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Mark Scheme (Provisional)

Summer 2021

Pearson Edexcel International

Advanced Level

In Economics (WEC14)

Unit 4: 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.

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Section A

Question Number	Quantitative skills assessed	Answer	
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because there is no impact on comparative advantage* ***B*** *is not correct because there will be an increase in interest rates* ***D*** *is not correct because there is likely to be a decrease in the external value of the currency*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because it will increase income inequality* ***C*** *is not correct because it will increase income inequality* ***D*** *is not correct because it will increase income inequality*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because it will lead to a worsening in Nigeria's terms of trade* ***C*** *is not correct because it will reduce the transportation costs in Nigeria* ***D*** *is not correct because it will increase Nigeria's budget deficit*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because it shows the relationship between exchange rates and balance of payments on current account* ***B*** *is not correct because it shows the relationship between the rate of inflation and unemployment rate* ***C*** *is not correct because this is a graphical representation of income inequality*	**(1)**

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5	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because the tax burden on the working population is likely to rise by 2070* ***C*** *is not correct because the working population is forecast to fall by 16 percentage points* ***D*** *is not correct because social welfare spending on the population aged 65 years and over is likely to increase*	**(1)**
6	**QS5**: Calculate and interpret index numbers. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because the price of Afghanistan's imports have fallen relative to the price of its exports* ***B*** *is not correct because the average price of Afghanistan's exports have increased relative to the average price of its imports* ***D*** *is not correct because there will be no impact on the financial account of the balance of payments*	**(1)**

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Section B

Question Number	In 2018, the EU's rate of inflation was 1.6%. With reference to Figure 1, calculate the nominal GDP growth rate of the EU in 2018. You are advised to show your workings. Answer	ark
7(a)	**Application 2** Quantitative skills assessed: **QS7** Make calculations to convert from money to real terms. Up to 2 marks for calculations: • (2% + 1.6%) **(1)** • = 3.6% **(1)** NB: If correct answer (3.6%) is given, award full marks regardless of working. NB 1 mark for 3.6 without percentage sign	**(2)**

Question Number	Explain what is meant by 'quantitative easing' (Extract A, lines 8-9). Answer	Mark
7(b)	**Knowledge 2, Application 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for understanding of quantitative easing (1+1), e.g.: • Asset purchases by central bank **(1)** • Increases the money supply **(1)** • The central bank buys government bonds **(1)** **Application** Up to 2 marks for application to quantitative easing (1+1), e.g.: • €2.5 trillion quantitative easing programme **(1)** • Gave firms greater access to credit **(1)** • ECB has also indicated that it could extend this programme **(1)** • This would reduce fears of economic uncertainty **(1)**	**(4)**

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Question Number	With reference to Figure 1, Figure 2 and Extract A, analyse **two** reasons why 'Many EU countries experienced strong economic growth after 2012' (Extract A, lines 2-3). Answer	Mark
7(c)	**Knowledge 2, Application 2, Analysis 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** Up to 2 marks for knowledge of two reasons for economic recovery and one mark for linked expansion of each reason (2+2), e.g.: • Increase in investment **(1)** will increase the capital stock of the economy and increase the potential output shifting LRAS to the right **(1)** • Increase in consumption/consumer spending **(1)**, which is the biggest component of AD, will cause AD to rise **(1)** • Increase in net exports **(1)**, an injection into the circular flow, will increase (X-M) as a component of AD, will cause AD to rise **(1)** **Application** Up to 2 marks for application to the reasons for economic recovery (1+1): • Figure 1: Economic growth increasing since 2012 **(1)** • Figure 2: data showing an increase in FDI (% of GDP) between 2014 and 2016 **(1)** • Extract A: In 2018, household expenditure rose by 2%/ EU benefited from expansion in global trade **(1)**	**(6)**

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Question Number	With reference to Figure 1, Figure 2 and Extract A, examine **two** reasons why 'there is concern that the future rate of economic growth in the EU might be much lower' (Extract A, lines 12-13). Answer	Mark
7(d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** Up to 2 marks for identifying two reasons and 1 mark for linked expansion of each reason (2+2), e.g.: • Rising oil prices **(1)** increases the cost of imports for many firms in the EU as oil is an essential raw material used in the production process/EU countries are net importers of oil **(1)** • Low R&D spending **(1)** reduces innovation, decreases dynamic efficiency and firms in the EU become less non-price competitive in domestic/foreign markets, hence reducing demand due to lack of competitive advantage **(1)** • Shortage of skilled labour **(1)**; productivity falls increasing cost per unit and raising export prices; therefore becoming less price competitive, thereby reducing aggregate demand **(1)** • Slowdown in China **(1)** Less export-led growth as China imports from the EU, leading to lower injections into the circular flow **(1)** **Application** Up to 2 marks for application to sources (1+1), e.g.: • Figure 1: Real GDP is increasing at a slower rate in 2018 compared to 2017 **(1)** • Figure 2: Rising oil prices are expected to reduce foreign direct investment **(1)** • Extract A: Spending on research and development is significantly lower than in most Asian countries/ • Shortage of skilled labour in the technology sector/ • Slowdown in China, following its trade war with the USA **(1)**	

