



Mark Scheme (Final)

January 2015

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(WEC04) Paper 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.

**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		Mark
1 (a)	<ul style="list-style-type: none"> <li>• Understanding that this would reduce the demand for exports from the country, constraining aggregate demand</li> </ul> <p>The government could use fiscal policy:</p> <ul style="list-style-type: none"> <li>• An increase in government spending could compensate for the decrease in aggregate demand caused by the worsening of the trade balance</li> <li>• <i>The effectiveness of this would be determined by the size of the multiplier, there may be a time lag (depending on what the government spent on), and the government spending would have an opportunity cost. If it was in the form of export subsidies, it may break agreements with trade blocs or the WTO. Additionally, it could worsen government finances (fiscal deficit and national debt) - these are already very high for many countries and so such a policy may be unacceptable - and/or be inflationary.</i></li> <li>• The government could reduce tax rates:             <ul style="list-style-type: none"> <li>○ A reduction in income tax/VAT could lead to greater consumer spending in the country, allowing firms to sell to domestic consumers, rather than to international consumers. A reduction in corporation tax/tax breaks for R&amp;D etc. could lead to higher levels of investment, raising firms' price and non-price competitiveness, helping them to sell more goods both domestically and abroad.</li> <li>○ <i>Depending on consumers' YED for imports, they may respond to a tax cut by buying more imports, rather than domestically produced goods. Alternatively, depending on consumer confidence levels, they may save the money. Firms may not increase investment if their confidence levels are low, or if credit is difficult to obtain. The effect of a fall in price of goods would depend on consumers' PED for the goods</i></li> </ul> </li> <li>• The government could impose tariffs on imports, leading to a lower value of imports, maintaining the trade balance, and reducing the level of competition that firms face from foreign companies</li> <li>• <i>The effectiveness of this would depend on domestic consumers' PED for imports, domestic producers' PES, and the response of other countries, e.g. they may retaliate / lead to a trade war</i></li> </ul> <p>The government could use monetary policy:</p> <ul style="list-style-type: none"> <li>• A decrease in the interest rate / increase in the money supply would encourage spending by domestic consumers, reduce firms' production costs, and lead to a weakening of the currency, making exports relatively cheaper, and imports relatively more expensive</li> <li>• Alternatively exchange rate policy may be used - devaluation of the currency.</li> <li>• <i>This depends on consumer confidence, relative interest rates, domestic consumers' PED for imports and foreign consumers' PED for our export. It may also lead to competitive devaluations / currency wars. In some economies, the central bank controls monetary policy rather than the government.</i></li> </ul>	



	<p>The government could use supply-side policies:</p> <ul style="list-style-type: none"><li>• Free market and/or interventionist measures could be used to increase the economy's productive capacity, lowering cost-push inflationary pressures, and increasing the price and non-price competitiveness of the country's goods and services</li><li>• <i>Many of these policies are expensive, and are only effective with a significant time lag.</i></li></ul> <p>Also allow suggestions that the government should focus on increasing trade with its other partners to offset the loss of trade with the partner in recession (with appropriate evaluation).</p>	<p>(15)</p>
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Question Number		Mark
1 (b)	<ul style="list-style-type: none"> <li>• Understanding of economic growth</li> </ul> <p>Increased international trade leads to economic growth:</p> <ul style="list-style-type: none"> <li>• Increased trade allows more specialisation according to comparative advantage, raising efficiency, and allowing both countries to reach points outside of their PPFs. This means more goods and services for their populace to consume (candidates may illustrate this diagrammatically or with a numerical example)</li> <li>• If a country's exports increase by more than its imports, then aggregate demand may increase, leading to economic growth (candidates may use AS/AD diagram/analysis here)</li> <li>• Larger economies of scale mean more efficient production, which may lead to an increase in LRAS</li> <li>• Firms face more competition, giving them more incentive to produce efficiently, leading to an increase in LRAS</li> <li>• A higher rate of technological diffusion, means that efficient production methods and innovative products are more widely available / used, meaning an increase in LRAS</li> <li>• Increased trade may lead to increased rates of (inward) investment.</li> <li>• May lead to increased availability of foreign currency.</li> </ul> <p><i>Increased international trade does not lead to economic growth:</i></p> <ul style="list-style-type: none"> <li>• <i>If imports increase by more than exports, the country's trade balance will worsen, aggregate demand may fall, leading to constrained economic growth</i></li> <li>• <i>Increased specialisation according to comparative advantage reduces risk diversification, leading economies to be more vulnerable to external shocks, perhaps meaning lower rates of growth if a shock hits</i></li> <li>• <i>Infant industries may be out-competed, and particularly in terms of developing economies, this may prevent industrialisation taking place / creation of global monopolies, limiting future growth</i></li> <li>• <i>If developing countries are mainly exporting primary products, this may lead to a worsening of their terms of trade, hindering their growth and development</i></li> <li>• <i>More trade into developing countries may involve developed countries dumping goods on them, making it more difficult for domestic producers to become established and expand</i></li> </ul> <p><i>General evaluative points could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Consideration of the limitations of the model of comparative advantage</i></li> <li>• <i>Prioritisation of points</i></li> <li>• <i>The answer may be different for different countries, particularly developed and developing countries</i></li> <li>• <i>Effects on growth depend on the all other things being equal, the size of the multiplier, and the level of spare capacity in the economy</i></li> <li>• <i>Long run effects on growth may be greater than the short run effects</i></li> </ul>	(25)

