National
Qualifications
2017

2017 Economics

Advanced Higher

Finalised Marking Instructions

General marking principles for Advanced Higher Economics

This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this paper. These principles must be read in conjunction with the detailed marking instructions, which identify the key features required in candidate responses.

(a) Marks for each candidate response must always be assigned in line with these general marking principles and the detailed marking instructions for this assessment.

(b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.

(c) If a specific candidate response does not seem to be covered by either the principles or detailed marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.

(d) For each candidate response, the following provides an overview of the marking principles. Refer to the detailed marking instructions for further guidance on how these principles should be applied.

(i) Questions that ask candidates to **Describe** . . .

Candidates must make a number of relevant, factual points which may be characteristics and/or features or a definition of an economic term, as appropriate to the question asked. These points may relate to a concept, process or situation.

Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:
- **1 mark** should be given for each relevant, accurate factual point.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(ii) Questions that ask candidates to **Explain** . . .

Candidates must make a number of relevant points that relate cause and effect and/or make the relationships clear. These points may relate to a concept, process or situation.

Candidates may provide a number of straightforward points of explanation or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:
- **1 mark** should be given for each accurate relevant point of explanation.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(iii) Questions that ask candidates to **Analyse** . . .

Candidates must demonstrate their ability to identify/describe/explain relevant parts and the relationship between the parts and/or the whole.

Candidates should be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question:
- **1 mark** should be given for each accurate point of analysis.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(iv) Questions that ask candidates to **Discuss** . . .

Candidates must make a number of points that communicate issues, ideas, or information about a given topic or context that will make a case for and/or against. It is not always necessary to give both sides of the debate in responses.

Up to the total mark allocation for this question:
- **1 mark** should be given for each accurate point of knowledge that is clearly relevant.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(v) Questions that ask candidates to **Compare** . . .

Candidates must demonstrate knowledge and understanding of the similarities and/or differences between things, methods or choices, for example. The relevant comparison points could include theoretical concepts.

Up to the total mark allocation for this question:
- **1 mark** should be given for each accurate point of comparison

(vi) Questions that ask candidates to **Evaluate** . . .

Candidates must demonstrate the ability to make a reasoned judgement in terms of the effectiveness or usefulness of something based on criteria.

Candidates should be able to determine the value of something within context.

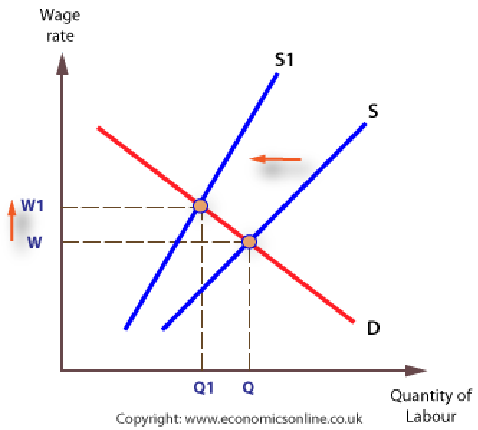
Up to total mark allocation for this question:
- **1 mark** should be given for each accurate point of evaluation
- **1 mark** should be given for any further development of a relevant point, including exemplification and/or a conclusion when appropriate.

Detailed marking instructions for each question

Section 1

Question			Expected answer(s)	Max mark	Additional guidance
1.	(a)		• An expansionary fiscal policy designed to increase AD (1) • Fiscal policy is the use of government spending and taxation to influence the level of AD (1) • To achieve a fiscal stimulus the government would lower taxation and increase government spending (1).	**2**	Must be more than repeating from the passage.
	(b)		• The UK's credit rating is the assessment of the risk associated with investing in the UK by credit rating agencies (1) • Such as Moody's or Standard and Poor (1dev) • There has been a downgrading of UK government debt (1dev).	**2**	
2.			• Falling investment will lower future UK productivity because there will be lower investment in machinery and technology which generally makes production more efficient (1) • Machinery and technology generally speed up production, reduce unit cost and increase output (1) • Lower investment may result in less research and development into new processes and products which will lower potential productivity (1) • Less business investment on training of workers will lead to lower skills which will lead to lower productivity (1) Credit development, definition of productivity and use of production possibility diagram to develop answer.	**4**	