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	Evaluation Up to 2 marks for evaluative comments (2+0, 1+1): • Oil prices are volatile **(1)** and could fall in the future due to an increase in global supply, this would reduce costs for firms **(1)** • R&D spending appears to be a significant factor as it is lower than its trading partners **(1)** and would require considerable investment to reduce the innovation gap **(1)** • Shortage of skilled labour in the technology sector is likely to be on a global scale **(1)** and wages and salaries in the EU are likely to rise which may correct this problem **(1)** • Economic growth in China could rise in the long term **(1)** when confidence grows, and there is less economic uncertainty in the region **(1)** • The ECB has indicated that it is very likely that they could extend the quantitative easing programme **(1)** implying that the firms will have more access to finance and investment/FDI would remain high **(1)**	**(8)**

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Question Number	With reference to Extract B, discuss the likely economic benefits t EU of forming a trade agreement with Mercosur. Indicative content
7(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (8 marks) – indicative content** Benefits include: • Trade creation: an analysis based on the law of comparative advantage that increases specialisation and trade, raising world output and living standards. • Firms in the EU can raise production and can benefit from economies of scale. These firms will have access to larger lucrative South American markets thus allowing them to increase sales and expand their customer base • Consumers are likely to receive lower prices for goods and services, thereby increasing their consumer surplus. There will be more choice available, e.g. larger choice of agricultural goods and lower prices of cars and beef • Increase in competition could lead to reduction in x-inefficiency and greater allocative efficiency; "greater competition for Mercosur's car manufacturers and for the EU's beef farmers" • Increase in innovation and transfer of ideas. This will lead to an increase in dynamic efficiency and lead to long term productivity gains • Tariff diagram to show impact of trade agreement

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.

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		Ability to apply knowledge and understanding to some el nts of the question. Some evidence and contextual references are evi n the answer. Chains of reasoning in terms of cause and/or consequence are evi but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples that are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Imports from Mercosur may increase more than exports to Mercosur from the EU. This will lead to deterioration in the current account of balance of payments for EU countries • If the USA decides to impose trade barriers on the EU, it could lead to trade diversion, which would distort any comparative advantage causing a loss of specialisation and dampen the effects of trade with Mercosur; "Donald Trump is threatening to increase trade barriers with China and the EU" • Firms in the EU may be unable to compete with the goods and services from Mercosur and could go out of business, causing a rise in unemployment. EU firms would face large unrestricted competition from powerful TNCs based in Mercosur countries • Greater competition for EU's beef producers – might make them unprofitable • Quality of goods and services from Mercosur countries may not be as high as compared to the EU. Consumers are unlikely to benefit from this trade deal • Germany is strongest participant in the EU and may be able to dictate terms to suit themselves at the expense of other EU member countries. So benefits of the trade agreement will not be equally shared by all • Trade agreement is unlikely to be highly successful if there is no perceived coordination between all member countries in both trading blocs; "There has also been disappointment amongst EU countries about the lack of co-ordination"	

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Section C

Question Number	According to the Global Competitiveness Index, Belgium's internation competitiveness rank fell four places between 2015 and 2019. Evaluate measures that a developed country might take to increase its international competitiveness. Refer to a developed country of your choice in your answer. Indicative content
8	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis (12 marks) – indicative content** Understanding of international competitiveness • Greater levels of, or more targeted, spending on education and training. This investment in human capital will improve skills (reduce skills gap) and hence productivity levels, which will lower cost per unit • Incentives for exporters through tax breaks, reduction in corporation tax, subsidies, lower interest rates, etc. This will allow them to undertake more investment as a result of lower costs and reduce export prices • Measures to reduce the external value of the domestic currency to make exports more price competitive e.g. reduction in interest rates; quantitative easing • Privatisation, deregulation and trade liberalisation will increase competition in domestic markets making firms more efficient as barriers to entry to markets will be low. This would reduce cost per unit and consequently market prices • More spending on healthcare will create a healthier and more productive workforce. This will lead to an increase in GDP and allow for significant improvements in the quality of output • Developments to the infrastructure through improved transport links and communications will encourage more trade and lead to increase efficiency

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	• Implementing policies to attract more FDI flows into the econo his would encourage technological improvements and increase dyna efficiency • Supporting entrepreneurship through greater access to business finance e.g. for start-ups, incentives for business innovation, reduction in bureaucracy etc **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

