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Mark scheme

January 2022

Pearson Edexcel International Advance Level in Economics (WEC14/01)
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	Mark
1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because in Spain public expenditure as a percentage of GDP must have been lower than in France* ***C*** *is not correct because this relates to the trade deficit of France* ***D*** *is not correct because there is likely to be greater crowding out in Spain than in the UK*	**(1)**
2	-	**The only correct answer is D** ***A*** *is not correct because this links to primary product dependency* ***B*** *is not correct because this links to the current account position of the balance of payments* ***C*** *is not correct because this links to the savings gap*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because this will reduce Denmark's international competitiveness* ***B*** *is not correct because this will reduce Denmark's international competitiveness* ***D*** *is not correct because this will reduce Denmark's international competitiveness*	**(1)**
4	**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 there has been a two percentage point increase in taxes for the highest income earners* ***C*** *is not correct because this type of tax is progressive and burden falls on the highest income earners* ***D*** *is not correct because this would deter people from setting up their business in Spain*	**(1)**

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5	**QS1:** Calculate, use and understand ratios and fractions. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because the opportunity cost for producing shoes and bags for both countries is the same* ***C*** *is not correct because country X has an absolute advantage over country Y in both bags and shoes* ***D*** *is not correct as there is an opportunity cost for producing shoes and bags for both countries*	**(1)**
6	**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes. **QS5:** Calculate and interpret index numbers. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because this is 5.7%/9.9% and does not calculate the terms of trade* ***C*** *is not correct because this is (index of import prices/index of export prices)x100 = 94.3/90.1 x 100* ***D*** *is not correct because this is 9.9%/5.7% and does not calculate the terms of trade*	**(1)**

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Section B

Question	With reference to Figure 1 and Figure 2, calculate Turkey's real interest rate in July 2020. You are advised to show your working. **Answer**	**Mark**
7(a)	**Application 2** Quantitative skills assessed: **QS7:** Make calculations to convert from money to real terms. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • 8.25 – 11.76 **(1)** • -3.51 **(1)** Award full marks for the correct answer (-3.51) Award one mark for 3.51 without the minus sign	**(2)**

Question	With reference to Figure 3 and Extract A, analyse **two** factors, other than changes in interest rates, that may have led to a depreciation of the Turkish lira. **Answer**	**Mark**
7(b)	**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 identifying two factors and up to two marks for linked explanations showing the factors that may have led to a depreciation of the Turkish lira, e.g.: • If Turkey's inflation rate is higher **(1K)** than its trading partners, the demand for the lira will decrease, hence reducing the value of the lira **(1AN)** • Large current account deficit **(1K)** implies that the supply of the lira will be high relative to the demand/less demand for lira due to lower value of exports, hence value of lira would fall **(1AN)** • Increase in capital flight **(1K)** may result in the lira being sold to buy dollar assets; increasing the supply of the lira in the foreign exchange markets, causing value of the lira to fall **(1AN)**	

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	• Weak state of the economy **(1K)** would lower the confidence of speculators and foreign investors thereby reducing the demand for the lira, causing its value to fall **(1AN)** **Application** Up to 2 marks for application to the factors: • Figure 3 shows that between 2018 and 2020, the exchange rate depreciated by nearly 100% **(1+1)** • The Turkish currency depreciated from around $1 = 4 lira **(1)** to $1 = 8 lira **(1)** • Central Bank was concerned about the weakness of the lira and a high rate of inflation **(1)** • Economists warned that that the risk of a financial crisis in Turkey was growing **(1)** • Demand and supply diagram showing a fall in exchange rate **(1)**	**(6)**

Question	Explain what is meant by a 'customs union' (Extract A, lines 22-23). **Answer**	**Mark**
7(c)	**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 customs union, e.g.: • Free trade between member countries **(1)** with a common external tariff on imported goods outside the region/bloc **(1)** **Application** Up to 2 marks for application to customs union, e.g.: • The European Union is a customs union **(1)** • Turkey is an important partner for the EU **(1)**	**(4)**

