



ADVANCED
General Certificate of Education

Economics

Assessment Unit A2 2

assessing

Managing the Economy in a Global World

[AEC21]

Assessment

**MARK
SCHEME**

Users are strongly recommended to study the General Marking Instructions at the beginning. Particular attention to guidance on levels of response, making calculations and quality of written communication will make the mark scheme easier to understand and apply.

General Marking Instructions

This mark scheme is intended to ensure that the A2 examinations are marked consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidate responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses. The mark schemes should be read in conjunction with these general marking instructions which apply to all papers.

Quality of candidates' responses

In marking the examination paper, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of 18-year-olds, which is the age at which the majority of candidates sit their A2 examinations.

Flexibility in marking

The mark scheme is not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which the candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected for 18-year-old candidates. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect and inappropriate.

Types of mark schemes

Mark schemes for questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. These questions are indicated on the cover of the examination paper. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided. Some material may be included in the mark scheme for the benefit of teachers and pupils preparing for future examinations. Candidates are not expected to have provided this information. Such material is printed in the mark scheme in italics.

Levels of response

Questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the "best fit" bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

Threshold performance: Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.

Intermediate performance: Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.

High performance: Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Marking calculations

In marking answers involving calculations, examiners should apply the “own figure rule” so that candidates are not penalised more than once for a computational error.

As an example, a question might be seeking to test candidates’ understanding of the components of the current balance of a hypothetical nation’s balance of international payments. The main part (a) of the question might, for 4 marks, require them to calculate values of balances in trade in goods, trade in services, primary income and secondary income from a collection of relevant (and possibly some unnecessary) data. Part (b) of that question might require calculation of that nation’s balance of payments on current account for 1 mark.

Even if that A2 candidate miscalculated all four of the items in part (a), CCEA’s marking principles require examiners to verify the accuracy of totalling of the answers given as those four elements in the answer to part (b), and to award 1 mark for the candidate’s knowledge that the current balance is the sum of those four components, coupled with their accuracy in totalling them.

Quality of written communication

Quality of written communication is taken into account in assessing candidates’ responses to all questions that require them to respond in extended written form. These questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication. Where the quality of candidates’ economics is not matched by the quality of written communication, marks awarded will not exceed the maximum for Level 2 in questions which have three levels of response or the maximum for Level 3 in those which have four levels of response.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is limited.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is of a high standard.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited attempt to select and use an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable attempt to select and use an appropriate form and style of writing, supported with appropriate use of diagrams as required. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning evident.

Level 3 (High Standard): The candidate successfully selects and uses an appropriate form and style of writing, supported with the effective use of diagrams where appropriate. Relevant material is organised with a high degree of clarity and coherence. There is widespread use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

Level 4 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing, supported with precise and accurate use of diagrams where appropriate. Relevant material is extremely well organised with the highest degree of clarity and coherence. There is extensive and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard and ensure that meaning is absolutely clear.

Section A

**AVAILABLE
MARKS**

- 1 (a)** The current balance is the total of the four items listed in the table, –£82 billion [2]
For correct method but error in calculation or presentation [1]
A candidate who produces the correct answer without any evidence of how they arrived at that answer would receive the full 2 marks. An incorrect answer without any evidence of how it was arrived at would receive 0 marks even if an examiner could guess at where the error was made. The correct methodology but with an inputting or transcription error leading to the wrong answer would receive 1 mark. An answer of -82 missing either the pound sign or billions would receive 1 mark. [2]
- (b)** The components of the (*overall*) balance of payments accounts are the *current account balance* (given), the **capital balance** [1], the **balance on financial account** [1], and *net errors and omissions* (given).
This is simply 1 mark for capital account, 1 mark for balance on financial account. A simple divergence in expression – for example, ‘financial balance’, would still see the candidate receive those marks. [2]
- 2 (a)** A purchasing power parity exchange rate is a rate of currency conversion that makes adjustments to allow for domestic purchasing power of different currencies by eliminating the differences in price levels between two countries. *This may be done by calculating respective prices for a basket of similar commodities*
To obtain the 2 marks the candidate needs to be clear that the exchange rate makes adjustments for different price levels in the two countries. The idea in italics is not required for 2 marks. Some vague understanding that it is an exchange rate adjusted for price differentials would suffice for 1 mark. [2]
- (b)** $(41840 \div 30600) = 1.367$
For calculation of US\$1 \approx 1.37 ringgits (MYR)
or 1 ringgit (MYR) = \$0.73 [2]
For correct method but error in calculation or presentation [1]
A candidate who produces the correct answer without any evidence of how they arrived at that answer would receive the full 2 marks. An incorrect answer without any evidence of how it was arrived at would receive 0 marks even if an examiner could guess at where the error was made. The correct methodology but with an inputting or transcription error leading to the wrong answer would receive 1 mark. An answer which fails to specify the currency units would receive 1 mark. [2]