Question Number		Mark
2 (a)	<p>Candidates may be rewarded for argument that international institutions and NGOs have been successful, or that they have not, and use reverse arguments in evaluation.</p> <ul style="list-style-type: none"> <li>• Understanding of a international institutions</li> <li>• Understanding of NGOs</li> <li>• Understanding of economic growth</li> <li>• Understanding of developing countries</li> </ul> <p>International institutions:</p> <ul style="list-style-type: none"> <li>• The World Bank - provides low-interest loans, interest-free credit and grants to developing countries for education, health, infrastructure etc. projects. Also offers debt relief.</li> <li>• The IMF - promotes international monetary co-operation, exchange rate stability, and orderly exchange rate arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. Also offers debt relief.</li> <li>• The WTO - promotes the liberalisation of international trade, allowing developing countries to compete in international markets, and provides advice and assistance to developing countries in settling trade disputes etc.</li> </ul> <p>NGOs:</p> <ul style="list-style-type: none"> <li>• Candidates may consider a range of different pressure groups, charities and community action groups, and a variety of different policies, e.g. aid, debt relief, fair trade, microfinance</li> </ul> <p><i>Evaluative comments could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Criticisms of international institutions, e.g. of the IMF's Poverty Reduction Strategies, extent of debt relief offered</i></li> <li>• <i>Failure of the development agenda part of the WTO's Doha round</i></li> <li>• <i>Developing countries with small delegations still find it difficult to participate in the WTO</i></li> <li>• <i>Significance of individual NGOs' impact</i></li> <li>• <i>May such organisations be perpetuating low levels of development by enabling poor governments, and not forcing Africa to compete?</i></li> <li>• <i>To what extent do foreigners know what is best for developing countries - aren't the countries themselves best placed to know what the most urgent problems, and best solutions are?</i></li> <li>• <i>Problems of aid - the type of aid, tied aid, aid fatigue etc.</i></li> </ul> <p><b>NB Award a maximum of 12 marks (Level 4) if a candidate does not consider both international institutions and NGOs in their response.</b></p>	(15)

Question Number		Mark
2(b)	<ul style="list-style-type: none"> <li>• Understanding of economic development</li> </ul> <p>Possible factors could include:</p> <ul style="list-style-type: none"> <li>• Primary product dependency</li> <li>• Savings gap</li> <li>• Inadequate capital accumulation</li> <li>• Foreign currency gap</li> <li>• Capital flight</li> <li>• Rapid population growth</li> <li>• Ageing population</li> <li>• Debt</li> <li>• Inadequate provision of credit and banking services</li> <li>• Corruption</li> <li>• Poor governance</li> <li>• Absence of property rights</li> <li>• Civil war</li> <li>• Inadequate levels of human capital (poor education and/or healthcare)</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>Different factors affect different countries, at different times</i></li> <li>• <i>Some of the factors may also have a positive effect on a country, e.g. rapid population growth</i></li> <li>• <i>As development has different aspects, several of these factors may work in combination to constrain progress</i></li> </ul> <p><b>NB Award a maximum of 20 marks (Level 4) if a candidate does not refer to a country or countries in their response.</b></p>	(25)



