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Mark Scheme (Results)

January 2014

Pearson Edexcel
International Advanced Level (IAL)
Economics (WEC04) Unit 4

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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.

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****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 No.		Mark
1 (a)	Candidates may be rewarded for argument that trading blocs have been important or insignificant and use reverse arguments in evaluation. • Understanding of trading blocs • Understanding/definition of globalisation in the economic sense - increased economic interdependence between countries e.g. increased trade as a % of GDP; more FDI. Trading blocs significant: • Trade creation in trading blocs: analysis of impact of removal of trade barriers • Analysis of comparative advantage • Growth in number and size of trading blocs illustrated by appropriate examples Trading blocs less significant than: • Reduction in transport costs • Reduction in cost of communications • Opening up and industrialisation of low wage countries e.g. China into global economy • Growth of transnational companies Also: • Trade diversion resulting from growth on trading blocs • Diverts countries' focus from WTO agreements • Trading blocs tend to be regional - limited integration of developed and developing economies	**(15)**

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Question No.		Mark
1 (b)	Candidates may take either view and use counter arguments as evaluation. Trading blocs as a major constraint on development: • Limited access to markets • Analysis of common external tariffs • Dumping of surpluses by trading blocs: lowers world price of products on which developing countries are dependent • Subsidies by members of trading blocs distort comparative advantage • Members of trading blocs often exploit developing countries for their raw materials • Monopsony power of members of trading blocs forces down prices paid to producers of primary products Trading blocs not the major constraint: • Primary product dependency • Savings gap, leading to lack of investment • Foreign exchange gap • Poor human capital • Poor infrastructure • Corruption; poor governance • Political instability; civil war Also: • Regional trading blocs allow developing countries to take advantage of economies of scale / increase their market size • Some trading blocs include developing and developed countries (with examples) • Stalling of WTO negotiations has meant that trading blocs have been the main way of developing economies increasing their international trade	**(25)**

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Question No.		Mark
2 (a)	Possible causes include: • Differences in ownership of assets • Differences in education • Differences in health • Inheritance • Differences in skills reflected in wage differentials • Differences in drive, entrepreneurship and risk-taking • Differences in pensions *Evaluative comments could include:* • *Prioritisation of factors* • *Changes in inequality over time* • *Differences may be explained by lifestyle rather than more obvious factors above* **NB Level 5 responses must make reference to a specific county. If a response makes no reference to a specific country, it can earn a maximum of 12 marks.**	**(15)**

Question No.		Mark
2(b)	Policies include: • Increase in progressive taxation *But: may lead to more tax evasion and tax avoidance* • Reduction in regressive taxes *But might lead to reduction in government revenue and less spending on measures which could reduce inequality* • Increase in means-tested benefits *But could act as a disincentive to work* • Measures to reduce unemployment *But could have inflationary consequences* • Improvements in state provision of public services such as healthcare, education, social housing *But this might have a relatively insignificant effect in developed countries, as provision is already extensive* • Increase in national minimum wage *But this has no impact on the unemployed, pensioners, students etc*	**(25)**

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Question No.		Mark
3(a)	• Meaning of structural fiscal deficit: one which will remain even when the economy returns to its trend rate of economic growth • Meaning of cyclical fiscal deficit: usually caused by a deficiency in aggregate demand e.g. when the economy is in recession • Structural deficit could be permanent if no measures are taken to reduce/eliminate it • This would imply continuous fiscal deficits and an increasing national debt • Analysis of problems of a rising national debt include: ~ crowding out ~ reduction in credit rating with implications for cost of servicing the debt ~ danger of increased inflationary pressure ~ cost for future generations • Cyclical deficit likely to be temporary • Cyclical deficit may be necessary to generate economic growth during a recession *However:* • *It depends how large either type of deficit is (both in money terms and as a % of GDP), and how long they last for* • *Cyclical debt might be considerable and last for a long time if a world recession continues* • *Might require tax increases and/or cuts in public expenditure* • *Might not be easy to determine whether debt is structural or cyclical* • *Prioritisation of factors*	**(15)**

