

Mark Scheme (Results)

Summer 2014

Pearson Edexcel  
International Award Level (IAL)  
Economics (WEC04) Unit 4

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

**\*\* SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME\*\***

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question Number	Answer	Mark
1 (a)	<p>Candidates may be rewarded for argument that population growth is a constraint on development, or that it is not, and use reverse arguments in evaluation.</p> <ul style="list-style-type: none"> <li>• Understanding/definition of economic development</li> </ul> <p>Population growth is a constraint on development:</p> <ul style="list-style-type: none"> <li>• A larger population means that per capita incomes fall</li> <li>• Even if national output increases, diminishing marginal returns to labour imply that output will rise at a slower rate than population when the population grows, so per capita incomes will still decrease</li> <li>• A higher dependency ratio will limit the ability of households to save, worsening the problem of a savings gap</li> <li>• High population growth puts a large strain on education and healthcare resources</li> <li>• More parents staying at home to raise children reduces the size of the labour force available to work</li> <li>• Rapid population growth may lead to an increase in income inequality in the economy, if birth and death rates differ across socioeconomic groups</li> </ul> <p>Population growth is not a constraint on development:</p> <ul style="list-style-type: none"> <li>• More people to produce goods and services, so output will rise in line with population, so per capita incomes will not necessarily fall</li> <li>• Population growth may spur technical progress out of the pressures created by a higher population density</li> <li>• Population growth creates a larger pool of potential innovators and therefore a larger stock of ideas and innovations that can be put into economic use</li> <li>• Development includes more aspects than just per capita incomes</li> <li>• Even if per capita incomes fall, development could occur if this led to a more equal distribution of income in the economy</li> </ul>	(15)

Question Number	Answer	Mark
1 (b)	<p>Candidates may be rewarded for argument that debt relief is the best way to promote growth, or that it is not, and use reverse arguments in evaluation.</p> <ul style="list-style-type: none"> <li>• Understanding of debt relief</li> <li>• Understanding/definition of economic growth</li> </ul> <p>Debt relief is the best way:</p> <ul style="list-style-type: none"> <li>• Opportunity cost of making debt repayments – money could be spent on education/healthcare/infrastructure etc. which would create LR growth + possible AS/AD analysis</li> <li>• Debt repayments are a withdrawal from the circular flow of income, so limit SR growth</li> <li>• Debt relief would help to reduce the problem of foreign currency gap</li> <li>• Debt relief means that countries are no longer vulnerable to law suits from vulture funds</li> <li>• Most countries have repaid capital sum, and are now only paying back interest, which is often many times more than the sum borrowed</li> </ul> <p>Debt relief is not the best way:</p> <ul style="list-style-type: none"> <li>• Debt relief would help to perpetuate corrupt/bureaucratic/unaccountable governments, and so constrain growth</li> <li>• Debt relief would mean interest rates on loans would increase hugely in the future, or finance would be unobtainable</li> <li>• Debt relief may encourage more irresponsible borrowing in the future, constraining future growth</li> <li>• Debt relief would be unfair to those countries that have managed their public finances in a fiscally prudent manner</li> </ul> <p><i>Other evaluative comments could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Candidates may contrast the effectiveness of debt relief with other measures to promote development (i.e. debt relief is not 'the best' way).</i></li> <li>• <i>Candidates may compare and contrast the effectiveness of debt relief in different countries, i.e. debt relief would be a more effective method of promoting growth in some economies than in others.</i></li> <li>• <i>Candidates may consider the effects of the conditions that have been placed on debt relief, e.g. Poverty Reduction Strategies.</i></li> <li>• <i>It depends on the proportion of debt which is forgiven.</i></li> <li>• <i>Other factors may counteract the positive impact of debt relief, e.g. exogenous shocks.</i></li> </ul> <p>NB Award a maximum of 20 marks (Level 4) if a candidate does not refer to a developing country in their response.</p>	(25)

