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Mark scheme (Results)

October 2023

Pearson Edexcel International

Advanced Level

In Economics (WEC14) Unit 4:

Developments in the global economy

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Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	**-**	**The only correct answer is D** ***A*** *is not correct because this is an economic factor* ***B*** *is not correct because this is an economic factor* ***C*** *is not correct because this is an economic factor*	**(1)**
2	**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 export prices of UK goods and services would be higher than the average export prices of its trading partners* ***C*** *is not correct because unit labour costs in the UK would be higher than the average of its trading partners* ***D*** *is not correct because the UK would experience an improvement in its terms of trade*	**(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 it is likely to decrease money supply* ***B*** *is not correct because it is likely to decrease real output* ***D*** *is not correct because it is likely to increase the rate of unemployment*	**(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 D** ***A*** *is not correct because the distribution of income became more equal* ***B*** *is not correct because there was a fall in income inequality* ***C*** *is not correct because income inequality fell by 3.4 percentage points*	**(1)**

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5	**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 is associated with relative poverty* ***C*** *is not correct because this is associated with relative poverty* ***D*** *is not correct because absolute poverty is when a person earns less than $2.15 a day at 2017 PPP values*	**(1)**
6	**QS6:** Calculate cost, revenue and profit (marginal, average, totals). **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because government expenditure is UVML* ***C*** *is not correct because government expenditure is UVML* ***D*** *is not correct because government expenditure is UVML*	**(1)**

Section B

Question	In 2021, the Government of Pakistan made a debt servicing payment of $32.27 billion. With reference to Figure 1, calculate debt servicing payments as a proportion of national debt in 2021. You are advised to show your working. **Answer**	**Mark**
7(a)	**Application 2** Quantitative skills assessed: **QS1**: Calculate, use and understand ratios and fractions. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Up to 2 marks for calculations: • ($32.27 billion / $145.25 billion) x 100 **(1)** • 22.22% **(1)** **NB** Award 2 marks for correct answer (22.22% / 22.2% / 22%) **NB** Award only 1 mark for 22.22 billion / 22.2 billion / 22 billion / 22	**(2)**

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Question	Explain what is meant by a 'foreign currency gap' (Extract A, line 12). **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 foreign currency gap, e.g.: • Currency inflows are less than **(1)** currency outflows **(1)** • Lack of capital/currency inflows **(1)** to finance the deficit on the current account of the balance of payments **(1)** • Lack of foreign exchange/currency reserves **(1)** • It is a constraint to economic growth/development **(1)** • Difference between the present currency reserves **(1)** and the reserves needed to achieve an increase in economic growth/ development **(1)** **Application** Up to 2 marks for application to foreign currency gap, e.g.: • Significant decline in foreign currency reserves from $16 billion in June 2021 to $10 billion in June 2022 **(1)** • Between June 2021 and June 2022 foreign currency reserves fell by 37.5% / $6 billion **(1+1)** • Rising foreign currency gap would have a negative impact on its ability to import **(1)** • Rising foreign currency gap was likely to increase further because of higher debt servicing payments **(1)** • Suggested a temporary ban on import of non-essential goods **(1)**	**(4)**

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Question	With reference to Figure 2 and first paragraph of Extract A, examine **two** likely effects of the depreciation of the rupee against the US dollar **Answer**	Mark
7(c)	**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 up to 2 marks for linked explanations, e.g.: • Improvement in Pakistan's current account position of the balance of payments / worsening of Pakistan's terms of trade **(1K)** as its exports become relatively cheaper/its imports become relatively more expensive **(1AN)** • Higher economic growth/lower unemployment in Pakistan **(1K)** due to rise in net exports and AD (can show diagrammatically) **(1AN)** • Inflationary pressures are likely to increase **(1K)** as a result of an increase in aggregate demand/increase in cost of imports leading to a decrease in SRAS (can be shown diagrammatically) **(1AN)** • More inward FDI flows into Pakistan and less outward FDI flows from Pakistan **(1K)** hence improving its financial account **(1AN)** **Application** Up to 2 marks for application to Figure 2 or Extract A, e.g.: • The value of rupee against the dollar depreciated from Rs 175 per dollar to Rs 205 per dollar **(1)** • Between January and June 2022 the rupee depreciated by around 17%/Rs 30 against the US dollar **(1+1)** • This was mainly as a result of rising global inflation rates / the strong appreciation of the dollar **(1)** **Evaluation** Up to 2 marks for evaluative comments: • Impact on current account depends on PED for imports and exports **(1)** and if Marshall-Lerner condition is met (J-curve reference) **(1)** • Aggregate demand may not increase as the effect of increase in net exports can be offset by a decrease in other components **(1+1)** • Firms can repatriate profits, interest and dividends **(1)**: this is an outflow from the primary income component of current account **(1)** • Time period/SR vs LR considerations **(1)**: exchange rate is volatile and is expected to "increase in the third quarter of 2022" **(1)** • Magnitude of depreciation is relatively large (17%) **(1)** hence the impact on Pakistan's economy is likely to be very significant **(1)**	**(8)**