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| | | AVAILABLE MARKS |
|---|-----|-----------------|
| <p>3 (a) The Human Development Index is a composite statistic of</p> <ul style="list-style-type: none"> • life expectancy at birth • mean years of schooling and expected years of schooling • GNI per capita <p>For accurate identification of any one of these pieces of data [2] For partial definition, such as “literacy rates” or “GDP” [1] [2]</p> <p>(b) The information in the table shows that Cuba has a higher level of development than South Africa. [1] The fact that Cuba has a higher HDI score than South Africa despite having a significantly lower income per person suggests that Cuban citizens must have longer life expectancy or/and a higher number of years of schooling than South Africans. [2] Total mark available for question 3 part (b) [3] To obtain 1 mark a candidate only has to state that Cuba is more developed than South Africa. A candidate who displays a vague understanding that, although Cuba is poorer in terms of GDP per capita, it must have a healthier or better educated population (or both) than South Africa would receive 2 marks. To obtain all 3 marks the candidate should refer specifically to the UN’s criteria of longer life expectancy and/or more years of schooling. [3]</p> | [2] | 5 |
| <p>4 The calculation simply involves adding net increases in UK national debt for each year to the total debt at the start of the period. An estimate, according to these projections would be</p> <p>£1660 billion + £(80 + 55 + 50 + 35 + 20) billion = £(1660 + 240) billion = £1900 billion.</p> <p>For correct methodology, but error in calculation or presentation, up to [2] A candidate who produces the correct answer without any evidence of how they arrived at that answer would receive the full 3 marks. An incorrect answer without any evidence of how it was arrived at would receive 0 marks even if an examiner could guess at where the error was made. The correct methodology but with an inputting or transcription error leading to the wrong answer could receive up to 2 marks. An answer of 1900 missing pound sign and/or billions would receive 1 mark if without evidence of working out, but 2 marks if correct workings are shown. [3]</p> | [3] | 3 |

- 5 The year-on-year change in the TWI for the South Pacific dollar (SP\$) would be calculated as below :

| Trading area | Weight | Exchange rate as percentage of previous rate | Column 2 x Column 3 |
|----------------|--------|--|---------------------|
| Africa/America | 0.15 | 120 | 18.00 |
| Asia | 0.50 | 108 | 54.00 |
| Australia/NZ | 0.20 | 95 | 19.00 |
| Europe | 0.15 | 100 | 15.00 |
| Total | | | 106.00 |

For any accurate interpretation of this :

the SP\$ has effectively appreciated by 6% (6.0%)/

the SP\$ is effectively at 106% of its 2 July 2018 value [4]

For correct methodology but error(s) in calculation or presentation, up to [3]

A candidate who produces the correct answer without any evidence of how they arrived at that answer would receive the full 4 marks. A candidate who expresses the answer in such terms as : “The trade weighted exchange rate index for the SP\$ would stand at 106.00” should receive 3 marks. An incorrect answer without any evidence of how it was arrived at would receive 0 marks even if an examiner could guess at where the error was made. Simple inputting or transcription errors should be assessed using the “own-figure” rule – for example, if the candidate had made a single error in calculating the trade-weighted change in exchange rates with European countries, but otherwise accurately calculated **and** interpreted the index value on that basis should earn 3 marks. [4]