Question Number	Answer	Mark
2 (a)	<ul style="list-style-type: none"> <li>• Understanding of a depreciation of the currency</li> </ul> <p>Possible effects could include</p> <ul style="list-style-type: none"> <li>• Improvement in the trade balance/current account on the balance of payments</li> <li>• Export-led economic growth</li> <li>• Reduction in unemployment as more jobs created within the export industry</li> <li>• Possible improvement in living standards as average incomes rise</li> <li>• Inflation: demand-pull inflationary pressures rise, and to the extent that India imports raw materials, so may cost-push pressures</li> </ul> <p><i>Evaluative comments could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Prioritisation of factors</i></li> <li>• <i>Effect on the trade balance depends on the price elasticity of demand for Indian imports and exports / Marshall-Lerner condition / 'J-curve' effect</i></li> <li>• <i>In the longer run, inflationary pressures created by the depreciation may reduce India's international price competitiveness</i></li> <li>• <i>Effect on the trade balance depends on the price elasticity of supply of Indian goods and services</i></li> <li>• <i>Current account deficit still appears to be large</i></li> <li>• <i>Significance: a 20% depreciation over a six month period is very significant, so magnitude of effects may be high</i></li> <li>• <i>Which currencies has the rupee depreciated against - this figure is only an average</i></li> <li>• <i>Effects on growth, unemployment and inflation depend on the level of spare capacity in the Indian economy</i></li> <li>• <i>Effects on growth, unemployment and inflation depend on the size of the multiplier in the Indian economy</i></li> </ul>	(15)

Question Number	Answer	Mark
2(b)	<ul style="list-style-type: none"> <li>• Understanding of a current account deficit on the balance of payments</li> </ul> <p>Policies may include:</p> <p>Expenditure reducing/ dampening policies</p> <ul style="list-style-type: none"> <li>• Increase income tax rates to reduce disposable incomes</li> <li>• Decrease government spending to reduce disposable incomes (and possibly lower average price level)</li> <li>• Increase in interest rates to reduce consumer spending (and possibly lower average price level) <ul style="list-style-type: none"> <li>○ <i>Effectiveness depends on the YED of imports</i></li> <li>○ <i>Reduction in output and increased unemployment, may inhibit long-term growth</i></li> <li>○ <i>Effect on price level depends on the level of spare capacity in the Indian economy</i></li> <li>○ <i>Increase in interest rates will also cause rupee to appreciate, reducing price competitiveness</i></li> </ul> </li> </ul> <p>Expenditure switching policies</p> <ul style="list-style-type: none"> <li>• Protectionism: the use of tariffs, quotas and other non-tariff barriers</li> <li>• Subsidies to domestic producers <ul style="list-style-type: none"> <li>○ <i>The use of tariffs entails a misallocation of resources in society and a deadweight loss</i></li> <li>○ <i>May not be possible given membership of WTO/trade blocs</i></li> <li>○ <i>May result in retaliation from other countries</i></li> <li>○ <i>Effectiveness depends on PED of imports and exports (level of non-price competitiveness etc.)</i></li> </ul> </li> <li>• Measures to decrease inflation rate below that of competitors <ul style="list-style-type: none"> <li>○ <i>May have a significant time lag</i></li> <li>○ <i>If achieved through a tighter monetary policy, will also cause the rupee to appreciate, reducing price competitiveness</i></li> </ul> </li> <li>• Other supply side policies to improve the international competitiveness of the Indian economy, for example, on education and training, tax breaks for R&amp;D etc. <ul style="list-style-type: none"> <li>○ <i>Time lag of such policies</i></li> <li>○ <i>Effectiveness depends on the PED of India's imports and exports</i></li> </ul> </li> </ul>	(25)