Question			Expected answer(s)	Max mark	Additional guidance
3.			• A budget deficit is the annual borrowing of a government in a year when government spending exceeds taxation revenue (1) • The national debt is the total accumulated debt of the UK national and local government (1).	**2**	
4.			The dangers of a rising level of a national debt could include: • A downgrading of UK Government debt by CRAs could lead to higher borrowing costs for the UK Government increasing the interest burden for the UK Government (1). This has implications for the UK Government's spending/taxation options which might lead to lower G or higher T (1). There is an opportunity cost involved as tax revenue spent on interest payments involves a sacrifice of spending elsewhere (1). However, a downgrade does not always lead to higher interest payments as evidenced by the US (1) • The potential for a debt crisis and default which would occur if the UK Government were unable to finance its borrowing at affordable rates of interest (1). The widely held view is that 6-7% is unaffordable (1) which is the rate at which Greece became unable to afford its level of debt (1). At the moment UK government borrowing rates are very low because QE has pushed down the yields on long-dated government debt (1) which makes this unlikely but not impossible if the Brexit shock to the economy leads to a recession (1) • Lower future economic growth caused by an "Austerity Programme" • Intergenerational unfairness • Crowding out Credit any relevant point and development.	**4**	Minimum of 2 dangers for full marks Up to 3 marks for 1 fully developed point.

Question			Expected answer(s)	Max mark	Additional guidance
5.			1 mark for showing a shift to the left in the supply curve and showing new equilibrium higher wage. 1 mark for labelling axes to reflect Labour Market-Real Wages and Quantity of labour. Explanation-Lower inward migration might lead to a fall in the supply of Labour shifting the Supply Curve to the left (1). This leads to a shortage of labour at the original wage putting upward pressure on wages (1). As the wage level rises the supply of labour extends as more workers find moving into the labour force attractive and demand for labour contracts as firms find workers less affordable (1). 	**4**	Max 2 marks for the diagram. Max 3 marks for explanation.

Question			Expected answer(s)	Max mark	Additional guidance
6.			Reasons for regional disparities could include development of the following points: • Differing levels of unemployment - caused by decline of industries/ deindustrialisation • Different types of jobs available - Predominance of highly skilled/highly paid sectors in London and South East – credit references to Financial Sector/IT etc • Transport Links – Access to South East and London as a domestic and international travel hub • Lack of investment and regional decline leading to social exclusion and poverty in certain areas • Lack of sufficient government intervention in previous years to address this issue • Londoncentric view of media • Factor immobility - Labour immobility in the UK caused by lack of affordable housing, and/or underinvestment in infrastructure and transport links • Regional disparities in educational outcomes/healthcare • National Lottery Funding dominated by London Credit relevant examples and other relevant points. Credit an appreciation that within a region or city there can be wide disparities as well as between them. Do not give marks for repeating points in the passage with no further development.	**6**	Max of 4 marks per point.

Question			Expected answer(s)	Max mark	Additional guidance
7.			Possible government policies could include: • Government grants to firms to encourage location/relocation to areas of high unemployment • Policies to improve labour mobility - Building more affordable rented housing/training/retraining schemes • Extra spending on education/healthcare to improve equality of opportunity • Use the tax system to encourage investment in training/capital • Other infrastructure spending • Encourage government depts. to relocate out of London • Regional assistance grants • Northern Powerhouse Credit any other relevant point including relevant examples.	**6**	Up to 4 marks for 1 fully evaluated point which discusses for example pros and cons/impact on different stakeholders/ short run v long run/prioritises Max 3 marks if no evaluation Only 2 policies credited.

