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Mark Scheme (Results)

Summer 2024

Pearson Edexcel International Advanced Level
In Economics (WEC14) Paper 01
Unit 4: Developments in the global economy

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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 D** ***A*** *is not correct because this is the role of the IMF, not the World Bank* ***B*** *is not correct because this is the role of the IMF, not the World Bank* ***C*** *is not correct because this is the role of the WTO, not the World Bank*	**(1)**
2	**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 C** ***A*** *is not correct because Hungary has a proportional tax system* ***B*** *is not correct because Hungary has a proportional tax system* ***D*** *is not correct because Hungary has a proportional tax system*	**(1)**
3	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is B** ***A*** *is not correct because these tariffs are likely to protect employment in the steel industry* ***C*** *is not correct because these tariffs are likely to protect the domestic steel industry* ***D*** *is not correct because these tariffs will increase tax revenue*	**(1)**
4	**QS1**: Calculate, use and understand ratios and fractions. **QS5:** Calculate and interpret index numbers **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because incorrect formula (142.3-121.3) has been used to calculate Tanzania's terms of trade* ***B*** *is not correct because incorrect formula (121.3/142.3 x 100) has been used to calculate Tanzania's terms of trade* ***D*** *is not correct because incorrect formula (142.3+121.3) has been used to calculate Tanzania's terms of trade*	**(1)**

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5	**QS3:** Understand and use the terms mean, median and relevant quantiles **QS5:** Calculate and interpret index numbers **QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **QS11:** Understand composite indicators.	**The only correct answer is B** ***A*** *is not correct because literacy rates are likely to be higher in Chile than in Uruguay* ***C*** *is not correct because average incomes are higher in Chile than in Uruguay* ***D*** *is not correct because the provision of healthcare is likely to be better in Chile than in Uruguay*	**(1)**
6	**QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS4:** Construct and interpret a range of standard graphical forms. **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 distribution of income became more equal* ***C*** *is not correct because there was a reduction in income inequality* ***D*** *is not correct because income inequality decreased by approximately 1.1 percentage points*	**(1)**

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Section B

Question	In 2022 Indonesia's current account surplus was 1% of its GDP. With reference to line 26 of Extract A, calculate Indonesia's GDP in 2022. You are advised to show your working. **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: • $13.2 billion x 100 **(1)** • $1 320 billion / $1,320,000,000,000 **(1)** **NB** Award 2 marks for correct answer (1 320 billion / 1.32 trillion) **NB** Award only 1 mark for $1 320 / 1 320% / 1.32 billion	**(2)**

Question	With reference to Figure 1, explain the difference between a balance of trade deficit and a balance of trade surplus. **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** 1 mark for defining balance of trade deficit: • Value of imports is greater than the value of exports / (X-M) is negative **(1)** 1 mark for defining balance of trade surplus: • Value of exports is greater than the value of imports / (X-M) is positive **(1)** **Application** 1 mark for correctly identifying a period when Indonesia was experiencing a balance of trade deficit, e.g.: • In Jan 2019 there was a balance of trade deficit / There was a deficit between Nov 2019 and Jan 2020 **(1)** 1 mark for correctly identifying a period when Indonesia was experiencing a balance of trade surplus, e.g.: • In May 2020 there was a balance of trade surplus / There was a surplus between May 2020 and Dec 2022 **(1)**	**(4)**

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Question	With reference to Extract A, analyse **two** benefits of Indonesia's increasing population to its economy. **Answer**	Mark
7(c)	**Knowledge 2, Application 2, Analysis 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and analysis** Up to 2 marks for identifying two benefits and up to 2 marks for linked explanations, e.g.: • Larger pool/supply of workers **(1K)** will put downward pressure on wages, reducing firms' cost of production and export prices / exports become more internationally competitive **(1AN)** • Increased tax revenue for the government **(1K)** can be used for spending on other areas, e.g. human capital and infrastructure to reduce labour immobility **(1AN)** • Increased consumption/consumer spending **(1K)** leads to higher real output and economic growth as AD will increase **(1AN)** • Increased productive potential **(1K)** resulting in the PPF shifting to the right / rightward shift in LRAS **(1AN)** • May give greater access to skilled labour **(1K)** which is likely to increase productivity **(1AN)** **Application** Up to 2 marks for application to Extract A (1+1): • In 2022 Indonesia had a population of 276 million people **(1)** • Population was the largest in Southeast Asia **(1)** • Population had increased by 26 million since 2012 / from 250 million in 2012 **(1)** • Population increased 10.4% **(1+1)** • Relatively young population **(1)** • Real GDP increased by 5.3% **(1)**	**(6)**