	<ul style="list-style-type: none"><li>• Diversification/industrialisation/deindustrialisation of the Indian economy to produce exports with more value-added<ul style="list-style-type: none"><li>◦ <i>Issues with how this could be done - time, cost, skill levels etc.</i></li></ul></li></ul> <p>NB Candidates do not need to refer to 'Expenditure reducing/ switching policies' in their responses</p>	
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Question Number	Answer	Mark
3 (a)	<ul style="list-style-type: none"> <li>• Understanding of a fiscal deficit</li> <li>• The recession/global economic crisis has meant lower rates of economic growth, which has reduced all sources of government tax revenue</li> <li>• At the same time, for developed economies, transfer payments (automatic stabilisers) have increased in value</li> <li>• Interest repayments on existing debt add to the fiscal burden</li> <li>• Some countries used fiscal stimulus packages to generate growth in the years following 2008</li> <li>• Some countries had to privatise/bail out banks etc. in the years following 2008</li> <li>• Effect of an ageing population</li> <li>• Political control of government expenditure, means that prior to 2010 it has been difficult for governments to reduce spending on education, healthcare etc. and remain in power</li> <li>• Increasing use of transfer payments to the relatively poor in western economies</li> <li>• An increasing YED for some areas of government expenditure (e.g. healthcare, education etc.)</li> </ul> <p><i>Evaluative comments could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Distinction between reasons for a structural and a cyclical deficit</i></li> <li>• <i>Developing and developed countries tend to have different reasons for running a deficit</i></li> <li>• <i>Austerity policies in many developed countries have controlled the increase in government spending in recent years, and some tax rates have been raised (possible Laffer curve analysis)</i></li> <li>• <i>An ageing population would have a gradual effect on the fiscal balance</i></li> <li>• <i>Prioritisation of factors</i></li> </ul> <p>NB Award a maximum of 12 marks (Level 4) if a candidate does not refer to a country in their response.</p>	(15)

Question Number	Answer	Mark
3(b)	<p>Candidates may be rewarded for argument that a large public sector debt is harmful, or that it is not, and use reverse arguments in evaluation.</p> <ul style="list-style-type: none"> <li>• Understanding of public sector (fiscal) debt.</li> </ul> <p>A large public sector debt is harmful:</p> <ul style="list-style-type: none"> <li>• Debt servicing has a large opportunity cost for governments</li> <li>• Crowding out theory (financial crowding out and resource crowding out)</li> <li>• A downgrading of a country's credit rating increases its borrowing costs</li> <li>• Intergenerational equity issues</li> <li>• If firms/households fear that taxes may rise/government spending may fall: <ul style="list-style-type: none"> <li>○ Capital flight may occur</li> <li>○ Inward FDI may fall</li> <li>○ Reduction in risk-taking and entrepreneurship</li> </ul> </li> <li>• Tight fiscal policy to allow the government to reduce the debt may lead to lower rates of economic growth/increased unemployment/falling standards of living</li> <li>• In most developed economies, independent/more tightly controlled monetary policy reduces the chance of the real value of the debt being eroded by a high rate of inflation</li> <li>• Other economic variables may be affected, e.g. the exchange rate may depreciate</li> </ul> <p>A large public sector debt is not harmful:</p> <ul style="list-style-type: none"> <li>• For Keynesian economists, during economic downturns/recessions, the LR benefits of adding to national debt by running a fiscal deficit outweigh the SR costs of the greater debt</li> <li>• The liberalisation of international capital markets has reduced the extent to which crowding out will occur. Even if it does exist to some extent, it would very rarely (if ever) be 100%</li> </ul> <p><i>Other evaluative comments could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Significance: it depends on the meaning of 'large', whether it is large in monetary terms or as a percentage of GDP, and how long it stays at this level</i></li> <li>• <i>It depends on whether it is a developing or developed economy</i></li> <li>• <i>It depends what the money was spent on - if the debt is due to greater capital expenditure, we would expect fewer LR negative effects than if it were due to greater current expenditure and/or transfer payments</i></li> </ul>	(25)

Section A Part (a) Questions: Performance Criteria for Mark base 15		
Level 0	0	<ul style="list-style-type: none"> <li>• No rewardable material</li> </ul>
Level 1	1-3	<ul style="list-style-type: none"> <li>• Displays knowledge presented as facts without awareness of other viewpoints</li> <li>• Demonstrates limited understanding with little or no analysis</li> <li>• Attempts at selecting and applying different economic ideas are unsuccessful</li> <li>• Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.</li> </ul>
Level 2	4-6	<ul style="list-style-type: none"> <li>• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion</li> <li>• Displays a limited ability to select and apply different economic ideas</li> <li>• Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.</li> </ul>
Level 3	7-9	<ul style="list-style-type: none"> <li>• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark</li> <li>• Shows some ability to apply economic ideas and relate them to economic problems</li> <li>• Employs different approaches to reach conclusions</li> <li>• Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.</li> </ul>
Level 4	10-12	<ul style="list-style-type: none"> <li>• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved</li> <li>• Demonstrates an ability to select and apply economic ideas and to relate them to economic problems</li> <li>• Evidence of some evaluation of alternative approaches leading to conclusions</li> <li>• Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.</li> </ul>
Level 5	13-15	<ul style="list-style-type: none"> <li>• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues</li> <li>• Demonstrates an outstanding ability to select and apply economic ideas to economic problems</li> <li>• Evaluation is well balanced and critical leading to valid conclusions</li> <li>• Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.</li> </ul>