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Question	With reference to the last paragraph of Extract A, examine **two** likely economic benefits to Turkey of joining the European Union. **Answer**	Mark
7(d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 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 identifying two benefits and up to 2 marks for linked explanations showing the benefits to Turkey joining the EU, e.g.: • Economic growth **(1K)** as a result of free trade with other countries in the EU will also create employment **(1AN)** • Trade creation **(1K)** analysis based on the law of comparative advantage; specialisation and more trade **(1AN)** • Increase in FDI **(1K)** as TNCs may wish to invest inside the region to avoid barriers to trade, leading to greater injections **(1AN)** • Migration **(1K)** greater access to skilled workers due to the free movement of labour increasing efficiency and productivity **(1AN)** • Greater weight in trade negotiations **(1K)** when dealing with the countries outside the bloc and/or with the WTO **(1AN)** **Application** Up to 2 marks for application to sources, e.g.: • Establishing a stronger partnership with the European Union **(1)** • Governments of many EU countries believe that they have an economic interest in developing a mutually beneficial relationship with Turkey **(1)** • Turkey's long-term economic growth will depend on attracting foreign direct investment **(1)** • Use of relevant diagram supporting analysis **(1)** **Evaluation** Up to 2 marks for evaluative comments (2+0 or 1+1): • Trade diversion **(1)** could result in the distortion of comparative advantage/trade may be diverted away from low-cost producers outside the EU to high-cost producers within the EU **(1)** • Turkish firms would face significant competition from the most powerful TNCs **(1)** as these TNCs could have substantial monopoly power and economies of scale **(1)** • There will be a greater supply of labour **(1)** and this would reduce domestic wages/migrant labour may bring down local wages **(1)** / migration could lead to external costs **(1)** and also put pressure on infrastructure and public services **(1)**	

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	• Following Turkey's entry to the EU there may be large emigration to other EU countries **(1)** leading to loss of skilled labour **(1)**	**(8)**

Question	With reference to the information provided, discuss the likely economic effects of a further increase in the base interest rate. **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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (8 marks) – indicative content** • Increasing interest rate will increase the reward for saving and cost of borrowing, thereby reducing consumption and investment; AD will fall therefore not able to "support the country's economic recovery" • An increase in the base interest rate will lower net trade due to the increase in the exchange rate of the lira – value of exports fall and could reduce the country's export led growth; may also increase the "current account deficit" • Raising the base interest rate could help control inflationary pressures – Figure 2 shows that between 2018 and 2020, inflation has been above 10% • It would reverse negative real interest rates which reduces the real value of savings; interest on savings would be insufficient to meet increased cost of living causing households and firms to hoard cash – Figure 1 and Figure 2 • Raising the base interest rate would increase hot money flows; this is likely to increase the demand for the lira, increase the exchange rate and "avoid a currency crisis" • If the Central Bank did not raise the base interest rate, the exchange rate of the lira would continue to fall; firms that had foreign currency loans would be further constrained by the rising cost of servicing their debt • By raising interest rates and preventing the currency from falling further, the Central Bank will reduce any financial risks and bring stability in the economy – "Economists warned that the risk of a financial crisis in Turkey was growing"; this will help restore the confidence of foreign investors • Raising the base interest rate was the best policy instrument in increasing the exchange rate as the Central Bank could not intervene in the currency markets through foreign currency transactions – "have reduced most of the central bank's foreign currency reserves"

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	• Raising the base interest rate could help control the credit-fuelled growth which cou lead to market bubbles – "to slow the pace of credit growth"; has also been done in the "previous" years implying households and firms have existing levels of debt **N.B. Candidates may take either positive effects as analysis and use their reverse arguments for evaluation or vice versa**	
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. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. 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 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 • Discussion of magnitude of increase in interest rate between July 2020 and December 2020: 8.25% to 17%, an 8.75 percentage points increase • Figure 3 highlights that the currency is still depreciating and the increase in interest rates have not made a significant difference, showing that investor confidence is perhaps still low • "Turkey's President, who controls the Central Bank of Turkey, is an opponent of high interest rates" may demand the Central Bank to reduce the interest rate to support his objectives; Central Bank is not independent of political interference and/or control • Figure 2 shows that inflation remains high and is rising again; perhaps this is cost-push inflation which the Central Bank cannot control • Figure 1 highlights that the size of the increases in interest rates since July 2020 is smaller as compared to the decreases in previous years perhaps a reason why the impacts on inflation and exchange rate have been small – some economists want the Central Bank "to raise the interest rate further" • Time lags associated with the increase in the base interest rate	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments.

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		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	Between 1980 and 2020 it was estimated that total global shipping container volumes increased from 100 million tonnes to 2 billion tonnes. Evaluate factors that have contributed to increased globalisation in the last 50 years. Refer to examples of countries 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.
	
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.
	