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Question No.		Mark
3(b)	Measures likely to involve increases in taxes and reductions in public expenditure. Effects of higher taxes include: • Disincentive to work (income tax): Laffer curve analysis • Disincentives for businesses (corporation tax): lower investment; lower productivity; decrease in competitiveness • Lower foreign direct investment • Reduction in risk-taking and entrepreneurship Effects of lower public expenditure include: • Poorer public services • Lower welfare payments • Increased inequality • Job losses in the public sector Combined effects include: • Reduction in aggregate demand • Lower real output and employment • Reduction in inflationary pressures *Evaluation:* • *These measures could make the fiscal deficit worse, at least in the short run* • *Magnitude of effect depend on size of tax increases/cuts in public expenditure* • *Relative impact of different measures* • *Effects depend on the state of the economy / other economic policies (all other things are not equal)*	**(25)**

Section A Part (a) Questions: Performance Criteria for Mark base 15		
Level 0	0	• No rewardable material
Level 1	1-3	• 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	• 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	• 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	• 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	• 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	• No rewardable material
Level 1	1-5	• 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	• 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	• 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	• 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	• 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 B

Question No.		Mark
4(a)	Knowledge: economic growth is an increase **(1)** in an economy's real GDP / productive capacity **(1)** Application: Reference to Figure 1 **(1+1)** 2 marks for knowledge; 2 for application/i.e. 2 data references	**(4)**

Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for knowledge
Level 2	3-4	Up to 2 marks for knowledge and up to 2 marks for data references

Question No.		Mark
4(b)	Factors include: • Low GNI per capita (PPP) – associated with a low GNI and rapid population growth; large proportion of the population living in extreme poverty; low productivity • Low levels of education- as indicated by low mean years of schooling; may not MDG target for universal primary education • Low life expectancy: associated with poverty Application: 2 specific data references **(1+1)**	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two factors
Level 2	3-4	2 marks for identification of two factors; 2 for application as indicated above
Level 3	5-8	2 marks for identification of two factors; 2 for application as indicated above; and 4 for analysis

Question No.		Mark
4(c)		**(12)**
Knowledge, Application and Analysis – Indicative content		
	Candidates may take either perspective and use the reverse for evaluation Role of agriculture: Positives include: • Significance to the economy: ~ 46% of GDP ~ 85% of employment ~ 70% of export earnings • Great potential: 'Ethiopia has only cultivated 15% of its arable land potential so far and productivity is among the lowest in sub-Saharan Africa' • Ensures greater self sufficiency and reduced demand for imported food Negatives include: • 'Environmental and climatic shocks': heavy dependence on good weather conditions leading to price fluctuations and revenue fluctuations for producers • 'Rising price of chemical fertilisers': raises costs for farmers • Soil erosion in densely populated areas • Worsening terms of trade Other evaluative points: • Merits of diversification into manufacturing and services	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of positive/negative aspects of role of agriculture 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 positive/negative aspects of the role of agriculture. 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 role of agriculture 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 is on the next page

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Evaluation – Indicative content		
	As indicated above	
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.

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Question No.		Mark
4(d)		**(16)**
Knowledge, Application and Analysis – Indicative content		
	Understanding of 'economic development' Role of the state: • Government-led infrastructure expansion e.g. Nile dam Analysis of such schemes e.g. using AD/AS analysis • Role of GTP in reducing poverty • Improvements in education • Reductions in HIV/AIDs and malaria • Government can maximise external benefits and minimise external costs • Can adopt import-substitution strategies to promote manufacturing	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of strategies for promoting economic development 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 strategies for promoting economic development. 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 strategies for promoting economic development 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 is on the next page

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Evaluation – Indicative content		
	Problems of government-led schemes: • Inefficient allocation of resources e.g. prestige projects (Nile Dam) • No profit motive or competition might mean higher costs of providing projects • Issue of corruption may be more serious than private sector provision • Problem of financing projects: fiscal deficits might increase • If money is borrowed from abroad then servicing the debt might increase current account deficits	

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.

