

Mark Scheme (Results)

Summer 2016

Pearson Edexcel International
Advanced Subsidiary
in Economics (WEC04)
Paper 01 Developments in the Global
Economy

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question Number	Answer	Mark
1 (a)	<ul style="list-style-type: none"> • Understanding of world trade patterns • Understanding of the emerging and the developing economies / rapidly growing economies (e.g. China, India, other SE Asian nations, many of the Sub-Saharan economies etc.) <p>Possible impacts could include:</p> <ul style="list-style-type: none"> • Changes in the countries that are net exporters and net importers as these countries run trade surpluses, and perhaps more developed countries run trade deficits • Rapidly growing economies in Asia tend to produce and export manufactured goods (secondary sector), whereas those in Sub-Saharan Africa have tendency to produce and export primary products • More developed economies respond by specialising more in high-tech secondary sector, tertiary and quaternary sector goods and services • More developed economies tend to move to importing more goods and exporting more services • an increase in overall size of trade flows • an increase in proportion of world trade conducted by developing / emerging economies; • an increase in trade deficits and surpluses for individual countries; • an increase in investment flows to and from developing/emerging countries. <p><i>Evaluative comments could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of impacts</i> • <i>Different impacts more or less important for different rapidly growing economies</i> • <i>SR vs LR distinction between likely impact</i> • <i>There are some exceptions to the above generalisations, and different regions of countries may vary</i> 	(15)

Question Number	Answer	Mark
1 (b)	<ul style="list-style-type: none"> • Understanding of specialisation (on macro scale) <p>Possible benefits could include:</p> <ul style="list-style-type: none"> • If specialisation is according to the law of comparative advantage, trade will allow economies to access points outside their PPFs <ul style="list-style-type: none"> ◦ Diagrammatic or mathematical illustration of the Law of Comparative Advantage • Increased economies of scale results in lower LRAC for a country, leading to increased international competitiveness • Lower prices for goods and services, leading to lower global inflation rates (welfare gain through trade) • To the extent that this leads to more international trade, this may improve a country's trade balance, and generate economic growth and employment <p><i>Evaluative comments could include:</i></p> <ul style="list-style-type: none"> • <i>Prioritisation of benefits</i> • <i>Weaknesses in the comparative advantage model; e.g. ignores transport costs</i> • <i>Increased vulnerability to external shocks (e.g. changes in commodity prices)</i> • <i>If the countries are specialising in primary products, the Singer-Prebisch Hypothesis implies that terms of trade in LR will fall</i> • <i>Discussion of the extent to which whole countries can specialise</i> • <i>Benefits might depend on whether it is a developing or developed economy, and hence what it is specialising in</i> • <i>Danger of structural unemployment</i> • <i>Over-dependency on imports of other products; countries may lack finance to pay for imports e.g. foreign currency gap</i> • <i>Possibility of deteriorating terms of trade for some countries</i> • <i>Trade will only mutually benefit China and India after specialisation if terms of trade lies between two opportunity cost ratios</i> <p>NB Award maximum of 20 marks (Level 4) if a candidate does not refer to a country or countries in their response.</p>	(25)

Question Number	Answer	Mark
2 (a)	<ul style="list-style-type: none"> • Understanding of fair trade schemes <p>Possible benefits could include:</p> <ul style="list-style-type: none"> • Higher prices paid to coffee producers: increasing their average incomes and standard of living, and reducing rates of absolute poverty • Minimum order quantities and minimum prices agreed in advance: give producers more confidence and leading to increased investment • Enforcement/education as to more ethical production methods, e.g. no child labour, leading to more schooling / much higher standards of living or development • If the fair trade premium is spent by the community on any chosen community project, it might improve the standards of human capital, technology, infrastructure. This would lead to higher levels of human development for these communities • Fewer negative production externalities as less damage to the environment will occur through producing coffee beans • Producers receive quicker payment for their produce • Sustainable production techniques/organic farming methods • An increase in employment and reduction in extreme poverty • Fair trade premium can help farmers to diversify e.g. into tourism or move up value chain. <p><i>Possible evaluative comments could include:</i></p> <ul style="list-style-type: none"> • <i>Coffee is only one of the products the countries produce, therefore any effect may not be that significant</i> • <i>The effect depends on how much of the extra money paid by the end consumer reaches the farmers; much may be kept by the retailer</i> • <i>Could create a dependency culture as the farmers become dependent on the extra earnings received from the fair trade scheme</i> • <i>The cooperatives incur certification and inspection fees, and costs in meeting the fair trade political standards, while the</i> 	

