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Pearson Edexcel

Mark Scheme (Results)

Summer 2022

Pearson Edexcel International Advanced Level
In Economics (WEC14)
Paper 01 Developments in the Global Economy

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- 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	**-**	**The only correct answer is C** ***A*** *is not correct because this will not lead to an increase in globalisation* ***B*** *is not correct because this will not lead to an increase in globalisation* ***D*** *is not correct because this will not lead to an increase in globalisation*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because QE would reduce unemployment* ***C*** *is not correct because QE would lead to an increase in the money supply* ***D*** *is not correct because QE would increase the rate of economic growth*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because this is not a government policy to control TNCs* ***B*** *is not correct because this is not a government policy to control TNCs* ***C*** *is not correct because this is not a government policy to control TNCs*	**(1)**
4	**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 is a fiscal deficit in 2021* ***C*** *is not correct because there is a fiscal deficit throughout the given period* ***D*** *is not correct because there is a fiscal deficit throughout the given period*	**(1)**

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5	**QS5:** Calculate and interpret index numbers **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because this uses 2018 as the base year* ***C*** *is not correct because this calculates the index number for 2019, using 2018 as the base year* ***D*** *is not correct because this calculates the index number for 2019, using 2020 as the base year*	**(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 D** ***A*** *is not correct because this will reduce Afghanistan's terms of trade* ***B*** *is not correct because this will reduce Afghanistan's terms of trade* ***C*** *is not correct because this will reduce Afghanistan's terms of trade*	**(1)**

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Section B

Question	In 2020 Iran's GDP was $635.72 billion. With reference to Figure 3, calculate Iran's national debt in 2020. You are advised to show your workings. **Answer**	**Mark**
7(a)	**Application 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. Up to 2 marks for calculations: • 45.4% x $635.72 billion **(1)** • $288.62 billion **(1)** Award full marks for the correct answer ($289bn / $288.6bn) Award only one mark if billion not mentioned ($289 / $288.6)	**(2)**

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Question	With reference to Figure 3, analyse **two** disadvantages of an increase in Iran's national debt. **Answer**	Mark
7(b)	**Knowledge 2, Application 2, Analysis 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** 1 mark for definition/understanding of national debt, e.g. • Accumulation of all past fiscal deficits/borrowings **(1K)** *AND/OR* Up to 2 marks for identifying two disadvantages and 1 mark for each linked development, e.g.: • Economic growth/living standards could fall in the long-run **(1K)** as government may cut spending on healthcare/education **(1AN)** • Higher debt servicing **(1K)** represents a significant opportunity cost to the future generations **(1AN)** • Higher interest rates could lead to a danger of financial crowding out **(1K)** restricting private sector investment **(1AN)** • Loss of confidence in Iran's financial markets **(1K)** resulting in a fall in foreign direct investment **(1AN)** • Increase in taxation/reduction in government spending in the future **(1K)** to balance the government budget/reduce budget deficit/move to a budget surplus **(1AN)** • Loss of confidence in the currency/*Rial* **(1K)** leading to a fall in its value and causing cost push inflationary pressure **(1AN)** • Decrease in credit rating **(1K)** leading to higher future borrowing costs/increase in interest rates **(1AN)** • Increase in foreign currency gap **(1K)** as the country may have insufficient currency to meet interest repayments if any part of the national debt is held by foreigners **(1AN)**	

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	Application Up to 2 marks for application to Figure 3: • Iran's national debt increased from 11.7% of GDP in 2010 **(1)** to 45.4% of GDP in 2020 **(1)** • Between 2010 and 2020, Iran's national debt as a percentage of GDP increased by 33.7 percentage points **(1)**	**(6)**

Question	With reference to the second paragraph of Extract A, explain what is meant by 'trade restrictions'. **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 trade restrictions, e.g.: • Trade barriers/protectionist policies **(1)** designed to reduce/limit free trade/protect domestic industries **(1)** • Could be in form of tariffs/quotas/sanctions/subsidies/non-tariff barriers **(1)** **Application** Up to 2 marks for application to trade restrictions, e.g.: • Trade restrictions imposed on Iran's exports and imports **(1)** • Trade restrictions had been imposed in response to Iran's production of nuclear energy that was above the permitted international limit **(1)** • After two years of negotiations, the trade restrictions were gradually reduced / reduction in trade restrictions increased Iran's oil exports, its main source of export revenue **(1)**	**(4)**