Section A Part (b) Questions: Performance Criteria for Mark base 25		
Level 0	0	<ul style="list-style-type: none"> <li>• No rewardable material</li> </ul>
Level 1	1-5	<ul style="list-style-type: none"> <li>• Displays knowledge presented as facts without awareness of other viewpoints</li> <li>• Demonstrates limited understanding with little or no analysis</li> <li>• Attempts at selecting and applying different economic ideas are unsuccessful</li> <li>• Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.</li> </ul>
Level 2	6-10	<ul style="list-style-type: none"> <li>• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion</li> <li>• Displays a limited ability to select and apply different economic ideas</li> <li>• Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.</li> </ul>
Level 3	11-15	<ul style="list-style-type: none"> <li>• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark</li> <li>• Shows some ability to apply economic ideas and relate them to economic problems</li> <li>• Employs different approaches to reach conclusions</li> <li>• Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.</li> </ul>
Level 4	16-20	<ul style="list-style-type: none"> <li>• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved</li> <li>• Demonstrates an ability to select and apply economic ideas and to relate them to economic problems</li> <li>• Evidence of some evaluation of alternative approaches leading to conclusions</li> <li>• Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.</li> </ul>
Level 5	21-25	<ul style="list-style-type: none"> <li>• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues</li> <li>• Demonstrates an outstanding ability to select and apply economic ideas to economic problems</li> <li>• Evaluation is well balanced and critical leading to valid conclusions</li> <li>• Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.</li> </ul>

Question Number	Answer	Mark
4(a)	<p>An increase in demand for the currency on foreign exchange markets (1) to pay for the exports, will cause an appreciation of the currency against the yuan (1) OR supply and demand diagram for the currency showing an increase in demand (1) and an increase in price/exchange rate (1)</p> <p>Application: "85% of China's imports from Africa are raw materials" (1) / the appreciation has the effect of "making other sectors of the domestic economy uncompetitive against foreign firms" (1) / reference to countries/raw materials which this may affect, e.g. oil from Angola (1+1)</p> <p>2 marks for knowledge; 2 marks for application</p>	(4)
Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for knowledge and/or data reference as above
Level 2	3-4	Up to 2 marks for knowledge and up to 2 marks for data references

Question Number	Answer	Mark
4(b)	<p>Factors include:</p> <ul style="list-style-type: none"> <li>• Growth of the Chinese economy between 2002 and 2011 has created a huge demand for imports of raw materials from Sub-Saharan Africa, and hence trade value has increased</li> <li>• Some Chinese loans must “must be spent on Chinese goods or Chinese-built infrastructure”, increasing the value of imports from China</li> <li>• Increased inwards FDI from China, and the fact that “Chinese firms often source their supplies and workers back home” may have led to an increase in both imports and exports</li> <li>• Slow-down in the US and EU economies from 2009 mean that there has been a lower demand for exports from Sub-Saharan Africa there, and hence trade value has decreased</li> <li>• Possible changes in the exchange rates between US/African economies, EU/African economies, China/African economies</li> </ul> <p>Application: Two specific data references from Figure 1 or Extract 1 (1 + 1)</p>	(8)
Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for identification of two reasons; and/or up to 2 marks for application
Level 2	3-4	Up to 2 marks for identification of two reasons; and/or up to 2 marks for application/analysis
Level 3	5-8	2 marks for identification of two reasons; 2 marks for application and 4 marks for analysis