	<p><i>farmers incur additional production costs, e.g. not using GM crops</i></p> <ul style="list-style-type: none"> • <i>Farmers are often unable to sell all of their harvest as fair trade certified</i> • <i>Fair trade farmers forced to sell through monopsonist cooperative, which may be inefficient or corrupt; they cannot choose the buyer who offers the best price</i> • <i>In order to join fair trade, cooperatives must meet quality and political standards which means farmers must be relatively skilful, educated and rich. This may lead to exclusion of the poorest farmers from the scheme who then find it hard to find markets for their produce if supermarkets increasingly only stock fair trade coffee</i> • <i>Corruption within cooperatives may limit the positive impact of fair trade</i> • <i>If fair trade farmers are paid higher prices and given advice on better techniques, it will lead to increased supply being sold on the global market. As demand for coffee is highly price inelastic an increase in supply means large fall in market price, so while a minority of fair trade farmers get higher price, far more receive a lower price.</i> 	<p>(15)</p>
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Question Number	Answer	Mark
<p>2 (b)</p>	<ul style="list-style-type: none"> • Understanding of free trade area <p>Likely effects of joining COMESA could include:</p> <ul style="list-style-type: none"> • Reduction in trade barriers with the other member countries, leading to increased trade between Ethiopia, Uganda and the other members • If net exports increase, this leads to an increase in aggregate demand, and likely economic growth and development • Jobs may be created in export industries, leading to higher average incomes • Growth leads to an improvement in government finances, which could be spent on the population • Increased variety of products available for consumers in the countries, leading to a higher standard of living 	

	<ul style="list-style-type: none"> • More competition from foreign firms forces Ugandan and Ethiopian firms to become allocatively and productively efficient • Ethiopia and Uganda may see a rise in inward FDI • Lower price of imports from member countries, may increase consumers' purchasing power and consumer surplus. Firms who import raw materials will experience a fall in production costs • More economies of scale available to the Ethiopian and Ugandan firms as they can sell to a larger market • Possible trade creation – increased specialisation according to comparative advantage across the whole trade bloc, leading to higher production • Membership might bring improvements in government, the rule of law and state institutions. This aids development and reduces barriers to development <p><i>Possible evaluation points could include:</i></p> <ul style="list-style-type: none"> • <i>It depends on which economies increased trade is with. Neighbours in COMESA are likely to be poor countries, producing few similar goods, reducing its effectiveness</i> • <i>It depends on what trade is in: increased production of raw, unprocessed primary products may not be so beneficial</i> • <i>The gains will depend on what proportion of trade, for Ethiopia and Uganda, will be within COMESA compared to the rest of the world after joining</i> • <i>Gains from free trade may be limited due to weaknesses of the law of comparative advantage model</i> • <i>May cause a rise in imports relative to exports</i> • <i>Trade may create economic growth, but this is not the same as development</i> • <i>Infant industries in Ethiopia and Uganda may be out-competed by the established firms in other member countries</i> • <i>Possible trade diversion</i> • <i>SR vs LR effects</i> <p>Candidates may take positive effects as KAA and negative effects as EV (and vice versa)</p>	(25)
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Question Number	Answer	Mark
3 (a)	<ul style="list-style-type: none"> • Understanding of public expenditure <p>Possible reasons could include:</p> <ul style="list-style-type: none"> • Changes in level of GDP: during periods of economic downturn, public expenditure as a proportion of GDP would increase, even if it stayed the same or declined at slower rate than GDP • Automatic stabilisers: when GDP falls, the public expenditure is expected to rise, as more people become eligible for means-tested and unemployment benefits • Discretionary fiscal policy: government may decide to spend more on a specific area, e.g. education or healthcare • Ageing population: may require greater public spending, for example on state pensions, healthcare and social care • Increase in size of the population: puts pressure on public services • Increased expectations: populations may expect a higher standard of healthcare or education - these things may be normal or luxury goods (income elastic) • Increased interest payments: as national debt accrues, governments have to make higher interest payments on their debt • Global financial crisis: may have had to bail-out banks • Changes in ideological view about role of state vs role of the market in an economy • Rise in the tax base (reducing tax evasion and avoidance) allowing greater spending as a proportion of GDP <p><i>Possible evaluation points could include:</i></p> <ul style="list-style-type: none"> • <i>Changes in level of GDP would explain SR changes only, as when the economic cycle changes, country could face reverse effect</i> • <i>Ageing populations imply less spending is required on education and healthcare for children; falling spending in other areas</i> • <i>Interest payments depend on the interest rate as well as the amount owing. This is determined by additional factors</i> • <i>Reasons vary from country to country and at different points in time</i> 	(15)

