



Mark scheme (Unused)

January 2022

Pearson Edexcel International A Level in  
Economics (WEC14/01)  
Unit 4: Developments in the global  
economy

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## General Marking Guidance

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

## Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	<b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	<p><b>The only correct answer is A</b></p> <p><i>B is not correct because this is not an example of day-to-day expenditure</i></p> <p><i>C is not correct because this example relates to government revenues rather than expenditure</i></p> <p><i>D is not correct because transfer payments relate to payments made by a government to individuals in the form of benefits</i></p>	(1)
2	<b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	<p><b>The only correct answer is B</b></p> <p><i>A is not correct because the central bank would sell the US dollar</i></p> <p><i>C is not correct because this would further depreciate the krone against the US dollar</i></p> <p><i>D is not correct because the central bank would buy the krone</i></p>	(1)
3	<b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms. <b>QS11:</b> - Understand composite indicators	<p><b>The only correct answer is C</b></p> <p><i>A is not correct because this is an example of a market-orientated strategy</i></p> <p><i>B is not correct because this is an example of a market-orientated strategy</i></p> <p><i>D is not correct because this is an example of a market-orientated strategy</i></p>	(1)
4	<b>QS9:</b> Interpret, apply and analyse information in written,	<b>The only correct answer is B</b>	

	graphical, tabular and numerical forms.	<p><b>A</b> is not correct because this is represented by the Harrod-Domar model</p> <p><b>C</b> is not correct because this is represented by the Phillips curve</p> <p><b>D</b> is not correct because these are instruments of monetary policy not represented by the Laffer curve</p>	(1)
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5	<p><b>QS5:</b> Calculate and interpret index numbers.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because Maldives had to export less goods to purchase a given quantity of imports</p> <p><b>C</b> is not correct because index of export prices exceeds the index of import prices throughout the given period</p> <p><b>D</b> is not correct because Maldives' terms of trade improved throughout the given period/Between 2000 and 2016 Maldives' terms of trade improved by 2.5%</p>	(1)
6	<p><b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because the distribution of income in Brazil has become more unequal</p> <p><b>B</b> is not correct because the Gini coefficient shows changes in income inequality</p> <p><b>C</b> is not correct because the income inequality in Brazil increased by 0.6 percentage points (not percent)</p>	(1)