Question Number		Mark
3(a)	<ul style="list-style-type: none"> <li>• Understanding of a surplus on the current account of the balance of payments</li> <li>• Low levels of consumer spending, perhaps due to high levels of saving, leads to low value of imports</li> <li>• Large deposits of a commodity, e.g. oil</li> <li>• The use of protectionist policies by the country, e.g. subsidies to producers, tariffs applied to imports etc.</li> <li>• High levels of price competitiveness, may be due to:               <ul style="list-style-type: none"> <li>○ a weak (or perhaps under-valued) exchange rate</li> <li>○ low levels of inflation</li> <li>○ low relative unit labour costs</li> </ul> </li> <li>• High level of non-price competitiveness, may be due to:               <ul style="list-style-type: none"> <li>○ High levels of human capital</li> <li>○ High levels of capital investment / R&amp;D spending</li> </ul> </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 surplus (SR/LR causes)</i></li> <li>• <i>Different countries tend to have different reasons for running a surplus (e.g. compare Saudi Arabia, China and Germany)</i></li> <li>• <i>Prioritisation of factors</i></li> <li>• <i>WTO rules prevent protectionism to some extent</i></li> <li>• <i>Discussion of whether price or non-price competitiveness is the most important factor</i></li> </ul>	(15)

Question Number		Mark
3(b)	<p>Candidates may approach the question in a variety of ways: a general approach; a consideration of the significance of trade deficits; or a consideration of the significance of trade surpluses.</p> <ul style="list-style-type: none"> <li>• Understanding of current account imbalances.</li> </ul> <p>A general approach:</p> <ul style="list-style-type: none"> <li>• Danger of increased use of protectionist measures by countries with current account deficits <ul style="list-style-type: none"> <li>◦ <i>WTO rules might prevent protectionism</i></li> </ul> </li> <li>• Financial inflows from surplus countries to western capital markets led to asset price bubbles and to financial institutions taking excessive risks (could count as two points) <ul style="list-style-type: none"> <li>◦ <i>This could perhaps be countered by government regulation of markets</i></li> </ul> </li> <li>• Financial crisis led to deep falls in GDP of surplus countries who were heavily reliant on export-led growth <ul style="list-style-type: none"> <li>◦ <i>World trade declined for a relatively short period of time</i></li> </ul> </li> </ul> <p>In the case of current account deficits, analysis could include:</p> <ul style="list-style-type: none"> <li>• Might indicate a lack of competitiveness <ul style="list-style-type: none"> <li>◦ <i>But might be desirable if it reflects a trade imbalance caused by imports of capital goods</i></li> </ul> </li> <li>• Might imply rising unemployment in manufacturing industries <ul style="list-style-type: none"> <li>◦ <i>If labour is sufficiently mobile, this will be a SR problem only</i></li> </ul> </li> <li>• Might be difficult to finance <ul style="list-style-type: none"> <li>◦ <i>Inflows into the financial account have meant that this hasn't been a problem for e.g. USA and UK</i></li> </ul> </li> <li>• Might cause a depreciation of the exchange rate, with possible inflationary consequences <ul style="list-style-type: none"> <li>◦ <i>But this might bring about a correction of the deficit</i></li> </ul> </li> </ul> <p>In the case of current account surplus, analysis could include:</p> <ul style="list-style-type: none"> <li>• Implies other countries have deficits, which might result in the adoption of protectionist measures by these countries <ul style="list-style-type: none"> <li>◦ <i>WTO rules might prevent protectionism</i></li> </ul> </li> <li>• Implies a lack of consumption within the country</li> <li>• If a country isn't importing, it implies that it isn't allowing other countries to exploit their comparative advantages, preventing mutually beneficial trade <ul style="list-style-type: none"> <li>◦ <i>The current account surplus could be a result of surplus balances in the investment income and international transfers components, rather than the trade balance</i></li> </ul> </li> <li>• Might cause an appreciation of the exchange rate, reducing future price competitiveness - particularly a problem for developing countries seeking to diversify out of primary product production <ul style="list-style-type: none"> <li>◦ <i>But this might bring about a correction of the surplus</i></li> </ul> </li> </ul> <p><b>NB Award a maximum of 20 marks (Level 4) if a candidate does not refer to a country or countries in their response.</b></p>	(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 No.			Mark
4(a)	<p>Knowledge: roles include:</p> <ul style="list-style-type: none"> <li>• The promotion of free trade through the organisation of negotiations to reduce trade barriers (2)</li> <li>• Enforcing trade rules (2)</li> <li>• Settling trade disputes (2)</li> </ul> <p>Application: " Trade ministers from the WTO's 159 member nations (1) also signed a deal in December 2013 to clear red tape at borders around the world" (1) / "Doha round" (1) / "freer trade" (1)</p> <p>2 marks for knowledge; 2 for application</p>		(4)
Level	Mark	Descriptor	
Level 1	1-2	Up to 2 marks for knowledge - see above	
Level 2	3-4	Up to 2marks for knowledge and 2 marks for data references	