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	Evaluation (8 marks) – indicative content • Opportunity cost of government spending – e.g. more on subsidies/education /health may mean less for the business sector, especially in the short run • Lower interest rates and tax breaks could lead to demand-pull inflation via consumption and investment, and reduce price competitiveness • There are limits to how effective and influential intervention can be, e.g. ability to manipulate exchange rates may be highly constrained and could lead to increase cost of imports, hence cost-push inflation • Monopoly power (less competition) helps generate some dynamic efficiency, and benefits of economies of scale might be lost if monopolies are broken up • Levels of investment (both internal and FDI) will depend on confidence in the future state of the economy; incentives may be insufficient/ineffective where confidence is low • Distinction between SR and LR; are these measures financially sustainable in the long run? Time lags and implementation lags may mean measures take a long time to come into effect • Spending likely to increase the possibilities of government failure as the costs of these measures may outweigh the benefits that could be gained • Any measures taken have to be considered in the context of a dynamic global economy where other countries are also trying to increase their competitiveness • Member countries of the EU may have limited scope for action in introducing some of these measures

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Question Number	Between 2014 and 2018 the average cost to developing countrie ervicing and repaying their external debts increased by over 60%. Evaluate the case for promoting *economic development* through debt relief Refer to a developing country of your choice in your answer. Indicative content
9	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application and Analysis (12 marks) – indicative content** Understanding of economic development Understanding of debt relief • Countries could use saved interest repayments to reduce absolute poverty. This will help reduce child and maternal mortality • Helps increase the level of human capital through resources provided for education, healthcare that would increase productivity and FDI inflows • Can fill in the savings gap that can be used to invest in capital, which would not be possible due to low levels of savings to finance investment, e.g. investment in hospitals will help improve life expectancy/investment in schools would help improve the means years of schooling/literacy • Can fill in the foreign currency gap which may be used to import necessary capital equipment. This will increase prospects for higher economic growth and employment in the future. Higher GDP will result in higher tax revenues and could be spent on e.g. housing, healthcare • Can use funds for investment in infrastructure; essential for industrialisation as investment is as an injection into the circular flow of income. Would also increase the mobility of labour – allowing access to employment, education and healthcare • Promote entrepreneurship which will help establish new businesses and lead to higher development through higher incomes • Could help conserve the environment/promote environmental sustainability, e.g. debt for nature swaps

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	N.B. Award maximum of Level 3 (9 marks) if a candidate doe refer to a developing country in their answer **N.B. Award maximum of Level 3 (9 marks) if a candidate refers to economic growth and not economic development in their answer**	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

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	Evaluation (8 marks) – indicative content • Dependency culture could arise as developing countries are likely to become dependent on debt relief • It could lead to moral hazard: they may not pursue sound macroeconomic policies if they expect future debts to be written off • Dependency theory reinforces the dominance of debt relieving countries over developing countries • Corruption in developing countries means that funds might not reach those for whom it's intended/may be diverted to government officials • IMF and World Bank have conditions attached to debt relief. This may include cuts in food subsidies to reduce government spending, or removal of import controls which could harm the country's development • Many developing countries cannot have the debts written off if their income per capita is too high (to meet the IMF and World Bank criteria). Benefits of debt relief not realised by all developing countries • Some developing countries do not qualify for debt relief, if their debts were seen as sustainable • Proportion of debt relief could be relatively small and might not have a significant impact on the county's economic development • Takes a long time to qualify for debt relief programmes • Poor governance may mean that debt relief is not used efficiently

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	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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Question Number	Between January and August 2018, Turkey's currency, the lira, de ated by nearly 40% against the US dollar. Evaluate the economic effects of a depreciation of a country's currency. R to a country of your choice in your answer. Indicative content
10	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis (12 marks) – indicative content** Understanding of currency depreciation • An improvement in the current account position of the balance of payments as exports would become relatively cheaper and imports become relatively more expensive, improving Turkey's international price competitiveness • Increase in net exports due to greater injections and lower leakages, thereby increasing aggregate demand: leading to economic growth and higher living standards in Turkey • Reduction in unemployment/increase in employment as there will be greater demand for labour (derived demand) due to economic growth and increased tourism in Turkey • Inflationary pressures are likely to increase as aggregate demand increases. The depreciation may cause an increase in the cost of imported raw materials and finished goods leading to cost-push inflation. • More inward FDI flows into Turkey and less outward FDI flows from Turkey, thereby improving the financial account position of the balance of payments **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country in their answer** **N.B. Award positive effects as KAA and negative as evaluation (or vice versa)**

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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
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Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Impact on the current account depends on PED for imports and exports and if the Marshall-Lerner condition is met (reference to J-curve effect). The fall in external value of the currency will not improve non-price competitiveness • Aggregate demand may not increase as the effect of increase in net exports can be offset by other components, such as consumption or investment. The impact on economic growth depends on the size of the multiplier • Impact on the reduction in unemployment is likely to be limited if there is underemployment in Turkey	

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	• Inflationary pressures may not increase if firms in Turkey cut margins or if productivity rises. Rising inflation also depends on the exten hich the higher costs are passed on to consumers • Other factors affect FDI decisions, e.g. tax, confidence. Firms can repatria profits, interest and dividends – this represents an outflow from the primary income component of the current account • Economic impact will largely depend on extent of the depreciation of the currency and whether it is short or long term depreciation • Turkish Lira depreciated 40% which is a large depreciation which will have a large impact on the Turkish economy

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

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