Section A

**AVAILABLE
MARKS**

4

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Section B

**AVAILABLE
MARKS**

- 6 (a)** Candidates may make some of the following points:
- except in 1998, 2001-2003 and 2014 world GDP was growing more quickly than in the UK
 - there's little regular pattern of growth overall, but movements in UK growth rates tend to mirror world trends
 - world GDP increased in every year except 2009 (-1.7%)
 - UK GDP fell in both 2008 and 2009
 - 2009 slump more serious in UK than in the world generally -
 - UK economy shrank by two-and-a-half times the world average
 - the highest rate of world GDP increase was 4.4% in 2000
 - the lowest positive world growth 1.85% occurred in 2008
 - world growth rates since 2010 have stabilised to around 3%
 - average rate of growth in the world over the period was (2.92) was approximately 3%, in the UK approximately 2% (1.99)
 - world GDP grew by approximately 80% during the period
 - UK GDP grew by approximately 47% from 1998 to 2018

A candidate who makes some basic points about trends, for example that UK GDP fell in 2008 and 2009 or that world GDP rose every year except 2008 would gain 2 marks. To gain 3 or 4 candidates would need to both make a comparison of trends, for example that the 2009 slump was more serious in the UK than in the world as a whole and use the data accurately to support points they are making.

[2] marks for basic description of trends

[2] marks for comparison of trends with appropriate use of data [4]

- (b)** Globalisation has gathered pace due to a number of factors:
- developments in transport such as containerisation have slashed transport costs
 - modern communications are virtually instantaneous and cheap
 - gradual improvements in welfare in LDCs have led to improvements in the productivity of local workforces
 - improvements in technology (computers and machinery) have increased the efficiency of production
 - sharing of ideas and information also increases productivity
 - improvements in production scheduling techniques have allowed manufacturers to exploit division of labour and specialisation on a global scale
 - there has been a move towards market economics
 - it has become easier to invest across national frontiers – for both direct and portfolio investment
 - there have been fewer barriers to prevent workers moving to different countries
 - multinational companies can minimise production costs and optimise economies of scale
 - there has been a steady increase in the number and influence of trading blocs
 - the WTO has encouraged growth in trade by fostering co-operation and working to dismantle trade barriers

Level 1 ([1]–[3])

A basic response provides an answer that demonstrates:

- basic knowledge and understanding of relevant terminology, concepts, principles and models
- basic application of relevant economic principles, terminology, concepts and models to the context of the question
- some limited use of data and, where relevant, diagrams to address the issues in the question
- basic analysis; may lack focus
- a low quality of written communication

At this level a candidate would show some understanding of some of the causes of globalisation, but limited explanation of these. Some of the data may be reproduced to support this.

Level 2 ([4]–[6])

A good response provides an answer that demonstrates:

- good knowledge and understanding of relevant terminology, concepts, principles and models
- good application of relevant economic principles, terminology, concepts and models to the context of the question
- where relevant, data and diagrams used reasonably to address the issues in the question
- good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have some inaccuracy at times
- a good quality of written communication

At this level there would be a good understanding of the factors which have led to globalisation. Examples might be taken from the data, or candidate's own knowledge, and developed. There would be a basic analysis of how these factors would impact on globalisation; for example, lower transport costs make it cheaper to ship goods between countries. Other factors could be analysed.

Level 3 ([7]–[9])

An excellent response provides an answer that demonstrates:

- excellent, accurate knowledge and understanding of relevant terminology, concepts, principles and models
- excellent application of relevant economic principles, terminology, concepts and models to the context of the question
- where relevant, data and diagrams used effectively to address the issues in the question
- well-focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents
- an excellent quality of written communication [9]

At this level there would be an excellent understanding of the factors leading to globalisation. Relevant examples would be used and possibly a tariff diagram (though the latter is not essential). There would be a well-developed analysis of how the factors have increased globalisation. For example, the WTO has encouraged the reduction of tariffs, this lowers the cost of imports leading to an increase in trade as countries specialise more.

- (c) Reducing immigration into the UK could have a number of social and economic impacts, including:
- reduction in supply of labour and increase in wage rate, potentially leading to higher inflation
 - leftward shift in aggregate supply curve
 - reduction in aggregate demand
 - reduction in pressures on health and educational services and the housing market
 - reduction in social tensions between migrants and local population
 - serious labour and skill shortages in key areas such as health and welfare services
 - possibility that labour shortages and higher wages could force firms to increase investment
 - reduced need for translation services
 - possibility that reduction in numbers of overseas students may raise costs of higher education for British students
 - loss of the cultural benefits of population diversity
 - potential for greater job opportunities for lower-skilled workers
 - demographic implications: probable increase in dependency ratio
 - probable fiscal problems arising from reductions in government tax revenues