Question Number	Answer	Mark
3 (b)	<ul style="list-style-type: none"> • Understanding of public expenditure <p>Possible effects could include:</p> <ul style="list-style-type: none"> • As government spending is a component of aggregate demand, it may decrease – negative multiplier effect • Possible negative effects on growth, employment, average incomes and standard of living • Income inequality increases as austerity measures may reduce transfer payments • Less inflationary pressures • Government budget balance may improve / less borrowing required / economy may be able to begin to repay national debt • If spending on infrastructure/education/health is cut, the productive potential of the economy/aggregate supply may fall • Less resource and financial crowding out • Less productivity in the public sector • Lower quality/quantity of public services <p><i>Evaluative comments could include:</i></p> <ul style="list-style-type: none"> • <i>Significance depends on how much public expenditure decreases by, and how great a component of AD it was to start with</i> • <i>Size of the multiplier effect</i> • <i>Public expenditure may still rise, it may be that GDP increases at a quicker rate</i> • <i>Effects on the real economy depend on level of spare capacity in the economy</i> • <i>If tax revenue also falls, government budget balance may not improve</i> • <i>Less crowding out could mean aggregate demand does not fall; private investment and consumption increase</i> • <i>It depends on what areas of government spending are cut</i> • <i>If spending on benefits/transfer payments is cut, individuals may have more of an incentive to work, leading to a decrease in unemployment</i> <p>NB Award a maximum of 20 marks (Level 4) if a candidate does not refer to Italy or another country in their response.</p> <p>Candidates may take positive effects as KAA and negative effects as EV (and vice versa)</p>	(25)

Section A Part (a) Questions: Performance Criteria for Mark base 15		
Level 0	0	<ul style="list-style-type: none"> • No rewardable material
Level 1	1-3	<ul style="list-style-type: none"> • Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting and applying different economic ideas are unsuccessful • Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	4-6	<ul style="list-style-type: none"> • Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	7-9	<ul style="list-style-type: none"> • Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions • Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
Level 4	10-12	<ul style="list-style-type: none"> • Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions • Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.

Level 5	13-15	<ul style="list-style-type: none">• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues• Demonstrates an outstanding ability to select and apply economic ideas to economic problems• Evaluation is well balanced and critical leading to valid conclusions• Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.
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Section A Part (b) Questions: Performance Criteria for Mark base 25		
Level 0	0	<ul style="list-style-type: none"> • No rewardable material
Level 1	1-5	<ul style="list-style-type: none"> • Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting and applying different economic ideas are unsuccessful • Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	6-10	<ul style="list-style-type: none"> • Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	11-15	<ul style="list-style-type: none"> • Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions • Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
Level 4	16-20	<ul style="list-style-type: none"> • Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions • Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.

Level 5	21-25	<ul style="list-style-type: none">• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues• Demonstrates an outstanding ability to select and apply economic ideas to economic problems• Evaluation is well balanced and critical leading to valid conclusions• Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.
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Question Number	Answer	Mark
4(a)	<p>Knowledge: fiscal (budget) deficit is when the government spending/expenditure is more than government tax revenue (2)</p> <p>Application (1 + 1):</p> <ul style="list-style-type: none"> • Indonesian government have run a budget deficit in each year from 2005 to 2014 (1) / • In 2014 the deficit was 2.3% of GDP (1) / • Other use of the data in Figure 1 (1) <p>2 marks for knowledge; 2 marks for application / data reference</p>	(4)
Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for knowledge or up to 2 marks for application
Level 2	3-4	Up to 2marks for knowledge and/or up to 2 marks for application