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Question	With reference to Extract A, examine **two** likely problems for the Indonesian economy of its dependence on commodities. **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 problems and up to 2 marks for linked explanations, e.g.: • Commodities are subject to large price fluctuations **(1K)** giving producers unstable incomes / making it difficult for producers to plan future output and investment **(1AN)** • A fall in prices of commodities would cause a decline in the rate of economic growth **(1K)**; fall in exports cases AD to fall, lower real output and employment – can be shown diagrammatically **(1AN)** • Export earnings are heavily dependent on commodities **(1K)** so if prices of commodities fall and remain low, this would result in a deterioration in the balance of trade **(1AN)** • Tax revenues are heavily dependent on commodities **(1K)** so if prices of commodities fall and remain low, this would result in deterioration in Indonesia's public finances **(1AN)** • If the prices of commodities fall, export prices will fall and this would result in deterioration in Indonesia's terms of trade **(1K)**; reference made to the Prebisch-Singer hypothesis **(1AN)** • Commodities such as nickel and coal are finite resources, which will eventually be depleted, **(1K)** hence Indonesia will need to diversify its economy into other industries **(1AN)** **Application** Up to 2 marks for application to Extract A, e.g.: • Indonesia is a net exporter of commodities/nickel, coal, rubber and palm oil **(1)** • Indonesia is the world's largest producer of nickel, an important component in electric vehicle batteries **(1)** • Indonesia's exports of commodities, make a more significant contribution to the country's current account surplus and to its economic growth rate **(1)** • It was forecast that advanced economies would experience lower rates of economic growth in 2023. This would result in a fall in demand for Indonesia's commodities **(1)** • The current account surplus increased from \$3.5 billion in 2021 to \$13.2 billion in 2022 **(1)**	**(8)**

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	Evaluation Up to 2 marks for evaluative comments: • Forward markets in commodities may reduce the impact of price fluctuations on the producers of commodities **(1+1)** • With growth in real GDP before the fall in the price of commodities **(1)**, there was an opportunity to widen the tax base **(1)** • When prices of commodities are high, export earnings are high so improving the balance of trade **(1)**; these export earnings may be used to purchase imports of other goods and services so helping to increase living standards **(1)** • When prices of commodities are high, tax revenues would be high, so improving the public finances **(1)** and these tax revenues may be used to improve public services **(1)** • A fall in prices of commodities might cause a depreciation in the exchange rate **(1)** which may provide an incentive to diversify into other industries / increase competitiveness of other industries **(1)** • Indonesia may have gained revenue from FDI in the commodity industries **(1)**, especially when prices were rising **(1)** • Indonesia's dependence on commodities is unlikely to be an issue if it has a comparative advantage in their production **(1)** as Indonesia can continue to specialise and trade in these commodities **(1)** • Exports from the manufacturing sector increased during 2022 **(1)** so may reduce its dependence on commodities in the long-run **(1)**	

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Question	With reference to Extract A and your own knowledge, discuss market-orientated strategies that the Indonesian Government might use to increase its rate of economic growth. **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** • Definition/understanding of economic growth rate • Understanding of market-orientated strategies • Removal of government subsidies – forcing firms to focus on being more competitive rather than relying on subsidies, e.g. by increasing productivity: "removal of government subsidies on oil and fuel" • Floating exchange rate systems – might make exports more internationally competitive, increasing export-led growth • Privatisation – increases efficiency in markets due to greater competition; attracts more investment, therefore greater injections into the circular flow of income: "To take advantage of the rising global demand for electric vehicles, the Government announced plans to increase privatisation" • Deregulation – it reduces the costs for businesses to comply and implement regulation, quicker to employ and lay off workers as required: "Government relaxed its previously strict employment regulations to create more jobs, fill vacancies and promote innovation. This encouraged more FDI" • Promotion of FDI – e.g. tax breaks could help technology transfer and help with training of the workforce; leads to increased productivity and economic growth: "To take advantage of the rising global demand for electric vehicles, the Government announced plans to … promote foreign direct investment" • Trade liberalisation/removal of trade barriers	
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

- Problems of each of the strategy discussed:
  - removal of government subsidies – on e.g. essential goods such as oil, may lead to an increase in absolute poverty
  - floating exchange rate systems – the depreciation is likely to make Indonesia's imports relatively more expensive, leading to cost-push inflation and hence poverty
  - deregulation- could result in exploitation of labour
  - privatisation – could result in monopolies that may exploit their market power and charge higher prices/reduce quality
  - promotion of FDI – could lead to TNCs exploiting the environment and labour; engage in tax evasion/avoidance or transfer pricing
- Assessment of the significance of the strategies considered in analysis
- Policy may be less effective as an increase in inflation might reduce economic growth because it could lead to greater uncertainty/lower international competitiveness of firms – "In 2023 it was forecast that Indonesia's rate of inflation would increase to 5.5%"
- Policy may be less effective if the central bank raises the base interest rate to tackle inflation as this might restrict economic growth in the long-run
- Corruption might limit future economic growth as any Government revenue may be diverted into the wrong channels: "Indonesia scored 38 out of 100 on the corruption index"
- Interventionist strategies could be more successful in increasing economic growth: "the Government must aim to develop the country's human capital and infrastructure"

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">Evaluate policies that can be used to prevent a country’s exchange rate from depreciating. Refer to a developed country of your choice in your answer.