Issues and areas for analysis and discussion:

- impacts on the labour market
- impacts on macroeconomic objectives
- impacts on public service provisions
- impacts on political stability
- appropriate examples
- appropriate diagrams

Level 1 ([1]–[4])

A basic response provides an answer that demonstrates:

- basic knowledge and understanding of relevant terminology, concepts, principles and models
- basic application of relevant economic principles, terminology, concepts, and models to the context of the question
- some limited use of data and, where relevant, diagrams in relation to the context of the question
- basic evaluation; evaluation may lack focus
- judgement(s) unsupported
- a low quality of written communication

At this level a candidate would show some understanding of reducing immigration; however, economic content might be limited, and the answer could steer towards emotive assertions. There might be simple transcription of some of the data.

Level 2 ([5]–[8])

A good response provides an answer that demonstrates:

- good knowledge and understanding of relevant terminology, concepts, principles and models
- good application of relevant economic principles, terminology, concepts, and models to the context of the question
- where relevant, some reasonable use of data and diagrams in relation

to the context of the question

- good evaluation in relation to the impact on economic agents; evaluation may not be developed fully or may have inaccuracies at times
- reasonably valid judgements linked to the issues in the question and partially reasoned conclusions
- a good quality of written communication

At this level a candidate would show good understanding of the economic consequences of reducing immigration. This could be supported with use of the data or appropriate examples. The candidate might attempt to use diagrams, for example labour demand and supply, showing a reduction in labour supply or an LRAS curve showing a fall in LRAS. However, the diagrams may contain errors or lack accompanying explanation. There would be some analysis and evaluation – for example, restricting immigration would reduce the labour supply, this could lead to shortages in certain areas such as the NHS which could prove difficult to fill.

Level 3 ([9]–[12])

An excellent response provides an answer that demonstrates:

- excellent, accurate knowledge and understanding of relevant terminology, concepts, principles and models
- excellent application of relevant economic principles, terminology, concepts and models to the context of the question
- where relevant, data and diagrams used effectively to address the issues in the question
- well-focused, relevant evaluation used accurately and appropriately in relation to the impact on economic agents
- informed judgements that directly address the issues in the question and reach clear conclusions built on evaluation
- an excellent quality of written communication

At this level a candidate would show an excellent understanding of the economic impact of reducing immigration. This would be supported by relevant examples. There may be a good use of appropriate diagrams (demand and supply, AD/AS) which are properly labelled and explained. There would be clear analysis and relevant evaluation. For example, reduced immigration might reduce pressure on public services such as health care and education; however, most immigrants are of working age and less likely to consume these services. Moreover, the taxes paid by migrants would no longer be available to fund public services, nor would the labour they provide to keep these public services running. Other relevant examples could be used.

All other valid responses will be given credit.

[12]

- (d) In Economics, investment is generally considered beneficial, and in a country such as the United Kingdom, where gross fixed capital formation has for long lagged behind that of comparable nations, improvements in the country's capital stock would be widely welcomed.

However, what foreign direct investment involves is a company or (group of) investor(s) from abroad investing in an industry or company in another country. It includes:

- a multinational company extending the size of one of its foreign operations;
- the establishment of a new factory or operation in another country;

- acquisition of a significant proportion of the shares in an existing company.

FDI may, indeed, involve capital creation, but need not do so.

Although inward flows, measured on the financial account of the balance of payments, offset deficits on current account, they may result in greater shortfalls in the current account in the future.

Working practices introduced by overseas employers are not necessarily beneficial **or** damaging to workers in the target country, but might be either. Similarly, foreign ownership of domestic companies may equally jeopardise or safeguard workers' job security.

However, firms with branches in more than one country may use "creative accounting" to avoid tax obligations. Business enterprises operating in a country which is not their own may have a casual attitude to the local environment, especially if there are no or few barriers to their pulling out of the host country. Some critics feel that FDI often involves some degree of 'cultural imperialism.'