Section 2

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>8.</td><td>(a)</td><td></td><td>In perfect competition there are many firms whereas in monopoly one firm dominates the market (1)
In perfect competition there are no barriers to entry whereas in monopoly there are barriers (1)
An example of a barrier to entry is a patent (1 dev. point)
In perfect competition firms are price takers whereas in monopoly they are price makers (1)
In perfect competition the price is taken from the market whereas, due to its market power a monopoly can set the price (1 dev. mark)
In perfect competition there are many close substitutes as each firm makes a homogeneous product whereas in monopoly there is a unique product with no close substitutes (1)
In perfect competition the firm faces a perfectly elastic demand curve whereas in monopoly the firm faces an inelastic demand curve (1)
In perfect competition abnormal profits can only be made in the short run whereas in monopoly they can be made in the short and the long run (1)
Monopolies can exploit economies of scale due to their size, whereas perfectly competitive firms cannot (1)
Economies of scale are falling long run average costs (1 dev. mark)
An example of an economy of scale might be a purchasing economy where the firm is able to buy supplies in bulk (1 dev. mark)
Accept any other suitable response.</td><td>6</td><td>Credit relevant comparison

Max 1 developed points from each comparison

Max 1 mark for characteristic and flip in other market.</td></tr>
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<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td></td><td>(b)</td><td></td><td>Credit definitions of types of efficiency – max 2

Monopolies are inefficient – For:

• Monopolies are not productively efficient because they don’t produce at the lowest point on the ATC curve (1)
• Monopolies are not allocative efficient because the price is higher than marginal cost (1)
• Monopolies produce a lower output than competitive markets (1)
• There is a welfare loss (1)
• There is x-inefficiency (1)

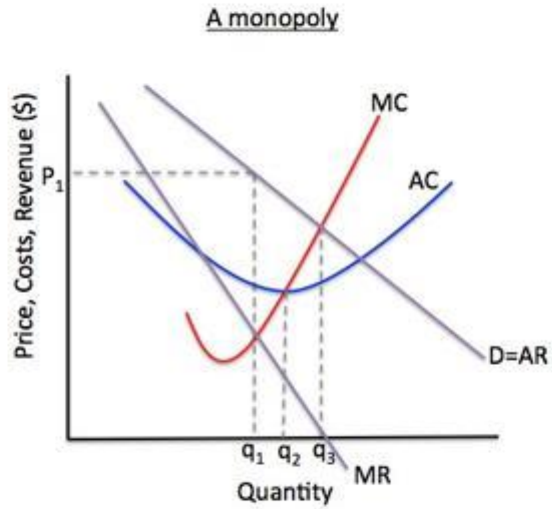
Monopolies are inefficient – Against:

• Natural monopolies can exploit economies of scale so they may produce at a much lower average cost than small competitive firms (1)
• Monopoly firms can be efficient in terms of being large enough to compete on an international or global scale (1)
• Due to the abnormal profits they make, they may also be efficient in terms of redirecting profits into research and development thereby progressing production and technology (1)
• Dynamic efficiency (1)
• Price discrimination (1)
• Lack of wasteful duplication of networks (1)

Accept any other suitable response.</td><td>6</td><td>5 maximum if only one point of view given.

3 marks can be allocated for drawing a monopoly diagram showing:

- Profit maximisation point (Q1)
- Productively efficient point (Q2)
- Allocatively efficient point (Q3)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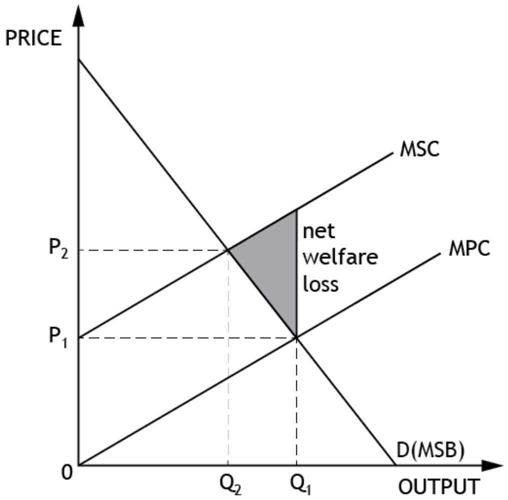
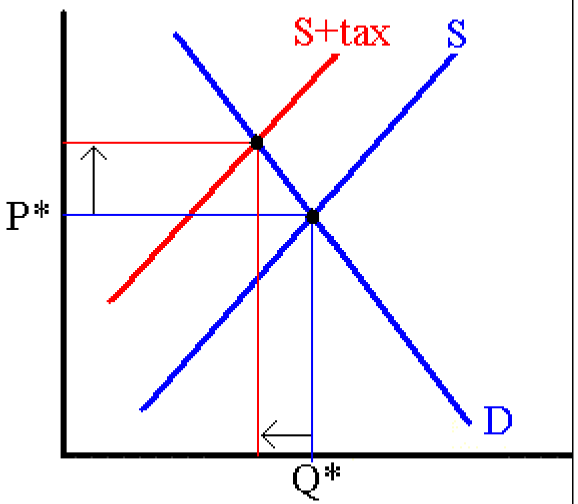
Question			Expected answer(s)	Max mark	Additional guidance
	(c)		 Clearly showing MPC lower than MSC (1) Clearly labelling the output and price for both MPC=MSB and MSC = MSB (1 mark) Clearly showing welfare loss or external cost (1) • The market only takes private costs into consideration and ignores the negative externality (1) • This causes a divergence between MPC and MSC (1) • The market produces at a higher output (Q_1) and lower price (P_1) than would occur if the externality was taken into consideration (1) • The social optimum output and price is where MSC = MSB (1) • We can see from the shaded triangle in the diagram that if the market was left to produce freely it would result in an overall welfare loss (1).	**7**	3 maximum for diagram 5 maximum for explanation Credit examples max 1 mark.

Question			Expected answer(s)	Max mark	Additional guidance
	(d)		• Taxes could be put on producers or consumers who cause negative externalities to make them cut back their production/consumption (1). For example, a CO_2 tax could be introduced (1 dev. mark) • Subsidies could be given to those who produce products that work against negative externalities to make them cheaper for consumers (1). For example, subsidies to producers who make eco-friendly products (1) • Raising awareness through education can also lead to producers and consumers changing their behaviour and to internalise the external costs (1) • Another method would be to introduce quotas or bans which would limit or stop the production of the externality (1). For example, the ban on smoking in cars with children in them limits the negative externality of health problems to children as third party passive smokers (1) • To reduce the negative externality of pollution tradable permits could be issued to industry, wherein a permitted level of pollution for an area is allowed and industry are allowed to pollute up to their allocated limit (1), because the permits are tradable, those firms who are non - polluting can trade their permits to more polluting firms, but the overall pollution target is preserved (1 dev. mark) • Another method would be to introduce fines to firms and individuals who create negative externalities, thereby providing an incentive to cut down on producing the externality (1). Fines for people who litter the street is an example of this (1) Accept any other suitable response.	6	Max of 2 methods should be discussed Max 4 marks for each method Max 3 if just description Up to 2 marks for supporting diagram(s) No marks for ID of the methods Credit discussion of examples such as European Union Emissions Trading Scheme/New Paris Agreement. 

Section 3

Question			Expected answer(s)	Max mark	Additional guidance
9.	(a)		Negatives: • Fall in the pound and impact on inflation (1) • Funding from European Investment Bank may dry up (1) • Business uncertainty may lead to companies holding back on investments – government may then be forced to intervene (1). Credit some companies concerns – Nissan etc (1). The UK is a significant receiver of FDI from non-EU firms wanting to gain access to the European market (1). Foreign firms could choose to locate within the EU instead (1) • Overseas companies may divert their investments to other countries, such as Ireland (1) • Free Trade Agreement (FTA) may take time to negotiate – Canada started their trade talks with the EU in 2007 (1) • EU has over 53 free trade deals with third countries – UK may lose this if leaving the single market (1) and it will need time to negotiate these terms with these countries (1) • WTO terms would place tariffs on cars, pharmaceuticals and most agricultural products. WTO terms do not cover services (80% of UK economy) (1) • Imports benefit the UK economy by increasing competition, thereby providing incentives for domestic companies to invest (1), increasing productivity and providing better goods and services (1) – imports may reduce if the UK leaves the single markets due to impact of tariffs/ quotas etc (1)	**10**	Max 4 for each implication Min 3 implications Max 2 for discussed relevant statistic Credit discussed examples.