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 and Analysis (12 marks) – indicative content

• Understanding of government intervention in the currency markets

Possible policies might include:
• Sale of foreign currency/dollar (or gold) reserves on the foreign exchange market in order to decrease the supply of the yen
• Purchase of domestic currency/yen in order to decrease the supply of the yen and increase the external value of the currency
• Reduction in the money supply in the Japanese economy through reduced asset purchases (ending quantitative easing)
• Increase in the (relative) interest rates in Japan: this will result in greater hot money flows and increase the demand for the yen
• Pegging currency against a more stable currency, e.g. dollar, will fix the exchange rate and prevent further depreciations
• Other policies to encourage inflow of FDI and/or portfolio investment into Japan; will increase demand for the yen
• Other policies to restrict outflow of funds from Japan (e.g. through remittances, repatriation of profits, capital flight etc.); will reduce the supply of yen
• Policies to reduce demand for foreign currencies e.g. protectionism

N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country 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>
<tr><td>Level 2</td><td>4–6</td><td>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</td></tr>
</table>

		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/comparison of the effectiveness of different policies • Significance of the causes discussed: a combination of factors is likely to have a larger impact on the exchange rate – "fell by 35%" • Use of monetary policies may cause conflicts with other macroeconomic objectives/policies • Ability of the government to sell its reserves/dollar depends on the value of reserves/dollar held, and its international value • Problems of currency stabilisation: depletion of foreign exchange reserves/ foreign currency gap – "cost the Japanese Government $20.8 billion" • Possible political/ethical issues surrounding the selling of reserves • Relative interest rate is more important than interest rate in determining hot money flows	
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	Evaluate the costs to a country of becoming a member of an economic and monetary union. Refer to a 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 an economic and monetary union Costs include: • High transition costs: Romania will have to replace their currency when adopting the euro; changes to bank notes/coins will be required • Loss of independent monetary policy: Romania's central bank no longer has control over influencing interest rates/quantitative easing; will now be done centrally by ECB – one policy fits all • Loss of ability to depreciate currency in recession: Romania's central bank will not be able to influence the external value of the currency, leaving the country more vulnerable to external shocks • The union is likely to have a growth and stability pact that is likely to limit expansionary fiscal policy in a recession: restricts amount of government borrowing, therefore making it harder to come out of a recession • Membership of economic and monetary union may expose the government to financial costs of future bailouts of under-performing countries • Difficult to exit the economic and monetary union once a country has joined • Costs of a trading bloc/single market e.g. trade diversion, increased costs of immigration **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country in their answer** **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to both economic *and* monetary union 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.

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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 • Eliminates/reduces transaction costs or currency conversion costs in an increasingly integrated regional market: makes it easier and cheaper for firms and consumers to engage in trade • Greater price transparency: easier to check different prices in the same currency - hence increasing inner-regional competition/contestability and market efficiency • Greater certainty for firms investing in capacity to export to other eurozone countries: will provide more stability and increase trade • Encourages inward foreign direct investment as more foreign firms would be keen to invest in eurozone area because of easier trading conditions • Offers more incentives: more pressure to increase productivity and keep inflation low, otherwise become uncompetitive • The euro is likely to be more stable than other currencies; this will reduce currency risks making it easier for countries to borrow • Benefits of a trading bloc/single market e.g. trade creation, immigration helping to fill skill shortages	

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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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<table>
<tr><td>Question</td><td colspan="2">Evaluate possible causes of an increase in public expenditure as a proportion of GDP in a developing economy of your choice.

Indicative content</td></tr>
<tr><td>10</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 public expenditure

Possible causes could include:
• Changes in level of GDP: during periods of economic downturn, public expenditure as a proportion of GDP would increase, even if it stayed the same or declined at a slower rate than GDP
• Automatic stabilisers: when GDP falls, public expenditure is likely to rise; people become eligible for means-tested/unemployment benefits
• External shocks: e.g. global health crisis; natural disasters e.g. earthquakes, floods; subsidies to households and firms resulting from rise in energy prices
• Increased expectations: people may expect higher standards of education or health - these public services may be normal or luxury goods (income elastic)
• Ageing population: it may require greater government spending, e.g. on state pensions, social care etc
• Increase in the size of the population: puts greater pressure on public goods and services e.g. healthcare, education etc
• Discretionary fiscal policy: government may decide to spend more on a specific area, e.g. housing, infrastructure etc
• Increased interest payments: as the national debt increases / interest rates increase, governments have to make higher interest payments on their debt
• Rise in the tax base: reducing tax evasion and avoidance, allowing greater spending as a proportion of GDP
• Political priorities: based on the value judgements of government

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

Evaluation (8 marks) – indicative content

- Prioritisation of causes analysed – discussion of the most important cause
- Discussion of the magnitude of the increase in public expenditure e.g. 4.4pp for Azerbaijan and 3.4pp for India: relatively small increase
- Significance of the causes vary over time and between countries
- Likely to be a combination of causes that has contributed to the increase
- Changes in the level of GDP would explain short-run changes only – when the economic cycle changes country could face the reverse effect
- Ageing populations may imply that less spending is required for education and healthcare
- Interest payments depend on the interest rate as well as the amount owing
- The level of public expenditure may not be rising if GDP is falling

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.
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