Issues and areas for analysis and evaluation:

- discussion of the essential difference between FDI and fixed capital formation
- discussion of possible benefits to a country of inward FDI – for example, achieving increases in domestic productivity
- discussion of timescale of impact of FDI on balance of payments
- discussion of social and commercial impact of foreign ideas and working practices (positive as well as negative)
- discussion of the ethics of some MNCs
- discussion of possible dangers to a country when global conditions or legitimate self-interest of foreign investors lead to withdrawal of funds/ closure of production facilities
- discussion of possible impacts on national security of strategically important industries in foreign ownership
- discussion of possible "crowding out" of domestic investment projects
- appropriate examples

Level 1 ([1]–[5])

A basic response provides an answer that demonstrates:

- basic knowledge and understanding of relevant terminology, concepts, principles and models
- basic application of relevant economic principles, terminology, concepts, and models to the context of the question
- some limited use of data, and diagrams where relevant, in relation to the context of the question
- basic analysis; analysis may lack focus
- judgement(s) unsupported
- a low quality of written communication

At this level a candidate might have some understanding of the impact of FDI, but this might be at a superficial level. There may be unsupported assertions, for example multinationals exploit labour or avoid paying tax which are not supported. There would be a low quality of written communication.

Level 2 ([6]–[10])

A good response provides an answer that demonstrates:

- good knowledge and understanding of relevant terminology, concepts, principles and models
- good application of relevant economic principles, terminology, concepts, and models to the context of the question
- where relevant, some reasonable use of data and diagrams in relation to the context of the question
- good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times
- reasonable judgement(s) building on analysis
- a good quality of written communication

At this level a candidate would show a good understanding of the impact of FDI. Relevant data and diagrams could be used – for example, an AD/AS diagram showing impact of increased investment. However, these may contain errors and/or lack proper explanation. There would be some analysis and explanation – for example, that multinationals may increase a country’s exports, thus actually helping to improve the current account on the balance of payments.

Level 3 ([11]–[15])

An excellent response provides an answer that demonstrates:

- excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models
- excellent application of relevant economic principles, terminology, concepts and models to the context of the question
- where relevant, data and diagrams used effectively to address the issues in the question
- well-focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents
- informed judgements that directly address the issues in the question and reach clear conclusions built on analysis
- an excellent quality of written communication

At this level a candidate would have an excellent understanding of the impact of FDI. There might be excellent use of relevant diagrams and data. Diagrams would be clearly drawn and correctly labelled and explained. There would be clear analysis and evaluation showing understanding of the nuances and complexities of FDI. For example, a multinational might avoid paying corporation tax; however, it could employ many highly paid workers who will pay income tax and additional taxes through their expenditure.

All other valid responses will be given credit. [15]

Section B

| AVAILABLE MARKS | |
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| | 40 |
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- 7 Financial markets clearly are a very important element in the UK's surplus on trade in services, employment and growth in GDP. Trading in these markets requires great expertise due to their complexity and scope, and these factors make it very difficult to regulate the industry effectively. An additional problem is that warning signs about problems in the financial sector may be difficult to interpret, especially as some trends such as house price inflation may be "feel good" factors for many economic agents. The 'light touch' approach favoured by UK governments since the 1980s in their dealings with the financial services industry may well have been a significant factor in the banking crisis of 2008.

Alistair Darling's concern was that danger signals were not being taken seriously enough. The Financial Services Act of 2012 created a framework of new regulatory bodies, but critics have accused the government of a lukewarm attitude to supporting that legislation.

Issues and areas for analysis and evaluation include:

- discussion of importance of financial sector to the UK economy
- discussion of risks with loosely regulated financial system
- discussion of consequences of asset price bubbles
- explanation of factors leading to the financial crisis of 2007–2008
- discussion of problems in controlling financial services industry
- description of purposes of the Prudential Regulation Authority, Financial Conduct Authority and Financial Policy Committee
- reference to undesirable activities of companies in the financial sector
- discussion of powers, effectiveness and diligence of regulatory bodies
- explanation of how construction of the CPI may make it more difficult to identify future problems
- reference to market failure; reference to government failure
- appropriate examples

Level 1 ([1]–[7])

A basic response provides an answer that demonstrates:

- basic knowledge and understanding of relevant terminology, concepts, principles and models
- basic application of relevant economic principles, terminology, concepts, and models to the context of the question
- some limited use of data, and diagrams where relevant, in relation to the context of the question
- basic analysis; analysis may lack focus
- judgement(s) unsupported
- a low quality of written communication

At this level a candidate is likely to show some understanding of the importance of the financial sector to the UK economy. There may be some discussion of the regulatory bodies such as the FCA and the Prudential Regulation authority, though this may be confused. Some examples of regulation or financial problems may be given. Analysis of causes of financial problems, how regulation would work, or the problems of regulation will be absent or lacking in detail.