Question			Expected answer(s)	Max mark	Additional guidance
			• Long term effect on transaction costs – the removal of customs checks has improved the cost situation for firms and the free movement of goods, people and capital has allowed for more efficiency in production (1). The EU calls this 'harmonisation' (1). Leaving the single market raises the possibility that these advantages would be sacrificed, putting UK firms at a disadvantage in the European market (1). Particularly important as more than 50% of exports from the UK currently are to Europe (1). Markets affected in this way would see their supply curves shifting to the left, resulting in lower quantity trade and higher prices (1). UK currently has comparative advantage in financial services. Leaving the single market may provide Frankfurt the opportunity to change the financial focus within Europe (1) • Credit impact on UK economic performance – unemployment, GDP etc (1) Positives: • UK would be able to make free trade deals with non-EU countries – emerging economies with higher growth rates than the EU (1), credit reference to TTIP, TPPA (1) • UK may be able to trade on WTO terms (1) • Easier access to global pool of highly skilled labour (1) • UK net contribution of £9bn to the EU budget could be re-channelled into domestic infrastructure or higher welfare payments for UK citizens (1) • Credit some companies' positive appraisal of UK leaving single market – Dyson, Wetherspoon etc (1) • Less 'red tape' and bureaucracy (1) • May prove positive for fishing industry (1) • UK car industry may internalise supply chains, boosting employment and AD (1) • Credit explanation of different models of Brexit eg soft, hard, grey, black, white (1).		

Question			Expected answer(s)	Max mark	Additional guidance
	(b)		• There has been a rise in self-employment (1) • There has been a shift to part-time working (1) • Public sector employment is down; previous chancellor spoke of the need to 'rebalance' the economy (1). Private sector employment rising (1); public sector wage freeze, therefore private sector more attractive for some workers (1) • 'Zero-hour' contract jobs included as employed (1) • Some manufacturing sectors continuing to employ high number – car manufacturing, etc (1) • UK has been successful in a number of key industries – finance, banking, insurance, pharmaceuticals, computer software, engineering, architecture, media, academia, tourism, high-end manufacturing helps sustain strong jobs market (1) • Credit any mention of regional, structural unemployment (1) • Credit Claimant Count is harder to calculate since Universal Credit brought in (1) • Credit mention of Labour Force Survey in which ONS talks to 40,000 households every three months (1) • Economic growth has not slumped post-Brexit vote (1) • Real wage growth has been low and may turn negative, making labour relatively cheaper (1). Time lags – takes time for companies to get rid of workers (1).	**7**	Max 4 for each description Min 2 descriptions.

Question			Expected answer(s)	Max mark	Additional guidance
	(c)		• Made foreign goods more expensive and caused import prices to rise (1) • Inflation has been rising since November 2016 (2·7% April, 2017) (1) • Negative impact on UK holidaymakers (1) • UK imports now worth 31% of GDP (1) – as imports make up a large proportion of the economy inflation is more affected by exchange-rate movements (1) • Fluctuating currency leads to uncertainty, this may lead to lower levels of investment (1) which will reduce productivity (1). Firms may struggle to absorb these costs and may be forced to pass on higher costs to consumer (1) • Credit 'pass-through' of weaker pound to the consumer price index (1) • Depreciation makes UK exports cheaper (1), this is good news for some UK manufacturing companies (1). However, some firms may import foreign raw materials which will increase these costs (1) • Benefit to UK tourist industry (1). Important part of Scottish economy - £6bn/5% of Scottish economy (1) • If the pound were to stabilise at a higher level in the long-run, this would have lasting effects (1) • Depreciation of sterling would create inflationary pressures, and policies to combat this such as raising interest rates (1) would have an effect on the cost of borrowing and perhaps on house prices (1) • Credit some companies concerns – Easyjet claim that weakened pound will cost the company £90 million as jet fuel is priced in dollars, so the falling pound has made it more expensive (1) • The Balance of Payments possible J-curve effect and Marshall Lerner condition (1).	**8**	Max 3 per implication Min 3 implications.