Question Number		Mark
4 (b)		(12)
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> • Fall in value of exports, leading to a worsening current account on the balance of payments position - "export ban will worsen Indonesia's trade balance by about US\$6 billion in 2014" • A reduction in the value of exports would be likely to reduce demand for the Indonesian currency, causing it to depreciate • Fall in the value of exports, putting downward pressure on aggregate demand and hence, economic growth - "Economic growth in Indonesia has fallen to the lowest level for almost five years" • Fall in value of exports, hence less employment in mining industry (labour is derived demand) - "tens of thousands of workers made redundant" • Falling average incomes leading to a lower standard of living • Reductions in government tax revenue, leading to worsening of the government budget balance - "Government will lose US\$6.5 billion in tax revenue over the period from 2014 to 2017" • May lead to the diversification of Indonesia's economy, and in particular the movement to higher 'value-added' production, e.g. "promote the development of processing industries" <p>Candidates may take positive effects as KAA and negative effects as EV (and vice versa)</p>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the effects of the ban with limited explanation. The material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the effects of the ban. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the effects of the ban with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – indicative content		
	<ul style="list-style-type: none"> • If diversification is successful then growth and development may be sacrificed in the SR, but increased in the LR • Link to Prebisch-Singer Hypothesis • Comments on the significance of the figures given - numbers seem fairly large, but some are vague, e.g. 'tens of thousands' • It depends how long the ban remains in place for - little information is given • From Figure 2, growth has only slowed slightly; growth slowing before the export ban came into force, perhaps other factors are more important here? 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
4 (c)	<p>Knowledge and analysis of 2 reasons (up to 6 – 2 reasons x 3 marks each):</p> <p>Identification of reason (1) + development (up to 2):</p> <ul style="list-style-type: none"> • Increases in the interest rate • Lower prices for commodities that Indonesia exports • Higher global oil prices when Indonesia is a net importer of oil • Weak currency makes imports of all raw materials and components more expensive, raising firms' production costs • Problems with the country's infrastructure and/or education system <p>One application from Figure 2 only: for e.g., real GDP growth rate 5% in 2014 (2)</p>	(8)

Question Number		Mark
4(d)		(16)
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> • Figure 1 shows that Government has run a budget deficit for a number of years, and lately this has risen in size, suggesting that cutting spending may be necessary • Cutting the subsidy would allow money to be spent on other areas – “help to improve infrastructure and education in the country” – that could create either more growth, or more long-term growth (opportunity cost) • Cutting government spending might reduce the extent to which crowding out occurs in the Indonesian economy • The subsidy has led to a greater trade deficit for Indonesia, “subsidy has led to a greater usage of fuel, increasing imports”: so cutting it would help this to narrow again • Would force Indonesian fuel producers to be more efficient • Reduction in negative externalities related with use of fuel e.g. air pollution and road congestion; energy consumption in homes • Improved government finances may lead to tax cuts 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the case for abolishing the subsidy with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the case for abolishing the subsidy. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the case for abolishing the subsidy with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – indicative content		
	<ul style="list-style-type: none"> • Government spending should not be cut when growth is falling (Figure 2) and unemployment is rising, as this would exacerbate both things (as per the Keynesian argument) • Removing the subsidy would lead to inflation, reducing consumers' purchasing power and real incomes • The subsidy means Indonesians pay a fixed price for power, helping them to budget and afford a necessity item • Other factors have contributed to Indonesia's trade deficit and not just the fuel subsidy, e.g. high global oil prices • Importing lots of oil helps keep currency weak, making Indonesia's exports internationally competitive, and reducing demand for imports 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation.
2	4-6	For evaluative comments with limited explanations.
3	7-8	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
5 (a)	<p>Knowledge: appreciation is the strengthening/an increase in the value/price of one currency in terms of another currency (2)</p> <p>Application - two examples from Figure 2 or Extract 1 (1 + 1):</p> <ul style="list-style-type: none"> • "the euro has strengthened more than 5% against the dollar between 2013 and 2014" (1) • From April 2013 to May 2014, the euro has appreciated from being worth just over \$1.28 to over \$1.39 / by 10 cents (1) • Other relevant use of the data (1) <p>2 marks for knowledge, 2 for application / data reference</p>	(4)
Level	Marks	Descriptor
Level 1	1-2	Up to 2 marks for knowledge or up to 2 marks for application
Level 2	3-4	Up to 2 marks for knowledge and/or up to 2 marks for application