Question No.			
4(b)	<ul style="list-style-type: none"> <li>• Understanding of 'deglobalisation'</li> </ul> <p>Factors include:</p> <ul style="list-style-type: none"> <li>• Global trade to grow at the same rate as (or slower than) global GDP for the second year running</li> <li>• The aftermath of the financial crisis has led to reduced international capital flows</li> <li>• FDI around the world has been falling (absolutely and as a % of global GDP)</li> <li>• "it is not hard to find signs that foreign investors are becoming increasingly wary of doing business in places such as China"</li> </ul> <p>Application: 2 specific data references from Figure 1, Figure 2 or Extract 1(1 + 1)</p>		(8)
Level	Mark	Descriptor	
Level 1	1-2	2 marks for identification of two reasons	
Level 2	3-4	2 marks for identification of two reasons; 2 for application	
Level 3	5-8	2 marks for identification of two reasons; 2 for application and 4 for analysis	

Question Number		Mark
4(c)		(12)
Knowledge, Application and Analysis - Indicative content		
	<ul style="list-style-type: none"> <li>• More difficult for countries with a current account deficit to finance it</li> <li>• Lower rates of economic growth / higher unemployment / worse government budget balance in countries which had previously received much inward FDI</li> <li>• Lower financial account deficits for countries which had previously done much FDI</li> <li>• Higher levels of savings/investment in their own economies for countries which had previously done much FDI</li> <li>• Less well integrated and interdependent economies</li> <li>• Could lead to lower international trade in the future</li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the effects of falling FDI 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 effects of falling FDI. 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 effects of falling FDI 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>• Significance: in monetary terms, global FDI is still higher than it was in the mid-2000s, it rose in 2003-2007, and is very volatile</li> <li>• Extract 1 implies that the situation for world trade is beginning to improve, so we would expect FDI to follow suit</li> <li>• Financial and capital accounts of the balance of payments have other components, so a current account deficit could still be financed (e.g. through portfolio investment)</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
4(d)		(16)
Knowledge, Application and Analysis - Indicative content		
	<ul style="list-style-type: none"> <li>This is only a two year trend currently</li> <li>"transnational companies are dependent on international supply chains" - global specialisation/fragmentation of the production process means that countries must trade, and that there are high profits in trade for international firms</li> <li>"In late 2013, HSBC predicted that global trade would grow by an average of 8% up until 2030 thanks in large part to increased infrastructure spending in developing markets such as India"</li> <li>Forecast increase in demand for shipping containers (e.g. Maersk), implying more international trade in goods to be done</li> <li>Increase in the number of regional trade agreements in existence</li> <li>Trade facilitation deal negotiated by the WTO</li> <li>Slow growth of trade is a consequence of temporary factors like the problems in the eurozone</li> </ul>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the case for rising trade in the future 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 rising trade in the future. 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 rising trade in the future 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>Breaking a 30 year pattern / hasn't happened since the early 1980s / only extended period where this has happened was 1913-1950</li> <li>Regional trade deals haven't yet been signed</li> <li>WTO's trade facilitation deal was only a small part of the full Doha round negotiations - progress on the remainder is still stalled</li> <li>Uncertain how long the problems in the eurozone will persist</li> <li>Falling FDI inflows - investors are becoming increasingly cautious about doing business in places such as China</li> <li>Another external shock may hit global trade</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation.
2	4-6	For evaluative comments with limited explanations.
3	7-8	For evaluative comments supported by relevant reasoning.

Question No.		Mark
5(a)	<p>Knowledge: Capital expenditure is spending on investment goods / items are used again and again / for a long period of time / not used up (1)</p> <p>Transfer payments are money paid to households/individuals not in return for any goods or services provided (1)</p> <p>Data reference: Capital expenditure: infrastructure (Olympic Games) (1) Transfer payments: pensions / "welfare-related payments" (1)</p> <p>2 marks for knowledge, 2 for application/data reference</p>	(4)
Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for knowledge - see above
Level 2	3-4	Up to 2 marks for knowledge and 2 marks for 2 data references