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<tr><td>10.</td><td>(a)</td><td></td><td>
Beneficial:

UK has been major destination for investment into Europe (1); China has stakes in many British brands from Weetabix to Aston Martin; Nissan in Sunderland (1)
Investment can deliver productivity gains (1)
UK can benefit from improved knowledge and expertise – production techniques, marketing, legal guidance etc (1)
Capital inflows can also create jobs (1). Credit promise of new jobs from Japanese purchase of ARM (1)
FDI may also lead to higher wages achieved through productivity gains (1)
UK suffers from a current account deficit – investment from China helps address this (1)
FDI seen as being more stable that volatility of ‘hot money’ (1)
This extra economic activity will create tax revenues for the UK government from VAT and income taxes (1)

Not beneficial:

Foreign companies may gain competitors’ intellectual property, pricing information and trade secrets (1)
Concern over Chinese economic model – pursuing an aggressive trading strategy, eschewing foreign investment while exploiting cheap labour to price out competitors abroad (1)
Foreign investors do not always have long-term interests of recipient company at heart, leading to ‘footloose’ investment (1). Credit Kraft takeover of Cadbury (1)
Profits made in the UK by a foreign firm may be repatriated to the head office, which is likely to be overseas (1). MNCs with interests in the UK may therefore pay no or very little corporation tax to the Treasury (1). Credit reference to so-called ‘google tax’ (1)
Foreign investment in ‘strategic industries’ such as steel / defence industry can cause concerns (1)
Foreign firms compete with domestic firms, which may lead to job losses, particularly if the MNC enjoys higher productivity and the economies of scale associated with large corporations (1).

</td><td>10</td><td></td></tr>
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Question			Expected answer(s)	Max mark	Additional guidance
	(b)		• China is a major investor in the UK economy. Building trade links could see further investment from Chinese banks and businesses (1) • China's industrial development offers opportunities for UK firms to gain contracts in China (1), such as UK water companies gaining the contract to build purification plants in Shanghai (1) • Building trade links would be a major source of export income for the UK (1) • UK universities benefit from lucrative fee-paying students from China (1) – worth an estimated £1bn in 'exports' of tuition for foreign students. Building links could increase this (1) • Credit reference to George Osborne wishing a 'golden decade' of trade with China and/or Philip Hammond wishing to explore 'new opportunities' with China (1) • Emerging Chinese middle class could buy UK manufactured goods, bringing in valuable export revenues (1) • Building stronger trade links with China may offset the economic fallout from Brexit (1) • UK has pledged to match the US government's 10-year multi-entry visa for Chinese tourists, this will bring an extension of the spending power of Chinese tourists in the UK (1). Credit boost to UK tourism industry (1) • Credit example of Chinese investment in UK businesses – for example China Equity £50m investment in Aston Martin to develop electric sports car (1). London black cabs made by Chinese carmaker Geely has put £50m into research and development in Coventry factory (1) • Credit possible negative impact – Chinese manufacturers often ignore UK 'intellectual property' and patent law (1) • There are fears over the possibility of China 'dumping' cheap imports in the UK, for example steel (1).	**6**	