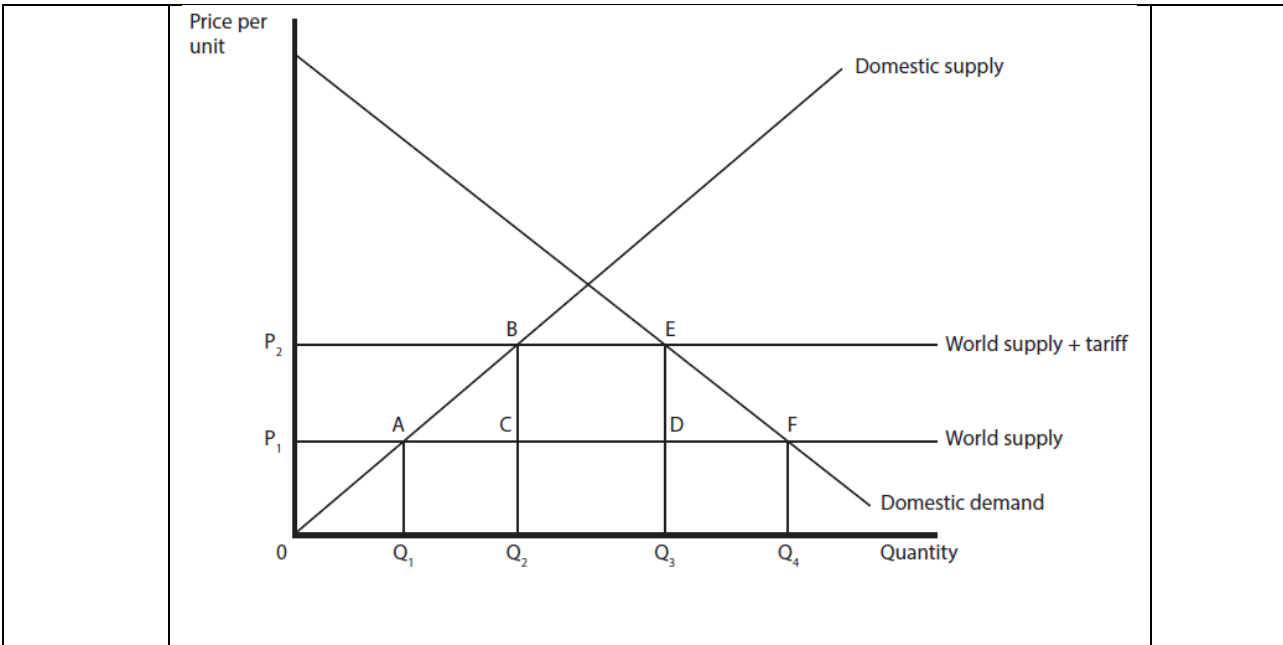
## Section B

Question	With reference to Figure 1, calculate the index number for international visitors to Taiwan from China in 2019, using 2015 as the base year. You are advised to show your working.  <b>Answer</b>	Mark
7(a)	<p><b>Application 2</b></p> <p>Quantitative skills assessed:  <b>QS5:</b> Calculate and interpret index numbers.  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Up to 2 marks for calculations:</p> <ul style="list-style-type: none"> <li>• 2.71/4.18 <b>(1)</b></li> <li>• x 100 = 64.8 <b>(1)</b></li> </ul> <p><b>N.B. Award 2 marks for the correct answer</b></p>	<b>(2)</b>

Question	Analyse <b>two</b> reasons why 'Taiwanese firms moved to China to set up their manufacturing facilities' (Extract A, lines 4-5).  <b>Answer</b>	Mark
7(b)	<p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>Quantitative skills assessed:  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <p>Up to 2 marks for knowledge of two reasons:  Taiwanese firms have:</p> <ul style="list-style-type: none"> <li>• access to cheap labour <b>(1)</b></li> <li>• access to a large Chinese market <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for application to the reasons:</p> <ul style="list-style-type: none"> <li>• China is Taiwan's most important trading partner <b>(1)</b></li> <li>• China is main destination for Taiwan's exports <b>(1)</b></li> <li>• Much of Taiwan's foreign direct investment also goes to China <b>(1)</b></li> <li>• Over 100 000 Taiwanese firms have moved to China <b>(1)</b></li> </ul>	<b>(6)</b>

	<ul style="list-style-type: none"> <li>An accurately labelled cost/revenue diagram showing change in revenue or costs <b>(1)</b> and increase in profits of Taiwanese firms <b>(1)</b></li> </ul> <p><b>Analysis</b></p> <p>1 mark for a linked explanation of each reason (1+1):</p> <ul style="list-style-type: none"> <li>Lower cost of production for firms, lower export prices and increase in international competitiveness <b>(1)</b></li> <li>Greater customer base and therefore higher revenue/sales and market share <b>(1)</b></li> </ul>	
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Question	Answer	Mark
7(c)	<p><b>Knowledge 2, Application 2</b></p> <p>Quantitative skills assessed:  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b>  Up to 2 marks for understanding of a tariff, e.g.:</p> <ul style="list-style-type: none"> <li>A tax <b>(1)</b> on imported goods <b>(1)</b></li> </ul> <p>1 mark for identification that tariff is a type of restriction on free trade/protectionist policy</p> <p><b>Application</b>  Up to 2 marks for application to a tariff, e.g.:</p> <ul style="list-style-type: none"> <li>US imposed tariffs on several Chinese-made goods in 2018 <b>(1)</b></li> <li>The average tariff is 19.3% on US imports from China <b>(1)</b></li> <li>An accurately labelled tariff diagram <b>(2)</b></li> </ul>	<b>(4)</b>