Level 2 ([8]–[15])

A reasonable response provides an answer that demonstrates:

- reasonable knowledge and understanding of relevant terminology, concepts, principles and models

- reasonable application of relevant economic principles, terminology, concepts, and models to the context of the question
- some reasonable use of data, and diagrams where relevant, in relation to the context of the question
- reasonable analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times
- reasonable judgement(s) building on analysis
- a reasonable quality of written communication

At this level a candidate is likely to show a reasonable knowledge of the importance of the financial sector and why it needs to be regulated. There will be some reference to examples such as the credit crunch, PPI misselling or other appropriate examples. There will be a developed analysis of why regulation may be needed possibly including asymmetric information between consumers and financial institutions or the risk that a collapse of financial institutions poses to the wider economy. This is not an exhaustive list and other features may be analysed.

Level 3 ([16]–[23])

A good response provides an answer that demonstrates:

- good knowledge and understanding of relevant terminology, concepts, principles and models
- good application of relevant economic principles, terminology, concepts, and models to the context of the question
- where relevant, data and diagrams used effectively to address the issues in the question
- good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times
- reasonable judgement(s) building on analysis
- a good quality of written communication

At this level a candidate is likely to show a good knowledge of the importance of the financial sector and why it needs to be regulated. There will be a good use of a range of appropriate examples. There will be good, well developed and clearly structured analysis of the need for regulation and how it might work, though this may contain some inaccuracies. The conflict between liquidity and profitability, government failure in the form of regulatory capture, moral hazard and asymmetric information may be discussed and judgements offered. This is not an exhaustive list and other features may be evaluated.

Level 4 ([24]–[30])

An excellent response provides an answer that demonstrates:

- excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models
- excellent application of relevant economic principles, terminology, concepts and models to the context of the question
- relevant data used effectively to address the issues in the question
- well-focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents
- informed judgements that directly address the issues in the question and reach clear conclusions built on analysis
- an excellent quality of written communication

At this level a candidate will show an excellent knowledge of why and how the financial system is regulated. There will be well focused and well developed analysis which clearly identifies problems that might arise with the financial

system, their impact on various economic agents and the economy as a whole and the issues which arise with regulation. There will be judgements made as to the desirability of the various impacts of regulation and a nuanced understanding that different economic agents may have different views – for example, consumers may like tighter regulation of the sale of financial products, but financial institutions might feel such regulation adds to their costs. Other similar issues may be explored. The complexity of some of the issues will be recognised, for example tighter regulation of the UK financial sector could lead to some institutions moving to other jurisdictions with less regulation impacting on UK exports of financial services and GDP. Other issues may be similarly explored. All other valid responses will be given credit. [30]

AVAILABLE
MARKS

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- 8 Closer integration of the world's economies facilitated the spread of financial contagion from one country to another and increased economic instability. Some economists argue that a system of fixed exchange rates would reduce this instability. The issue of fixed versus floating exchange rates has been debated by economists and policy makers for many years. For almost three decades after the second world war the world's major currencies were fixed in terms of the dollar which itself was pegged to a fixed value in gold. This system was known as an adjustable peg as rates could be adjusted in the long run in the event of a structural balance of payments deficit.

Today the Chinese yuan (renminbi) is partially fixed against a basket of major currencies and many member states of the European Union share the euro. However, the pound and the American dollar are allowed to float against other major currencies and against each other.

The most important advantage of fixed exchange rates is the price stability which they give to exporters and importers. The most important advantage of floating exchange rates is that **in theory** they provide for the automatic correction of a balance of payments deficit on current account.