Question			Expected answer(s)	Max mark	Additional guidance
	(c)		Credit definition – the process by which economies of the world are becoming increasingly integrated (1). Advantages: • Many argue that globalisation has played a powerful role in creating jobs and contributing to rising incomes (1) • Globalisation has resulted in lower prices for many goods (1) resulting in downwards pressure on inflation (1) • There has been greater levels of FDI as a result of globalisation (1) • Over 1 billion people have escaped extreme poverty since 1990 (World Bank) (1) • There has been a stimulus to global output through international specialisation in line with comparative advantage (1) • Those on low incomes benefit from lower prices by increasing their purchasing power (1); credit Engel's Law (1) • Globalisation has resulted in improvements to transport and communication networks (1) • Competition forces domestic firms to become more efficient and produce better products (1) Disadvantages: • World Bank admits effects on advanced economies is 'often uneven' and 'may have led to rising wage inequality' (1). 20% of jobs lost in advanced economies could be linked to trade (1) • 'Blue collar' manufacturing jobs in developed world have come increasingly under threat due to lower labour costs in developing countries (1).	9	

Question			Expected answer(s)	Max mark	Additional guidance
			• Recent evidence for the US suggests that adjustment costs for those employed in sectors exposed to import competition from China are much higher than previously thought (World Bank) (1) • Efficiency gains and automation have resulted in loss of traditional manufacturing jobs in developed economies (1) • 6 million manufacturing jobs have been lost in US between 1999-2011, 44% of these losses attributed to Chinese imports (Institute for Study of Labor) (1) • Globalisation has hit specific geographical areas that have then found it hard to develop new industries and create jobs (1) • 'Elephant graph' by World Bank economists suggests that the richest have grown richer and the low earners in developed economies have lost out, and the very poorest in developing economies have got no better off at all through globalisation (2) • Many MNC are involved in capital transfers to avoid paying higher rates of corporation tax (1) • Many industries are becoming more concentrated resulting in oligopolistic markets and rent seeking behaviour – *The Economist* Oct. 2016 (1) • Race to the bottom – firms move from country to country to lower wage costs (1).		

Question			Expected answer(s)	Max mark	Additional guidance
11.	(a)		• Bank of England predicts UK economic growth will slow, rate cut to stimulate economic growth (1) • Bank of England announced in August 2016 a stimulus package of a quarter-point rate cut to 0·25% (1), a £100bn subsidy scheme for commercial banks to ensure the cut was passed onto to households (1), £60bn of QE (£435bn in total) and £10bn of corporate bond purchases (1) (Maximum 2 marks) • Carney – 'the economy is in a period of uncertainty and about to go through a period of adjustment' – August 2016. Rate change to alleviate this uncertainty and business fear (1) • Bank of England being more forceful on banks to lend to businesses and households (1) • In response to predicted negative effects of Brexit vote (1) Credit 6-3 vote by MPC on £60m more QE (1).	**4**	
	(b)		• Credit explanation – purchasing of assets by the BoE using new electronically created money • BoE – QE 'designed to provide additional support to growth' • QE works to increase the availability of credit in the banking system, • Lower LIBOR • Lower yields on government bonds and hence long-run interest rates throughout the economy • It lowers the value of the pound, which is good for UK exports but may increase the price of fuel and energy bills for consumers • It improves funds flowing into capital markets and hence makes it easier for firms to raise affordable finance • Credit portfolio rebalancing and asset prices and expectations, if explained • Student Loan repayment linked to base rate, therefore of benefit to graduates with Student Loans to repay (1) • Credit possible negative impact – bonds may be sold by foreign institutions and the money leaves the UK. It could lead to inflation. It is bad news for savers (up to 2 marks for negative impact).	**7**	Min 2 ways.