<b>Question</b>	With reference to the information provided and your own knowledge, examine <b>two</b> likely problems arising from the fall in the number of Chinese tourists to Taiwan.	<b>Mark</b>
7(d)	<p><b>Answer</b></p> <p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p>Quantitative skills assessed:  <b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes.  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge and analysis</b>  1 mark for knowledge of each problem (1+1) and 1 mark for linked analysis (1+1), e.g.:</p> <ul style="list-style-type: none"> <li>• Less tourists spending on goods/services provided in the local economy <b>(1)</b> will not help fill the foreign exchange gap/lower foreign exchange <b>(1)</b></li> <li>• Less FDI by TNCs in Taiwan <b>(1)</b> less investment in infrastructure, hotels, associated services <b>(1)</b></li> <li>• Lower injections could lead to slower economic growth <b>(1)</b> not creating enough employment: tourism is a labour-intensive industry <b>(1)</b></li> <li>• Less tax revenue for the government from lower expenditure by the tourists <b>(1)</b> available to reduce inequality through income redistribution/preserve national heritage <b>(1)</b></li> </ul> <p><b>Application</b>  Up to 2 marks for application to sources, e.g.:</p> <ul style="list-style-type: none"> <li>• Figure 1: Taiwan had only 2.71 million Chinese tourists in 2019 <b>(1)</b> down from 4.18 million in 2015 <b>(1)</b></li> </ul> <p><b>Evaluation</b>  Up to 2 marks for evaluative comments (1+1 or 2+0):</p> <ul style="list-style-type: none"> <li>• Problems are likely to be significant <b>(1)</b> as there has been a 35% fall in tourist numbers <b>(1)</b></li> <li>• There might not be a fall in FDI or economic growth as number of visitors from Japan and countries in Southeast Asia increased <b>(1)</b>, Japan 33%/The Philippines 264%/Thailand 242%/Vietnam 173% <b>(1)</b></li> <li>• Less tourists will reduce external costs <b>(1)</b> as there will be less pollution/waste/environmental damage <b>(1)</b></li> </ul>	<b>(8)</b>

<b>Question</b>	<p>Discuss policies, apart from tourism, being implemented by the Taiwanese Government to reduce its dependence on China.</p> <p><b>Indicative content</b></p>
<b>7(e)</b>	<p><b>Indicative content guidance</b></p> <p>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.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application and Analysis (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• “incentives that made it easier to buy land and register property” – reducing bureaucracy/regulatory burden on firms simplifies the process of buying land and gaining environmental clearances. It otherwise hinders entrepreneurship in the private sector by adding to a firm’s cost of production</li> <li>• “investment in infrastructure to ensure the continuous provision of gas, electricity and water supply” – improvements in infrastructure will help to address the bottlenecks in power sources and water supply. It ensures the stability of electricity (no power outages) and no water shortages. This will help raise total factor productivity through fall in costs for the private sector, thereby allowing more efficient use of productive inputs</li> <li>• “subsidies and tax incentives for the technology sector” – will reduce cost of production for firms and may encourage firms to invest in innovation which would not otherwise be started due to the high risk and cost involved. This allows the firms to gain technical economies of scale and dynamic efficiency. It helps reduce problem of lack of finance to fund research and development</li> <li>• Improved trade links with countries in both South Asia and Southeast Asia – allows for trade creation with countries in the NSP leading to increased specialisation and trade through comparative advantage. Countries in the NSP accounted for around 20% of Taiwan’s exports in 2019</li> </ul>

Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	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.
<b>Level 2</b>	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.
<b>Level 3</b>	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.
		<p><b>Evaluation (6 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• There is still “bureaucracy” that prevented many Taiwanese firms from returning to Taiwan. This is unlikely to increase level of domestic investment – only \$6.8 billion was invested in 2019 and \$1.1 billion in 2020 of the \$33 billion agreed</li> <li>• Planning infrastructure projects takes time, so it is not clear how quickly growth from this investment would become evident for the private sector. The benefits to the private sector depend on the quality of infrastructure</li> <li>• Risk of funding inefficient firms could lead to a misallocation of resources, leading to government failure. It is likely to encourage inefficiency in both large and small Taiwanese firms</li> <li>• “China accounted for nearly 40% of Taiwan’s exports in 2019” – trade diversion and distortion of comparative advantage</li> <li>• “China also has strong trade links with Southeast Asian countries. This has limited the extent to which Taiwan can promote its own trade relationships</li> </ul>