Question no.		Mark
5(b)	<ul style="list-style-type: none"> <li>• Understanding of public expenditure</li> <li>• Changing expectations</li> <li>• Ageing population leading to rising medical and pension costs (may count as two factors)</li> <li>• Fiscal stimulus package in 2013 and 2014 to stimulate economic growth</li> <li>• Infrastructure works ahead of the 2020 Olympics</li> </ul> <p>Data reference (2 marks)</p>	(8)
Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two reasons
Level 2	3-4	2 marks for identification of two reasons; 2 for application as indicated above
Level 3	5-8	2 marks for identification of two reasons; 2 for application as indicated above and 4 for analysis



Question Number			Mark
5(c)			(12)
Knowledge, Application and Analysis - Indicative content			
	<ul style="list-style-type: none"> <li>Lower consumer purchasing power, leading to lower levels of consumer spending, and constrained aggregate demand growth, and hence constrained economic growth</li> <li>As labour is a derived demand, this may lead to increased demand-deficient unemployment</li> <li>May be illustrated using an AS/AD diagram</li> <li>Increasing inflationary pressures</li> <li>Improvement in the government's budget balance, as tax revenue increases</li> <li>Increase in income inequality as VAT is a regressive tax</li> <li>FDI into Japan may rise as investor confidence improves as a result of the falling budget deficit</li> </ul>		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of the effects of the tax rise. 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 effects of the tax rise. 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 effects of the tax rise 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>The government's three strategies may prevent any fall in aggregate demand, meaning that economic growth, and hence unemployment are not affected</li> <li>Significance: tax rise is being done in two stages. Although the rise from 5% to 10% represents a doubling of the tax rate, it is still relatively low</li> <li>The creation of inflationary pressures is not problematic, as inflation remains below target</li> <li>Tax revenue may rise or fall (Laffer curve analysis)</li> <li>If economic growth does not rise, investor confidence is unlikely to increase, meaning that inward FDI may not rise</li> <li>Consumption has been the main engine of economic growth, so any reduction in this is likely to have significant effects on the economy</li> <li>Effects of lower aggregate demand would depend on the level of spare capacity in the economy (extract implies this might be present), and the size of the multiplier</li> </ul>		
Level	Marks	Descriptor	
0	0	No evaluative comments.	
1	1-2	For identifying evaluative comments without explanation.	
2	3-4	For evaluative comments supported by relevant reasoning.	

Question Number			Mark
5(d)			(16)
Knowledge, Application and Analysis - Indicative content			
	<ul style="list-style-type: none"> <li>Understanding of monetary policy, and 'ultra-loose monetary policy'</li> <li>Reference to Japan's macroeconomic objectives (Extract 2)</li> </ul> <p>End deflation / 2% CPI inflation:</p> <ul style="list-style-type: none"> <li>Inflation has risen since March 2013 / currently at its highest level for a long time</li> <li>Explanation of how ultra-loose monetary policy would be expected to lead to demand pull inflation</li> </ul> <p>Maintain fiscal sustainability:</p> <ul style="list-style-type: none"> <li>Reference to the size of Japan's budget deficit / national debt from Figure 2/Extract 2</li> <li>Expansionary monetary policy could allow the government to tighten fiscal policy (increasing tax revenue) without sacrificing growth and inflation</li> <li>If the monetary policy generates economic growth, it would lead to an improved government budget balance as transfer payments fall, and tax revenue rises, automatically</li> <li>Higher inflation may erode the real value of government debt (if borrowed in yen)</li> </ul> <p>Raise potential growth:</p> <ul style="list-style-type: none"> <li>Lower cost of borrowing for firms, likely to lead to more investment, leading to higher potential growth</li> <li>Ultra-loose monetary policy should create high incentives for firms to invest, as consumer spending rises, leading to higher potential growth</li> <li>Increased business confidence leading to higher investment</li> </ul> <p><b>NB A Level 3 response must address all three objectives.</b></p>		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of the achievements on monetary policy. 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 achievements of monetary policy. 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 achievements of monetary policy 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>• Inflation rate is still only just above 1%, and has stayed constant most recently</li> <li>• Foreign demand and business investment have not been the main contributors to rising aggregate demand most recently, implying some of the monetary policy transmission mechanisms may not be working</li> <li>• Rising taxes may outweigh the incentive to increase consumption due to low interest rates</li> <li>• Budget deficit appears to be rising still, and extract implies that expansionary fiscal policy is still required to ensure growth, even with the current ultra-loose monetary policy</li> <li>• High level of capital expenditure among Japanese firms already - more investment may not raise potential growth</li> </ul>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation.
2	4-6	For evaluative comments with limited explanations.
3	7-8	For evaluative comments supported by relevant reasoning.