	Knowledge, Application, Analysis (12 marks) – indicative content
	
	• Understanding/definition of globalisation
	• Reduced cost of transport because, e.g.
	  o Technical efficiencies are demonstrated through containerisation in freight ships and lorries
	  o Transport/volume economies of scale – larger planes and ships have reduced average transportation cost in the long run
	  o Increase in fuel efficiency in the use of planes, ships and trains which reduce transport fuel cost
	  o Better transport infrastructure across the world – airports, seaports, road and rail networks
	• Trade liberalisation: reduction in trade barriers linked to the work of WTO; application of law of comparative advantage and link to specialisation
	• Increased number and size of trading blocs: application to trade creation
	• Reduced costs of communication: e.g. internet, mobile technology and other technological advances have made it easy to communicate/share information; introduction of new electronic payment systems
	• Political change: opening up of previously closed economies to the world market, e.g. breakdown of the Soviet system and opening up of China
	• Increased significance of TNCs: have entered new markets and invested significantly in expanding abroad to increase sales/revenues/profits (via offshoring and outsourcing)
	• Opening up of global financial markets: this has included removal of capital controls in many countries allowing for more FDI and/or repatriation
	• High and rising real incomes in many countries have resulted in an increase in demand for imports due to higher marginal propensity to import

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	• Increased movement of people between countries – immigration and/or emigration **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to examples of countries 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

- Prioritisation and significance of factors/arguments discussed, e.g. reduced cost of transport is most important – 1900% increase in container volumes
- Costs of transport:
    - Different impact on different countries, e.g. landlocked countries are not going to benefit as much from containerisation as compared to those countries with access to seaports
    - Inadequate infrastructure: smaller countries do not have seaports for larger ships; they have to resort to air cargo – fall in the cost per unit is not as significant for these countries
    - Due to global health crisis freight cost has increased significantly
- Trade liberalisation: Trade talks of Doha round, started in 2001, have been unsuccessful in reducing trade barriers/WTO also less successful in reducing non-tariff barriers/Deglobalisation resulting from the Global Financial Crisis 2008 or other external shocks
- Number and size of trading blocs: countries are leaving trading blocs (e.g. UK and the EU) and threatening to leave (Grexit, Italeave, etc)
- Political change: Slowbalisation resulting from trade wars between countries (e.g. China versus USA)
- Cost of communications: many people in developing countries are excluded from benefits from internet or mobile technology due to being poor (living in poverty), being illiterate or having no access to computer systems
- There is unlikely to be one significant factor, but a combination of factors that has increased globalisation over the last 50 years
- Significance of factors change overtime, e.g. disruption to supply chains as a result of the global health crisis 2020 is more important than other factors / shortages of labour have resulted in shortages of goods and hence lass trade

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	In 2020 the European Union imposed retaliatory tariffs of 25% on many US goods in a dispute over aircraft subsidies. Evaluate possible reasons why developed countries might restrict free trade. **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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of restrictions on free trade • Answers may incorporate a tariff diagram Possible reasons include: • to protect infant industries: these industries will not be able to compete with larger powerful TNC's because they are not yet established and are too small to benefit from economies of scale • to protect geriatric industries: these industries need time to restructure and rationalise production which would allow them to become competitive again • to protect employment: cheap imports reduce jobs as domestic production would fall; as imports fall aggregate demand increases leading to a rise in domestic output and employment • to protect national security: a particular product/industry, such as agriculture and steel, may be of strategic importance to a country especially in times of a crisis or conflicts/perhaps due to political or military reasons • to prevent dumping: some countries export goods in foreign markets at prices below average costs of production; domestic firms cannot compete with these lower prices – form of predatory pricing that distorts comparative advantage • to correct a deficit on the current account of the balance of payments: helps reduce the imbalance between the value of exports and the value of imports; higher price of imports make them less competitive in relation to its exports • to raise revenue: governments can use the tax revenue earnt from the tariff towards supporting the domestic industries; it will be most successful where the demand for imports is price inelastic • to limit imports from countries whose health and safety, and environmental laws are weak: it is assumed that some countries do not have strict laws and therefore may produce unsafe goods at a lower average cost

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	N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a devel country(s) or to the EU 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

- Prioritisation and significance of the reasons discussed
- Significance of the size of the protectionist measure put in place: e.g. 25% tariffs on US products is relatively large, but depends on the size of tariffs that the US has imposed on EU products/how many goods the tariff apply to
- Depends on which protectionist measures are put into place: comparison made between tariffs, quotas, subsidies, and non-tariff barriers
- It is difficult for a government to decide which infant industries have potential comparative advantage – wasting financial resources if the industry is unable to gain economies of scale; it is not applicable to every developed country if most of their industries have reached maturity stage
- Trade restrictions to protect geriatric industries will be ineffective if their average costs are significantly higher than those of foreign producers
- Trade restrictions to protect employment may be ineffective if they distort comparative advantage leading to a reduction in specialisation and trade, lower GDP, and therefore, lower overall employment
- Consideration of the extent to which the sector is part of a strategic industry for the given country (given its other sectors); unlikely that a country which is in crisis or conflict will be cut off from all supplies
- It is hard to differentiate whether dumping is exclusively done with the aim of forcing out domestic industries or whether the exporting countries really have significant economies of scale
- If governments impose excessive import tariffs onto intermediate goods used by domestic firms in the production process, their costs of production will rise increasing prices, and hence exports fall at a faster rate than imports – deficit on the current account on the balance of payments worsens
- Tax revenue is a small proportion of total government revenue in developed economies as they gain more from income and corporation tax – this is likely to be an important reason in developing economies; if demand for imports is price elastic, then little revenue will be raised
- Tariffs may not be the most important factor in the restriction of free trade because rules and regulations regarding health and safety and environmental standards may be more significant in developed countries

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.