		<p>and cooperation with these countries” – Taiwan would continue to rely on China in the long run</p> <ul style="list-style-type: none"> <li>• “Severe shortages of highly skilled labour” – the country needs to focus on investing in education and training to raise the level of human capital</li> </ul>
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1–2	<p>Identification of generic evaluative comments.</p> <p>No supporting evidence/reference to context.</p> <p>No evidence of a logical chain of reasoning.</p>
<b>Level 2</b>	3–4	<p>Evidence of evaluation of alternative approaches</p> <p>Some supporting evidence/reference to context.</p> <p>Evaluation is supported by a partially-developed chain of reasoning.</p>
<b>Level 3</b>	5–6	<p>Evaluation recognises different viewpoints and/or is critical of the evidence.</p> <p>Appropriate reference to evidence/context.</p> <p>Evaluation is supported by a logical chain of reasoning.</p>

## Section C

<b>Question</b>	<p>In 2019 it was estimated that a large proportion of the fiscal deficit in Japan and the UK was structural.</p> <p>Evaluate whether a structural fiscal deficit is a more serious issue than a cyclical fiscal deficit. Refer to a country of your choice in your answer.</p> <p><b>Indicative content</b></p>
<b>8</b>	<p><b>Indicative content guidance</b></p> <p>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.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application, Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"><li>• Understanding of fiscal deficit</li><li>• 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</li><li>• Meaning of cyclical fiscal deficit: usually caused by a deficiency in aggregate demand, e.g. when the economy is in a period of recession</li><li>• 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</li><li>• Structural deficits may require tax rises and/or cuts in public expenditure</li><li>• Analysis of problems of a rising national debt include:<ul style="list-style-type: none"><li>○ reduction in the credit rating</li><li>○ cost for the future generations</li><li>○ crowding out (resource and financial)</li><li>○ cost implications of servicing the debt</li><li>○ danger of increased inflationary pressures</li></ul></li><li>• Cyclical deficit is likely to be temporary</li></ul>

	<ul style="list-style-type: none"> <li>• Cyclical deficit may be necessary to generate economic growth during a period of economic decline</li> </ul> <p><b>N.B. Accept why structural fiscal deficit is a more serious issue as KAA and why it is not as EV, or vice versa</b></p> <p><b>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country of their choice in their answer</b></p>	
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	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.
<b>Level 2</b>	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.
<b>Level 3</b>	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.
<b>Level 4</b>	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 most developed countries, e.g. UK, 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
- 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
- Prioritisation of the arguments/factors discussed
- Depends on the size of the fiscal deficit as a percentage of GDP

<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	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.



<p><b>Question</b></p>	<p>Between 2007 and 2017 income inequality increased in Denmark and in Italy.</p> <p>Evaluate possible causes of an increase in income inequality within a developed country of your choice.</p> <p><b>Indicative content</b></p>
<p><b>9</b></p>	<p><b>Indicative content guidance</b></p> <p>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.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application and Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Understanding of income inequality</li> </ul> <p>Possible causes include:</p> <ul style="list-style-type: none"> <li>• Changes in wages of different groups including e.g. training and skills: wage differentials between the unskilled and skilled workers have been increasing; minimum wage increasing slower than average earnings</li> <li>• Education: the earnings of those with certain qualifications have increased at a much faster rate than others</li> <li>• Disproportionate increase in earnings of top 1% as a result of e.g. incomes of the asset-rich have increased relative to the asset-poor; exploitation of tax loopholes</li> <li>• Pensions: especially amongst the elderly and ending of final salaries pension schemes; inflation for pensioners has been higher than the CPI rate as they spend a higher percentage of income on goods like council tax, fuel and food</li> <li>• Tax rates, e.g. such as VAT cut in taxes on incomes and wealth and/or rise in expenditure taxes that take higher percentage of people’s disposable income</li> <li>• Globalisation: the demand for, and wages of, the unskilled workers have fallen relative to those of highly skilled workers in developed economies</li> </ul>

- Immigration, e.g. of unskilled workers putting downward pressure on wages for those on low incomes – there appears to be growing number of low paid immigrant workers, who work for cash and are paid much less than the NMW
- Trade union power has been eroded: an increasingly flexible labour market, with more workers being employed part-time or zero hour contracts, as opposed to full time – they are not largely protected by the unions
- Macroeconomic policies, e.g. deregulation and privatisation that contributes to concentration of ownership of assets
- Reduction in out-of-work benefits and/or the reduction of in-work benefits. Increase in inter-generational inequality in some countries where state pensions have been increased
- Monopoly power of firms (especially TNCs) / the monopsony power of firms
- Increase in unemployment
- Pandemic affecting younger workers more than older workers