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Question	With reference to Figure 1, Figure 2 and the last paragraph of Extract A, examine **two** likely economic effects of trade restrictions reimposed by the US Government on Iran. **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 effects and 1 mark for each linked development e.g.: • Movement to a trade deficit **(1K)** as a result of the fall in demand for Iran's oil exports **(1AN)** • Fall in GDP/fall in economic growth/increase in unemployment **(1K)** as oil exports have fallen leading to a decrease in (X-M)/ AD **(1AN)** • Higher cost-push inflation **(1K)** as a result of the decline in Iran's exchange rate **(1AN)** • Decrease in FDI **(1K)** leading to lower injections into CFI **(1AN)** **Application** Up to 2 marks for application to sources (1+1), e.g.: • Figure 1 – Iran experienced a recession in 2019 **(1)** • Figure 2 – Inflation rose to nearly 50% in 2019 / "75% fall in the external value of the country's currency, the *Rial*" **(1)** • Trade deficit of $11.68 billion in 2020 **(1)** **Evaluation** Up to 2 marks for evaluative comments (2+0 or 1+1): • Most significant effect is fall in oil exports **(1)** as this would reduce exports earnings/GDP and cause the economy to collapse **(1)** • Trade restrictions were only reimposed by the USA **(1)** so Iran can form closer trade relationships with other countries **(1)** • Effects likely to be significant **(1)** as the USA is one of the leaders of global trade and other advanced countries might follow by also imposing trade restrictions on Iran **(1)**	**(8)**

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	• Depreciation of *Rial* against US dollar will make Iran's exports more price competitive **(1)** and improve their trade balance in the LR **(1)** • In the long-run changes in the presidents of Iran and the USA may reach an agreement **(1)** so effects may be reversed and oil exports may increase **(1)** • Iran may reduce its dependency on oil **(1)** and diversify into other sectors to avoid any future sanctions/for long term growth **(1)** • Iran had trade surpluses between 2005 and 2018 **(1)** so the trade deficit is unlikely to be a considerable issue **(1)**	

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Question	With reference to Extract B, discuss the strategies introduced by the Iranian Government to promote economic development. **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** Understanding of economic development • Industrialisation: o reduces dependency on primary products, e.g. oil o allows for the optimum utilisation of scarce resources – increases the quantity and quality of manufactured goods and contributes to Iran's national income by adding value to primary resources o large scale production of goods available to consumers at low prices - increases consumer surplus and quality of living/living standards o creates job opportunities and raises per capita incomes, reducing poverty – reference to the Lewis structural dual-sector model o savings and the share of profits should both rise as a proportion of GDP – more funds available for investment in infrastructure and/or technology • Infrastructure development: o a strong network of utilities will make it easier for Iran to attract both domestic and foreign investment – improve infrastructure/technology o broadband users increased by 94.4m (between 2014 and 2021) and mobile phone users increased by 71.6m (between 2013 and 2021) o reduces geographical immobility of labour allowing workers to move for work – increases long term productivity and raises incomes o reduces unit costs and relative export prices as efficiency improves – trade/globalisation increases and incomes in Iran rise

	○ helps to reduce bottlenecks in transport and telecommunications - this helps raise the total factor productivity through a fall in costs for the private sector, allowing more efficient use of productive inputs • Privatisation: ○ selling industries can raise government revenue that could be used to fund spending on improving human capital/technology/infrastructure ○ private sector may be more innovative than state-run firms and this leads to a more dynamic economy, which raises living standards ○ firms are run more efficiently, increasing economic welfare as prices will be lower for consumers – leading to higher real incomes ○ private sector firms will be able to raise additional capital for further investment in infrastructure/technology ○ if privatisation allows foreign ownership this may attract flows of FDI, which could be invested into technological advancements **NB Award maximum of level 2 for strategies not included in the extract** **NB Award maximum of level 2 if strategies do not link back to economic development**

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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.
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

- Industrialisation:
  - Primary product dependency has enabled development in Iran and some other countries
  - Not desirable if Iran has a comparative advantage in oil production
  - Large industries lead to a fall in the number of infant industries – the gradual displacement of manpower will lead to rising unemployment
  - Increase in external costs – pollution, congestion, global warming; health issues; livestock close to extinction due to damage of habitat
  - Exploitation of workers including children and women – usually long working hours, poor working conditions, and relatively low wages