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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.
Question	In 2020 Pakistan had a Human Development Index (HDI) score of 0.60 whereas Argentina had a HDI score of 0.85. Evaluate economic factors that constrain the growth and development of a developing country. **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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • Understanding/definition of economic growth • Understanding/definition of economic development Economic factors include: • Volatility of commodity prices: due to price fluctuations, the producers do not have stable incomes and hence, cannot plan future output and investment • Primary product dependency (the Prebisch-Singer hypothesis): countries that export commodities would be able to import less for given volume of exports; terms of trade between primary products and manufactured products worsen over time due to the low-income elasticity of demand for primary products • Savings gap (the Harrod-Domar model): low savings, low investment, low capital accumulation, low growth/income; can be caused by factors such as lower GDP per capita, debt repayments, capital flight, absence of FDI • Foreign currency gap: developing countries may face a shortage of foreign exchange because of their dependence on export earnings from primary products; this is lower than their expenditure on imports of manufactured goods/capital • Capital flight: individuals/firms in developing countries decide to remove their deposits in domestic banks and place them in foreign banks, or buy shares or assets in foreign countries – contributes to savings gap and foreign currency gap restricting economic growth and reducing the tax base of the country • Demographic factors (size and age distribution of population; migration): population growth leads to greater supply of labour and hence lower wages, GDP per capita will fall if GDP does not rise as fast as the population; ageing population will raise	

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dependency ratio, puts an upward pressure on public goods/services; emigration of skilled labour will lead to less productive workforce available

- Debt (household and overseas): developing countries borrowed funds when interest rates were low and face debt servicing costs, hence fewer funds available for capital investment; poorer households in these countries borrow money to pay off previous debt rather than using it productively
- Access to credit and banking: there is an absence of credit markets in many developing countries, which deters lenders and borrowers; markets do not form as a result of high risks associated with lending in developing countries
- Infrastructure: poor network of utilities/structures makes it difficult for many developing countries to attract both domestic and foreign investment
- Education and skills: Developing countries' education standards are not very high and they usually have low school enrolment; this is likely to reduce the human capital and productivity of the workforce – HDI falls - will deter FDI

N.B. Non-economic factors e.g. corruption/poor governance should only be rewarded if they are linked to economic growth and development

N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country in their answer

N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to both growth and 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.

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		Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequenc

Evaluation (8 marks) – indicative content

- Volatility of commodity prices: when prices rise, the producers will earn high incomes and increase their foreign exchange earnings as demand for, and the supply of, primary goods is price inelastic
- Primary product dependency: some countries have grown on the basis of their primary products; if a country has comparative advantage in primary products, then its resources will be used more efficiently in specialising in the production of that product
- Savings gap (the Harrod-Domar model): could be filled by aid, FDI, debt relief, microfinance, borrowing from IMF/World Bank; other factors apart from savings also affect investment such as confidence, interest rate, etc
- Capital flight: not an issue if developing countries establish good governance to ensure the political stability within a country; the government must stamp out corruption that results in capital outflows; few developing countries have successfully reduced capital flight by introducing capital control policies
- Demographic factors: population growth may increase technical progress and thus increasing AS/rightward shift in the PPF; more workers are available to produce goods/services, so output may rise faster than population, therefore increasing per capita incomes
- Debt: if household debt and overseas debt are accumulated as a result of investment in human capital/capital goods, then it will improve long term growth and development prospects; not an issue if external debt is a small percentage of GDP and if it can be paid off at low interest rates
- Access to credit and banking: microfinance schemes are available to help low income families grow their business or engage in productive activities – helps increase incomes of the poor and reduce vulnerability to external shocks
- Infrastructure: less of a constraint for the resource-rich developing countries who are benefiting from foreign investment in return for commodities; TNCs may build infrastructure for the country to support its business investment
- Education and skills: developed countries usually demand workers with low levels of human capital for unskilled work as they can pay them lower wages
- Significance of factors in short-run and long-run/changes over time; e.g. primary product dependency could be the most significant constraint on growth and development in light of falling commodity prices
- Non-economic factors may be more significant than economic factors in limiting growth and development e.g. civil wars/terrorism

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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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