**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.
<b>Level 1</b>	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.
<b>Level 2</b>	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.
<b>Level 3</b>	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.
<b>Level 4</b>	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.
<p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Prioritisation and significance of the causes discussed – a combination of factors is likely to have a larger impact on income inequality</li> <li>• Changes in inequality over time, e.g. discussion if the rise is significant over 10 years – different factors affect a country during different times</li> <li>• Consideration of what is actually being measured, e.g. gross incomes or personal disposable income</li> <li>• This takes no account of the changes in the distribution of wealth, which might be more significant than income inequality</li> <li>• Unemployment rate may be more significant than level of skills and education or than state benefits</li> <li>• Globalisation has helped to reduce inequality through greater economic integration across national borders</li> <li>• The significance of a cause will be different in different countries, e.g. depending on policies to redistribute income</li> <li>• Differences may be explained by lifestyle rather than the causes above</li> <li>• Data might be either inaccurate or unreliable as it is difficult to collect</li> </ul>		
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.

<b>Level 3</b>	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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<b>Question</b>	<p>In 2020 Argentina's currency, the peso, fell by 75% against the US dollar.</p> <p>Evaluate factors that influence the exchange rate of a currency. Refer to a developing country of your choice in your answer.</p> <p><b>Indicative content</b></p>
<b>10</b>	<p><b>Indicative content guidance</b></p> <p>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.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application, Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Understanding of exchange rate</li> </ul> <p>Factors include:</p> <ul style="list-style-type: none"> <li>• Relative inflation rates: reference to purchasing power parity theory – e.g. if inflation in Argentina is relatively higher than elsewhere, then Argentina's exports will become less competitive, and there will be a fall in demand for peso. Therefore, higher inflation rates will lead to a depreciation of the peso</li> <li>• Relative interest rates – e.g. if Argentina's interest rate falls relative to other countries, it will become less attractive to deposit money in Argentina. There will be less hot money flows and the demand for peso will fall. The currency would depreciate</li> <li>• Speculation – e.g. if speculators believe the peso will fall in the future, they will demand less of the currency now. This fall in demand will cause its value to fall. Therefore, the currency would depreciate</li> <li>• Balance of payments: current account balance – e.g. if there is a persistent current account deficit, it would lead to a greater supply of currency relative to demand leading to fall in exchange rate and the peso will depreciate</li> <li>• Relative strength of the economy: debt crisis – e.g. if markets feared that Argentina's Government may default on its debt, then investors would sell their bonds causing a fall in value of the peso exchange rate</li> <li>• Developing countries tend to rely on exports of primary products that are often volatile in price, and this can have an impact on the exchange rate –</li> </ul>

		<p>e.g. if prices of commodities fall, exchange rate of exporting countries will depreciate (reference to “commodity currencies”)</p> <ul style="list-style-type: none"> <li>• Macroeconomic management – e.g. quantitative easing/asset purchases has caused a depreciation in the value of some currencies such as Chile, Poland, and Colombia</li> <li>• Allow analysis based on government/central bank manipulation of exchange rate through the buying and selling of the currency</li> </ul> <p><b>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country in their answer</b></p>
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–3	<p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach which has no chains of reasoning.</p>
<b>Level 2</b>	4–6	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>
<b>Level 3</b>	7–9	<p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>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.</p>
<b>Level 4</b>	10–12	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>

**Evaluation (8 marks) – indicative content**

- Small inflation rate differences might be offset by other factors, for e.g. stability of the economy
- Interest rate is now exhausted as a tool and quantitative easing may play more significant role in influencing exchange rate
- Discussion of the most significant factor, e.g. speculation; confidence about future state of economy
- Current account is relatively minor because other capital flows are much more significant – discussion of financial account position
- Comparison with developed countries, e.g. in Japan’s case, the national debt of over 230% has not prevented an appreciation of its currency
- The underlying strength of the economy is more important than short term macroeconomic management
- Significance of factors in short run and long run / changes over time
- Different factors will be important for different developing countries

<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	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.