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Question	With reference to Extract A, analyse **two** roles of the IMF. **Answer**	Mark
7(d)	**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 roles and one mark for each linked explanation, e.g.: • Help ease the balance of payments adjustment/reduce a country's current account deficit **(1K)** by providing loans/temporary financial assistance to countries **(1AN)** • Promotes exchange rate stability **(1K)** to maintain confidence in financial markets **(1AN)** • Fosters international monetary co-operation **(1K)** by ensuring orderly exchange rate arrangements to secure financial stability **(1AN)** • Offers debt relief **(1K)** to help reduce absolute poverty **(1AN)** • Encourage economic growth/higher levels of employment **(1K)** by promoting global trade **(1AN)** • Provides capacity development such as technical assistance/policy advice/training of government officials **(1K)** to support developing countries strengthen their economic institutions **(1AN)** • To provide research and monitoring of member countries' **(1K)** to inform policy decisions within those countries **(1AN)** **Application** Up to 2 marks for application to the sources (1+1): • Pakistan's Government borrowed $1.2 billion from the IMF to prevent a further fall in foreign currency reserves **(1)** • IMF required the Government of Pakistan to meet certain conditions and reduce its fiscal deficit, partly by the removal of fuel and energy subsidies **(1)** • The IMF also required Pakistan's central bank to raise its base rate of interest to stabilise the rupee **(1)** • Previous governments of Pakistan have not always met the terms of their loan agreements with the IMF **(1)** • The IMF proposed that high-income households should pay significantly more income tax than low-income and middle-income households **(1)**	**(6)**

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<table>
<tr><td>Question</td><td colspan="2">With reference to the information provided and your own knowledge, discuss the likely macroeconomic effects of an increase in income tax rates, aimed at high-income households, on the economy of Pakistan.

Indicative content</td></tr>
<tr><td>7(e)</td><td colspan="2">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

• Definition/understanding of income tax
• "IMF proposed that high-income households should pay significantly more income tax than the low-income and middle-income households."

• Impact on incentives to work: it could act as a disincentive for Pakistan'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); improve Pakistan's public finances and "help reduce its fiscal deficit"
• 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: this 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
• Fall in FDI flows: entrepreneurs and senior managers from TNCs would see a fall in their disposable income, assuming they would be based in the country for which the FDI was destined

N.B. Positive effects may be awarded as KAA and negative effects as evaluation (or vice versa)</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>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.</td></tr>
</table>

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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

- Depends on the extent of the disincentive effects of the income tax; high income earners in Pakistan 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 Pakistan'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 the tax revenues are used by Pakistan's Government and whether other fiscal changes offset the impact of this increase in income tax rates
- 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 Pakistan's 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 Pakistan are affected by the top rate of income tax
- Impact depends on magnitude of the increase in the top rate of income tax
- Pakistan's Government should focus on increasing property taxes as only a small proportion of tax is currently raised from this source; opportunity for significant increases in tax revenue if the proportion of property tax is raised

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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

<table>
<tr><td>Question</td><td colspan="2">Between 2000 and 2020, Gibraltar's terms of trade worsened by 44.6% and Greece's terms of trade worsened by 14.3%.

Evaluate factors that might cause a country's terms of trade to worsen.

Indicative content</td></tr>
<tr><td>8</td><td colspan="2">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 terms of trade
• Understanding of worsening in terms of trade

Possible factors could include:

• Low relative inflation rates: decreases relative export prices
• Higher relative productivity rates: reduces cost per unit and therefore export prices
• Lower relative labour costs (both wage and non-wage costs): decreases cost per unit and therefore export prices
• Depreciation/devaluation of the exchange rate: reduces export prices and increases import prices
• Higher relative levels of capital investment: increases productivity, thereby decreases cost per unit and export prices
• Change in the price of commodities, e.g. oil (a fall in the price of commodities for net exporters, and rise in price of commodities for net importers)
• Falling competition in the markets of a country's main imports/ rising competition in the markets of a country's main exports
• Protectionist policies, e.g. if a country raises a tariff on imported goods then this would cause an increase in import prices