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Question No.		Mark
5(a)	Currency appreciation implies that the exchange rate of one currency has risen/strengthened against others **(1)** so one unit of the currency is worth more units of another currency **(1)** Further explanation **(1)** e.g. implies that prices of imported goods will be lower or foreign currency price of exports will rise. Data reference: two examples from Figure 1 **(1+1)** 2 marks for knowledge; 2 for application/ data references	**(4)**

Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for knowledge – see above
Level 2	3-4	Up to 2 marks for knowledge and 2 marks for 2 data references

Question No.		Mark
5(b)	Methods include: • Changing the inflation target • Changing the money supply (Quantitative easing) • Changing the interest rate Award 1 mark for identification of policy and up to 3 marks for explanation of each policy. Data reference **(1+1)**: e.g. raising the inflation target from 1% to 2%	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two ways
Level 2	3-4	2 marks for identification of two ways; 2 for application as indicated above
Level 3	5-8	2 marks for identification of two ways; 2 for application as indicated above and 4 for analysis

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<table>
<tr><th>Question Number</th><th colspan="2"></th><th>Mark</th></tr>
<tr><td>5(c)</td><td colspan="2"></td><td>(12)</td></tr>
<tr><td colspan="4">Knowledge, Application and Analysis – Indicative content</td></tr>
<tr><td></td><td colspan="2">Benefits of a weak currency include:
• Increased competitiveness of a country's goods: imports become more expensive; exports become cheaper
• Impact on growth – AD/AS analysis; multiplier effect; reduction in unemployment

Longer term:
• Increase in foreign currency earnings from exports
• Improvement in current account balance
• Boost to tax revenues
• TNCs might increase investment in the country</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">A completely inaccurate response.</td></tr>
<tr><td>1</td><td>1-3</td><td colspan="2">Shows some awareness of the benefits of a weak currency 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.</td></tr>
<tr><td>2</td><td>4-6</td><td colspan="2">Understanding and explanation of the benefits of a weak currency.
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.</td></tr>
<tr><td>3</td><td>7-8</td><td colspan="2">Clear understanding and explanation of the benefits of a weak currency 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.</td></tr>
<tr><td colspan="4">Evaluation – Indicative content</td></tr>
<tr><td></td><td colspan="2">• Danger of cost-push inflation from higher priced imports
• Supply of exports might be inelastic so export earnings do not increase
• Marshall-Lerner condition may not hold
• Benefits may only occur in the long run: the J curve effect
• If all countries pursue this policy then no-one will benefit
• TNCs might leave the country – resulting in economic and social disruption.</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">No evaluative comments.</td></tr>
<tr><td>1</td><td>1-2</td><td colspan="2">For identifying evaluative comments without explanation.</td></tr>
<tr><td>2</td><td>3-4</td><td colspan="2">For evaluative comments supported by relevant reasoning.</td></tr>
</table>

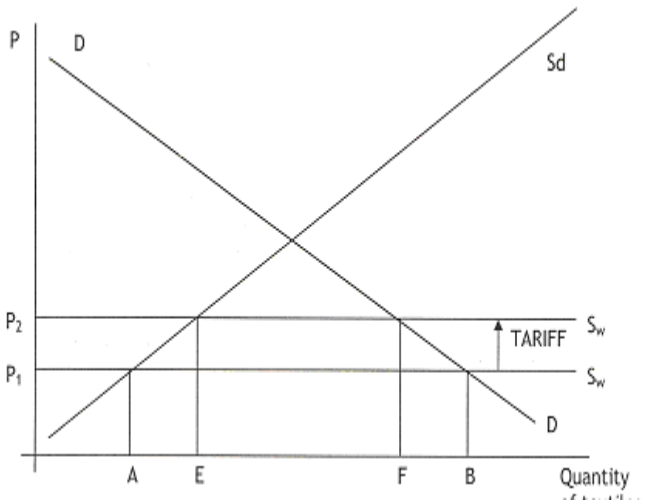
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Question No.		Mark
5(d)		**(16)**

Knowledge, Application and Analysis – Indicative content

Effects include:

- Distortion of comparative advantage: analysis of how this would result in lower global economic growth
- Tariff diagram to illustrate welfare losses associated with protectionism



- Impact on global trade
- Impact on global inflation rates
- Impact on employment in different countries
- Impact on standards of living / consumer choice globally

NB Level 3 responses must consider the effects on the <u>global</u> economy, i.e. any response considering only the effects on one individual economy receive a maximum of 6 marks

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the effects of an increase in protectionism. 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 an increase in protectionism. 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 the effects of an increase in protectionism on the global economy 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 is on the next page

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Evaluation – Indicative content		
	Evaluation might include: • Depends on extent of protectionism • Short run and long run effects: depends on how long protectionist measures are in place • Differential effects on countries in relation to their dependence on international trade	

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.

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