- Infrastructure development:
  - Spending on infrastructure carries an opportunity cost and requires large public expenditure – Iran has a large national debt: Figure 3
  - Planning infrastructure projects takes time, so not clear how quickly growth from this investment would become evident (time lags)
  - Economic development would depend on the quality of infrastructure projects undertaken

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	○ "Iranian Government restricts the content its citizens can access." – highly regulated by Government • Privatisation: ○ May lead to job losses as objective of private firms is to maximise profits whereas state-run firms' objective is to maximise welfare ○ If private firms gain monopoly power, they could charge higher prices (e.g. on energy, gas, water) to increase supernormal profits – this will reduce consumer surplus and greatly impact low income households ○ If the industry is not contestable, there is no guarantee that private firms would be necessarily more efficient than state-run firms ○ "many Iranians invested … in the country's volatile stock market." – when the stock market crashes, people are likely to lose incomes

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	In 2020 the Government of Chile increased the top rate of income tax from 35% to 40%. Evaluate the likely macroeconomic effects of an increase in the top rate of income tax on a country of your choice. **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 of income tax • Impact on incentives to work: could act as disincentive for Chile's citizens to take higher paid jobs; less overtime hours worked and/or less promotion opportunities sought by high income earners • Tax revenues: these might be expected to increase (reference to Laffer curve analysis); help reduce the country's fiscal deficit and improve Chile's public finances • Could cause an increase in tax evasion (illegal) and tax avoidance (legal); could also lead to an increase in the number of tax exiles • Increased income equality: the tax system is more progressive; if taxes collected are used to redistribute incomes to the low-income households, then income distribution will become more equal • Impact on AD and economic growth, unemployment, and inflation: can be represented by an AD/AS diagram; reference to the multiplier • Improvement of trade balance: increase in top rate of income tax would cause a fall in disposable income for top earners and this reduces their consumption and imports

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	• Fall in FDI flows: entrepreneurs and senior managers from TNCs would see a decrease in their disposable income, assuming they would be based in the country for which the FDI was destined **NB Award maximum of Level 3 (9 marks) if a candidate does not refer to a country of their choice in their answer** **NB Allow negative effects as the KAA and positive effects as evaluation (and 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. 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.
	Evaluation (8 marks) – indicative content • Depends on the extent of the disincentive effects of the income tax; high income earners in Chile might continue to work hard to maintain their standard of living • Tax revenues may fall if the tax rate is increased beyond the optimal rate; reference to the Laffer curve analysis; also depends on the overall impact on AD and on economic growth • Depends on powers of Chile's tax authorities to collect taxes; extent of tax evasion and tax avoidance; income tax is not the only factor influencing a person's decision on where to live	

	• Depends on how tax revenues are used by Chile's Government and whether other fiscal changes offset the impact of this income tax • Depends on the elasticity of the LRAS/level of spare capacity; impact could depend on the changes in other components of AD; if savings are reduced to pay for the higher income tax, then the effects will be minimal • Depends on taxpayer's marginal propensity to consume/marginal propensity to import; depends on the PED of imports • Other factors also affect FDI flows and are not just dependent on changes in income tax, e.g. business confidence, rate of economic growth, interest rate • Overall impact would depend on how many people in Chile are affected by the top rate of income tax • Magnitude of the increase in the top rate of income tax – 5 percentage points

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 New Zealand's productivity rate was 40% lower than the average productivity of many other advanced economies. Evaluate factors that influence a country's international competitiveness. Refer to a developed 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.
	
	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.
	
	Knowledge, Application and Analysis (12 marks) – indicative content
	
	• Understanding of international competitiveness
	
	• The significance of productivity:
	  o Productivity is the output per worker per hour worked; link may be made to the quality of human capital
	  o Relatively low productivity increases cost per unit and raises export prices
	  o Relatively low productivity reduces exports and hence makes them less internationally competitive
	• Exchange rate – affects both import and export prices; e.g. an appreciation/ revaluation of the currency will make imports relatively cheaper and exports relatively more expensive; hence imports will become more internationally competitive and exports will become less internationally competitive
	• Relative wage and non-wage costs – higher the unit labour costs, greater will be the cost per unit and this would reduce the international competitiveness: high in advanced economies
	• Regulations – e.g. environmental; health and safety increase the cost of doing business hence raising prices of exports and reducing the country's international competitiveness: high in advanced economies