N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country of their choice in their answer</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>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.</td></tr>
</table>

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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 • Prioritisation and significance of the most important factor • Different factors will be more important at different time periods, e.g. since 2020 relative inflation rates are likely to be more significant • It is likely to be a combination of factors that has led to a significant worsening in the terms of trade • Different factors will be important in different economies, e.g. the price of oil will be highly important in Saudi Arabia, but not in other countries • Depends what production of goods and services the country specialises in • Importance of labour costs depend on whether country tends to import and export more labour-intensive or capital-intensive goods and services • Exchange rates are very volatile and may not be the most significant factor as it could change frequently • Retaliation by countries in response to protectionist policies could quickly reverse the changes in terms of trade	

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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	In 2021 it was estimated that a large proportion of the fiscal deficits in both Brazil and Suriname was structural. To what extent is a structural fiscal deficit more serious than a cyclical fiscal deficit? 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. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding of fiscal deficit • Meaning of structural fiscal deficit: estimate of how large the deficit would be if the economy were to operate at a normal, sustainable level of employment and activity/long-run trend rate of output • Meaning of cyclical fiscal deficit: usually caused by a deficiency in aggregate demand, e.g. when the economy is in a period of recession • Structural deficit could be permanent if no measures are taken to reduce or eliminate it, and this would imply continuous fiscal deficits and an increasing national debt • Structural deficits may require tax rises and/or cuts in public expenditure • Analysis of problems of a rising national debt include: o reduction in the credit rating o cost for the future generations o crowding out (resource and financial) o cost implications of servicing the debt o danger of increased inflationary pressures • Cyclical deficit is likely to be temporary • Cyclical deficit may be necessary to generate economic growth during a period of economic decline **N.B. Accept why structural fiscal deficit is more serious as KAA and why it is not as EV, or vice versa** **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing 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.

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		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

- Significance: in some developing countries, structural deficit is a little smaller than the overall deficit - the remaining 'cyclical' part of the deficit would disappear automatically as the economy returns to its trend rate of growth
- Asymmetric information – it is hard to know precisely what the sustainable level would be, so these estimates are always uncertain/unreliable
- Depends how large either type of deficit is (both in money terms and as a percentage of GDP) and how long they last for
- Depends on what the fiscal deficit funds e.g. infrastructure spending will result in higher future economic growth and reducing the future fiscal deficit
- Cyclical deficit might also have a long-term effect on the national debt
- Might not be easy to determine whether deficit/debt is structural or cyclical
- Depends on the size of the fiscal deficit as a percentage/proportion of GDP

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 the first quarter of 2022 the USA and Australia both experienced inflows of foreign direct investment (FDI) $67 billion and $59 billion respectively Evaluate the potential economic benefits to a developed country of FDI inflows. **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 FDI Economic benefits could include: • Inflows into the financial account of the balance of payments • Long term improvement on the current account of balance of payments if exports rise (a rise in foreign currency earnings) • Economic growth - greater injection into the circular flow; AD/AS analysis and multiplier effects on real GDP • Increase in skills of the workforce if TNCs invest in training programmes • Increased employment in the host country • Development of new infrastructure by TNCs • New methods of production and working practices • Use of cleaner technology resulting in less negative externalities/ environmental degradation • Productivity and technology transfer • Increased tax revenue to government • Could help close the country's savings gap **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.

Evaluation (8 marks) – indicative content

- Negative impact on the current account of balance of payments due to the repatriation of profits and dividends by TNCs abroad
- Higher competition for domestic producers who may not be able to compete
- Impact on economic growth depends on the value of the multiplier and/or the level of spare capacity in the economy
- Poorly paid employment and low-skilled jobs if TNCs bring their own skilled workers and managers from abroad
- Increased dependence of economy on decisions made by managers abroad. Significant if the investment is withdrawn in the future which could lead to economic and social disruption (given TNCs are footloose)
- Domestic firms might not benefit if technologies are protected by patents
- Increase in negative production externalities/environmental degradation
- Tax avoidance schemes and transfer pricing could be used by TNCs
- TNCs may exert political influence, e.g. on governments tax policies
- Impact on the economy might be small (if there is little value added)
- Overall impact depends on net FDI (inflows minus outflows)
- FDI inflows as a proportion of GDP is more significant than absolute values e.g. Australia FDI inflows are a larger proportion of GDP compared to USA

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.

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