Issues and areas for analysis and evaluation include:

- explanation of fixed exchange rates and how they are maintained
- explanation and evaluation of other systems
- discussion of importance of establishing appropriate rates at which relative values are to be fixed
- recognition of need for a body such as the IMF for external moderation of such a system
- recognition that high cost of maintaining reserves is relatively advantageous to large nations
- discussion of how factors such as globalisation may have increased instability
- explanation of how fixed exchange rates assist in providing a stable trading environment
- explanation of how fixed exchange rates affect macroeconomic policy by forcing governments to adopt deflationary policies in order to maintain the fixed rate
- explanation of how fixed exchange rates help to control inflation
- discussion of the idea that fixed rates may impose a healthy discipline on exporting firms because they cannot rely on devaluations to keep them competitive
- evaluation of whether floating rates really correct disequilibria in international payments
- understanding that no system is really proof against speculation
- reference to international and historical examples, such as UK's experience with the E.R.M.
- appropriate diagrams – for example, demand and supply or AD/AS diagrams
- appropriate examples

Level 1 ([1]–[7])

A basic response provides an answer that demonstrates:

- basic knowledge and understanding of relevant terminology, concepts, principles and models
- basic application of relevant economic principles, terminology, concepts, and models to the context of the question
- some limited use of data, and diagrams where relevant, in relation to the

context of the question

- basic analysis; analysis may lack focus
- judgement(s) unsupported
- a low quality of written communication

At this level a candidate is likely to show some understanding of what a fixed exchange rate is. There may be some examples or attempts at a diagram.

Limited reference will be made to other exchange rate systems. Analysis of how the system works will be absent or lacking in detail.

Level 2 ([8]–[15])

A reasonable response provides an answer that demonstrates:

- reasonable knowledge and understanding of relevant terminology, concepts, principles and models
- reasonable application of relevant economic principles, terminology, concepts, and models to the context of the question
- some reasonable use of data, and diagrams where relevant, in relation to the context of the question
- reasonable analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times
- reasonable judgement(s) building on analysis
- a reasonable quality of written communication

At this level a candidate is likely to show a reasonable knowledge of how fixed exchange rates work which may be supported by diagrams. There may be some reference to examples such as ERM, IMF terms after the Bretton Woods agreement, or other appropriate cases. There will be a developed analysis of the impact of fixed rates on the economy in areas such as making trade easier, imposing discipline on governments to keep inflation low or reducing the level of speculation. This is not an exhaustive list and other features may be analysed. There will be some limited judgement of these factors.

Level 3 ([16]–[23])

A good response provides an answer that demonstrates:

- good knowledge and understanding of relevant terminology, concepts, principles and models
- good application of relevant economic principles, terminology, concepts, and models to the context of the question
- where relevant, data and diagrams used effectively to address the issues in the question
- good analysis in relation to the impact on economic agents; analysis may not be developed fully or may have inaccuracies at times
- reasonable judgement(s) building on analysis
- a good quality of written communication

At this level a candidate is likely to show a good knowledge of how fixed exchange rates work. Demand and supply diagrams, AD/AS diagrams and appropriate examples may be used to support this. There will be good, well developed and clearly structured analysis of the impact fixed exchange rates will have, though this may contain some inaccuracies. There will also be good judgements made on some of these. The need for governments to maintain adequate reserves to support a system of fixed rates or the impact fixed rates might have on imposing a deflationary bias on government policy leading to higher unemployment and lower growth might be discussed. This is not an exhaustive list and other features may be evaluated.

Level 4 ([24]–[30])

An excellent response provides an answer that demonstrates:

- excellent accurate knowledge and understanding of relevant terminology, concepts, principles and models
- excellent application of relevant economic principles, terminology, concepts and models to the context of the question
- relevant data used effectively to address the issues in the question
- well-focused, relevant analysis used accurately and appropriately in relation to the impact on economic agents
- informed judgements that directly address the issues in the question and reach clear conclusions built on analysis
- an excellent quality of written communication

At this level a candidate will show an excellent knowledge of how fixed exchange rates work. There will be well focused and well developed analysis which clearly identifies how the operation of fixed rates will impact on an economy, including issues outlined above. There will be judgements made as to the desirability of the various impacts of fixed exchange rates and a nuanced understanding that different economic agents may have different views, for example exporters may like the stability that fixed rates bring but workers may dislike the downward pressure placed on their wages. Other similar issues may be explored. The complexity of some of the issues will be recognised – for example, control of speculation through regulation or a Tobin tax. Other issues may be similarly explored.

All other valid responses will be given credit.

[30]

Section C

Total

**AVAILABLE
MARKS**

30

30

90