The effects of government intervention	23		1 (b)
The circular flow of income model			
Components of AD	24		
The AD function	16		
The AS function	16		4(a)
SRAS	9		4 (a)
LRAS		2 (e)	4 (a)
AD/AS analysis	9	2 (c) 2 (d) 2 (e)	
The short run Phillips curve			
The long run Phillips curve	10		
Government policy & objectives	26		4 (a)
Economic growth		2 (c) 2(e)	
Unemployment	17		3 (a) 3 (b)
Inflation & deflation	15	2 (b) 2(c)	
The balance of payments			6 (a) 6(b)
Control of the national (public sector) debt		2 (e)	
Fiscal policy	24	2 (e)	3 (b) 4(b)
Monetary policy	20, 26	2(b) 2 (e)	3 (b)
Exchange rates & exchange rate policy	18	2 (a)(i)(ii)	4 (b) 6 (a)
Supply side policies	10, 24	2 (d) 2 (e)	3 (b) 4(b) 6(a)
International trade	19	2 (d)	6(a)
Non-UK economies	24	2 (d) 2(e)	
Economic development	13, 14 25		5(a) 5(b)