	• The quality of infrastructure – poor infrastructure reduces efficiency and adds to cost per unit; this increases the export prices making domestic goods/services less internationally competitive • Non-price factors: better quality, design, reliability, and after-sales service will increase international competitiveness • Relative inflation rates – affect relative price of exports; if inflation rates are high, export prices rise, and they become less internationally competitive • Relative tax rates, e.g. corporation tax rate, employers' national insurance tax rates – if high, it would increase average costs, reduce incentives and competitiveness of exports **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer**

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	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 • Significance of the most important factor, e.g. productivity is likely to be very important for New Zealand as its productivity is 40% lower than many other advanced economies • Productivity may not be significant if wage costs are low; it is also difficult to measure productivity, especially for the service sector which contributes the most to advanced economies • The exchange rate is particularly important for goods and services which are homogeneous and/or price elastic; forward contracts may limit significance of short-term changes in the exchange rate • The competitiveness of a country's goods is unlikely to be the same as the competitiveness of its services • High wage and non-wage costs might be offset by very high productivity in some countries, e.g. Norway, Denmark • Regulations may not be a significant factor as most advanced economies have nearly the same level/standard of regulations in place • Poor quality of infrastructure may be addressed by a TNC which, for e.g., builds roads to improve transport links • A high rate of inflation may be offset by exchange rate depreciation • Corporation tax may have more significant implications for foreign FDI

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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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Question	Between 2008 and 2018, income inequality, as measured by the Gini coefficient, increased from 0.43 to 0.51 in Angola and from 0.34 to 0.41 in Bulgaria. Evaluate government policies that could be used to reduce income inequality in a developing country of your choice. **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 of income inequality • May be shown by a Lorenz curve diagram • Increase in progressiveness of tax system, for e.g. by introducing more tax bands/increasing tax free allowance; increase in taxes on unearned incomes e.g. rental and dividend income – increases government revenues that can be used as welfare payments to support the low-income households • Increasing means-tested benefits (not universal benefits), e.g. food stamps, unemployment benefit and housing benefit – provides income support to only those households that need it the most • Introduction of/increasing the National Minimum Wage: higher incomes; wage differentials between the unskilled and skilled workers will decrease • Improvements in education and training for those without qualifications: increases human capital, productivity and therefore incomes • Measures to reduce unemployment - for e.g., governments could implement reflationary fiscal policy or supply side policies to create jobs • Place restrictions on immigration of unskilled workers as this will reduce downward pressure on wages of those on low incomes • Reduction in taxes on expenditure and/or other regressive taxes: will take lower percentage of disposable income of the low-income households

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	• Improvements in government provision of public services such as healthcare, education, social housing; provision of pension schemes • Measures that increase the power of trade unions: more workers are likely to be employed permanently/full-time rather than part-time or on zero-hour contracts – stable incomes; help to reduce monopsony power of employers • Reduction in incentives to have large families e.g. reduction in child benefits • Price caps/subsidies on essential goods and services e.g. energy, food • Measures to reduce discrimination e.g. age and gender **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country in their answer**

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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 • Progressive tax increases may cause increase in number of tax exiles or increase in tax evasion and avoidance; fall in tax revenues (using Laffer curve analysis); does not address the underlying cause of income inequality • Administrative costs associated with means-testing may be high; inflation may mean that the benefits might not increase in real terms; can also act as a disincentive to work • Introduction/increase in the NMW might result in higher unemployment and an increase in inequality; wages/unearned incomes of those in the highest income brackets might increase at a faster rate; this has no impact on the unemployed, students, pensioners, etc. • Depends on quality and relevance of improvements in education and training – what courses have been promoted; time lags before reduction in inequality • Even after reducing unemployment, wages may still be below benefits hence not creating an incentive to work; could have inflationary consequences • Could result in a decline in the working population and therefore productive potential could decrease in the long run • Might lead to a reduction in government revenues and hence less spending on measures which could reduce inequality • Increasing the trade union power will lead to inflexible and inefficient labour markets; unlikely to attract FDI and hence less jobs may be created • Different factors more or less important for different countries; prioritisation • One policy on its own is unlikely to be effective but a combination of policies needs to be implemented to reduce the rising income inequality

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