Question Number	Answer	Mark
5 (b)		(12)
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> • Imports into the eurozone become relatively cheaper, meaning quantity demanded rises • Exports from the eurozone become relatively more expensive, meaning quantity demanded decreases • Depending on the PED of imports and exports, we would expect the eurozone's trade balance to worsen • Downward pressure on aggregate demand in the eurozone, leading to downward pressure on economic growth – "Eurozone real GDP increased by only 0.2% in the first quarter of 2014" • Less employment in export industries, and demand for exports falls (labour is a derived demand) • Falling cost-push inflationary pressures, as the price of imported raw materials / components falls for eurozone firms – "Eurozone inflation fell to a near 5-year low of 0.4% in July 2014, caused by falls in food, alcohol, tobacco and energy prices" 	

		<ul style="list-style-type: none"> Falling demand-pull inflationary pressures, as aggregate demand faces downward pressure from falling aggregate demand – “stop already cause low inflation in the Eurozone to fall even further” Less inward FDI and more outward FDI: could worsen the financial account position 	
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of the likely effects of a strong euro. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.	
2	4-6	Understanding and explanation of the likely effects of a strong euro. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.	
3	7-8	Clear understanding and explanation of the likely effects of a strong euro, with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.	

Evaluation – indicative content			
		<ul style="list-style-type: none"> Importance of the PED of imports and exports / Marshall-Lerner condition / possible 'J-curve' effect Euro has depreciated against pound sterling, and UK is eurozone's largest trading partner, meaning that trade balance may not worsen as expected Euro depreciating against the \$US in 2014 Euro/yen and euro/RMB exchange rates are also important in determining overall effect on trade balance Effects on AD depend on how significant net trade is as a component of AD in eurozone, and what proportion of trade is with the UK, US and other countries Effects depend on the size of multiplier effect and level of spare capacity in the eurozone Other factors may be more significant on the performance of Eurozone economies such as the extent fiscal austerity is eased, consumer and business confidence, monetary policy etc. 	

	<ul style="list-style-type: none"> Depends on how long the value of the euro remains strong 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
5 (c)	<p>Knowledge and analysis of 2 effects (up to 6 – 2 reasons x 3 marks each):</p> <p>Identification of an effect (1) + development (up to 2):</p> <p>Likely effects:</p> <ul style="list-style-type: none"> An increase in consumption, as there is less incentive to save, and borrowing is cheaper An increase in private investment, as banks have more incentive to lend, borrowing is cheaper Increases in consumption and investment may lead to a strengthening of aggregate demand, with positive multiplier effects Increases in investment may also increase aggregate supply / the productive potential of the eurozone economies Increases in AD and AS are likely to lead to economic growth, falling unemployment, rising average incomes, and rising standards of living Demand-pull inflationary pressures would be expected to rise The euro would be likely to depreciate as the relative interest rate fell Capital likely to leave the eurozone as deposit rate turns negative and confidence falls <p>One application: The ECB's main interest rate was cut to a record low of 0.15% / the deposit rate was cut to -0.1% (2)</p>	(8)

Question Number		Mark
5 (d)		(16)
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> • Understanding of quantitative easing (QE) • The inflation rate is well below target, and has been falling • Deflation would be very damaging for the eurozone • Growth rates in eurozone as a whole, and in individual economies have been disappointing • QE would be expected to halt the appreciation of the euro, improving the international price competitiveness of eurozone exports, and reducing the price competitiveness of imports to the eurozone • QE is required to increase liquidity in capital markets, so enabling firms and households to access loans more easily • The need for increased consumption and investment to stimulate economic growth • Interest rate cut to a record low, so QE was needed as a different monetary tool to spur growth and avoid deflationary pressures 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the case for introducing QE. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the case for introducing QE. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the case for introducing QE, with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – indicative content		
	<ul style="list-style-type: none"> • The euro has already depreciated against the pound sterling without QE • QE will be less effective if problem is low demand for credit rather than low supply. If the issue was low supply, the ECB's previous policies would have addressed this • Falls in the inflation rate are, to an extent, driven by the external factors (e.g. falling global energy prices). QE would not stop the external cost-push deflationary pressures • Consumption and investment less likely to rise if confidence is low • Effects depend on the size of the multiplier effect and the level of spare capacity in the eurozone • Effectiveness of QE in other economies where it has been used has been fairly uncertain • An increase in the rate of inflation associated with the increase in money supply • Expansionary fiscal policy could perhaps be more effective in boosting growth and inflation 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation.
2	4-6	For evaluative comments with limited explanations.
3	7-8	For evaluative comments supported by relevant reasoning.