Question Number		Mark
4 (c)		(12)
Knowledge, Application and Analysis – Indicative content		
	<p>Benefits of loans from China:</p> <ul style="list-style-type: none"> <li>• Fund the construction of “roads and schools”/”infrastructure” etc., increasing the economies’ productive capacity and leading to growth and development (possible AS/AD analysis)</li> <li>• Improved infrastructure can help the economies to trade internationally with all countries, and make them a more attractive location for inwards FDI</li> <li>• Lack of “strings” usually attached to Western aid</li> <li>• “The China Import-Export Bank is the continent’s largest creditor and Beijing has promised \$20bn more in loans from 2013 to 2016” – possibly solving the problem of a domestic savings gap (possible link to Harrod-Domar model)</li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefit(s) of loans from China with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the benefit(s) of loans from China. Material is presented with some relevance but there are likely to be passages which lack proper organisation. May focus on only one benefit. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of more than one benefit of loans from China with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content		
		<p>Candidates may evaluate either in terms of the negative aspects of loans from China, or in terms of considering the significance of the benefits analysed.</p> <p>Negatives include:</p> <ul style="list-style-type: none"> <li>• The availability of finance without “conditions relating to democracy, governance and human rights” may delay improvements in these things, which are beneficial in the LR</li> <li>• The “strings” attached may mean that the African economies are not getting a good deal, or that jobs and profits are going to the Chinese</li> </ul> <p>Other evaluative points:</p> <ul style="list-style-type: none"> <li>• It depends how useful the infrastructure built is, and whether there are the funds available to use/maintain it</li> <li>• It depends what the loan money is spent on/corrupt government may appropriate the funds for itself/poor governance</li> <li>• Increases in AS will not increase real GDP if AD is very low</li> <li>• Would need information on interest rate/repayment schedule to be able to make a judgement</li> </ul>
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation, or one evaluative comment with limited explanation.
2	3-4	For evaluative comments supported by relevant reasoning.



Question Number	Answer	Mark
4(d)		(16)
Knowledge, Application and Analysis – Indicative content		
	<ul style="list-style-type: none"> <li>Tariffs would help the African economies to industrialise, as Chinese imports would be less competitive, helping to move the economies away from primary product dependency / protection of infant industries while they gain economies of scale</li> <li>Tariffs would protect jobs in Africa: “Africa’s textile industry alone lost 750 000 jobs over the past decade”</li> <li>Increase in producer surplus for African producers</li> <li>Tariffs could raise revenue for the African governments</li> <li>Tariffs would improve the countries’ balance of payments on current account</li> <li>Tariffs would help to prevent against dumping</li> <li>Answer may make use of a diagram showing a tariff:</li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the case for imposing tariffs with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the case for imposing tariffs. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the case for imposing tariffs with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content		
		<ul style="list-style-type: none"> <li>• Cheap Chinese goods being imported help to make everyday living more affordable – tariffs would reduce consumers’ purchasing power / cause inflation</li> <li>• Cheap Chinese goods being imported help to develop the consumer sector across the continent, which domestic firms can also benefit from</li> <li>• China may not be willing to make so many loans to Africa if tariffs are put in place</li> <li>• Tariffs result in a net deadweight welfare loss (may be illustrated on a diagram)</li> <li>• Distortion of comparative advantage, may reduce global trade and growth</li> <li>• May lead to a trade war / retaliatory action</li> <li>• May not be possible if the country is a member of the WTO / trade bloc with a common external tariff</li> </ul>
Level	Mark	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation, or one evaluative comment with explanation.
2	4-6	For evaluative comments with explanations.
3	7-8	For evaluative comments supported by relevant reasoning and reference to context.

Question Number	Answer	Mark
5(a)	<p>Definition of a fiscal surplus: when government spending is less than tax revenue (2)</p> <p>Data reference: two years and/or sizes of fiscal surplus from Figure 1 (1 + 1)</p> <p>2 marks for knowledge, 2 marks for application/data reference</p>	(4)
Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for knowledge and/or data reference as above
Level 2	3-4	Up to 2 marks for knowledge and 2 marks for 2 data references

Question Number	Answer	Mark
5(b)	<ul style="list-style-type: none"> <li>• “Economic growth in emerging markets has slowed” – reducing the value of Germany’s exports to these countries</li> <li>• “In Europe, investment remains weak” – reducing European demand for exports of capital goods from Germany</li> <li>• Negative "net public investment" has constrained AD growth in Germany</li> <li>• Reduction in AS / possible reduction in inward FDI / possible worsening the trade balance and AD as German goods and services become less internationally price competitive due to: <ul style="list-style-type: none"> <li>○ “German wages have slowly been increasing thanks to the low rate of unemployment”</li> <li>○ “public investment has been lower than the depreciation of public capital”</li> <li>○ “qualified personnel are increasingly scarce, given the workforce’s rapid ageing”</li> <li>○ “Productivity measured in output per working hour is now roughly at the level of 2007”</li> <li>○ Declining state of the country's infrastructure</li> </ul> </li> </ul> <p>Application: Two specific data references from Figure 2 or Extract 1 (1+1)</p>	(8)
Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for identification of two reasons; and/or up to 2 marks for application
Level 2	3-4	Up to 2 marks for identification of two reasons; and/or up to 2 marks for application/analysis
Level 3	5-8	2 marks for identification of two reasons; 2 marks for application and 4 marks for analysis

Question Number	Answer	Mark
5(c)		(12)
Knowledge, Application and Analysis – Indicative content		
	<ul style="list-style-type: none"> <li>Understanding of specialisation</li> <li>Understanding/definition of comparative/absolute advantage</li> <li>Specialisation according to comparative advantage maximises output</li> <li>Specialisation increases productive efficiency / allows for exploitation of greater economies of scale</li> <li>Greater productive efficiency may lead to lower prices / more consumer surplus for domestic consumers</li> <li>Specialisation according to comparative advantage allows mutually beneficial trade – Germany can access points outside its PPF</li> </ul> <p>This may be illustrated diagrammatically or numerically.</p> <ul style="list-style-type: none"> <li>The goods that Germany specialises in have a high value added, leading to strong export-led growth / surplus in the balance of payments on current account</li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefit(s) of specialisation with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the benefit(s) of specialisation. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of more than one benefit of specialisation with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content		
		<ul style="list-style-type: none"> <li>• Specialisation means that the benefits of risk diversification cannot be achieved</li> <li>• It depends what goods a country is specialised in – primary product specialisation can cause problems</li> <li>• Possibility of diseconomies of scale, leading to productive inefficiency and higher prices for consumers</li> <li>• May lead to the creation of global monopolies leading to higher prices for consumers</li> <li>• A large current account surplus may not be desirable in the long run</li> <li>• Evaluation of the model used – in the real world: <ul style="list-style-type: none"> <li>○ PPFs are not linear</li> <li>○ Transport costs play a role</li> <li>○ Goods are not homogenous</li> <li>○ Trading blocs and trade agreements play a role</li> </ul> </li> </ul>
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation, or one evaluative comment with limited explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
5(d)		(16)
Knowledge, Application and Analysis – Indicative content		
	<ul style="list-style-type: none"> <li>• Understanding of infrastructure</li> <li>• Infrastructure investment would boost economic growth, which has been sluggish (possible AS/AD analysis)</li> <li>• Both relatively and absolutely the investment is necessary: “For roughly a decade now, public investment has been lower than the depreciation of public capital” / problems with roads, bridges etc.</li> <li>• A lack of infrastructure investment has reduced German productivity, reducing LRAS, and negatively affecting export sales / inward FDI etc.</li> <li>• It would be possible to raise taxes to fund the spending, so it could be achieved with no increase in the fiscal deficit</li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the case for increased infrastructure investment. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the case for increased infrastructure investment. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the case for increased infrastructure investment with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content		
		<ul style="list-style-type: none"> <li>• Germany already has enviable economic success, and a large current account surplus</li> <li>• Worsening of the budget deficit / crowding out theory</li> <li>• Impact on productivity and economic growth likely to occur in the LR only</li> <li>• The extract says that spending on education and R&amp;D is just as needed as spending on infrastructure, perhaps particularly with the ageing population?</li> <li>• In the wake of the sovereign debt crises, perhaps fiscal responsibility is crucial, particularly given Germany's position within the eurozone?</li> <li>• It depends exactly what parts of the country's infrastructure are invested in, and where these are located within Germany</li> </ul>
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation, or one evaluative comment with explanation.
2	4-6	For evaluative comments with limited explanations.
3	7-8	For evaluative comments supported by relevant reasoning.





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