Question			Expected answer(s)	Max mark	Additional guidance
	(c)		• Credit first cut in interest rates since March 2009 (1) • Bank rate cut is regarded as good for borrowers, but bad for savers (1) • Over 11 million UK households have a mortgage – those households on a variable rate 'tracker' can expect to see their monthly bill reduced, resulting in more disposable income which they may spend thereby stimulating demand in the economy (1). Credit some banks may not pass on the rate cut to mortgage holders (1) • Businesses may take advantage of cheaper loans and choose to invest (1), thereby improving efficiency (1) and/or improving their products (1) • Immediate impact was to lower the value of the pound (1) – benefiting UK export manufacturers but harming UK holidaymakers (1) • Credit negative impact – puts added pressure on deficits facing some pensions fund (1). However, pensions are long term investments, so the long-term health of the economy is more important element to consider (1). Some economists argue that the savings industry is being killed by historically low rates (1) • Macro-economy – higher AD, lower unemployment, positive multiplier effect, getting inflation back to target • Credit arguments that loose monetary policy may be ineffective.	**8**	Max 4 Marks for each well-developed point.
	(d)		• Fall in the value of the pound (1) • Since the financial crisis bank lending has remained low, reducing demand-pull inflation (1) • Compounded by investment retrenchment by companies (1) • Real incomes have stagnated (1) • Credit 'lost decade' – Mark Carney (1) • Commodity prices have remained low (1) • Reduced demand from China – deflationary pressures (1) • Devaluation of China's currency – results in it exporting lower prices around the world (1) • US and Eurozone also hit by stationary inflation (1) • Consumer spending remains weak (1) • Supermarkets involved in 'price war'(1).	**6**	Maximum 4 marks if only deflationary/inflationary is tackled Give credit for mention of inflationary pressures ahead – manufacturing costs are rising; so too services and construction sectors; oil prices expected to rise (maximum 2 marks).

Question			Expected answer(s)	Max mark	Additional guidance
12.	(a)		• Political stability assists economic growth (Vietnam etc) (1) • FDI has assisted growth (Nike and TNF in Vietnam/job creation) (1) • Ending of civil wars has helped some developing economies develop their tourism industry (Rwanda) (1) • Some developing economies have experienced export led growth (Kenya - flowers) (1) • Some developing economies have greater factor endowments such as natural resources (Copper in Mongolia, etc) (1) • An abundance of cheap labour (1) • Some have higher levels of human capital than other developing economies (Singapore etc) (1) • South East Asian economies have benefitted from Japan's early economic development – 'flying geese' theory (1) • High levels of inward investment and/or cross trade agreements (1). For example, Chinese investment in Africa (1) • Government initiatives to encourage entrepreneurship (Low taxes in Hong Kong etc) (1) • High savings ratio (1) • Currency manipulation to assist export drive (Yuan in China etc) (1) • Some developing economies have large emerging middle class which assists not only GDP growth by consumption but also helps diversify the economy away from just production to services (2 marks if developed) • Some developing economies benefit from institutional alignment – political, and economic such as promoting liberal democracy and free trade (1) • Others offer high degree of infant industry protection for key sectors (1) • Better use of aid (1).	**9**	1 mark for relevant examples Max 2 marks for examples.

Question			Expected answer(s)	Max mark	Additional guidance
	(b)		• Slowdown in China has knock on effect as China is a leading buyer of commodities that other developing economies produce (1) • Micro financing has received some criticism in not assisting economic development (1) • Low oil price has hindered oil-rich emerging countries (Angola – 97% of exports) (1). • Migration – large numbers of high-skilled workforce leave for employment in developed world – 'brain drain' effect (1) • Productivity gains are slowing (1) • Rising wage pressures in some emerging economies – such as China – have resulted in some companies in developed world choosing to retain production and not outsource (1) • Infrastructure has been achieved in some emerging economies to an extent that there is a slowing down of the need for additional transport links, urban development etc (1) • Lack of access to coastline makes it difficult for some developing economies to sustain further development through an export drive (Chad for example) (1) • Ageing populations – IMF has also argued that the narrowing gap with the developed world means the potential for rapid gains from "catch-up" - both technological and in terms of worker's education and skills - is diminishing (1) • There is also an issue in some countries about foreign currency borrowing. It's particularly high in Hungary, Indonesia, Mexico and Chile. It's a potential problem because if the dollar rises those debts become more expensive to repay (1). Some developing economies have had internal political problems which have affected their economic performance – Brazil, Russia and particularly Venezuela for example (1) • BRIC countries were able to make large initial 'catch up' gains on developed economies by adopting new technologies, but further potential for rapid growth through innovation will be slower (1) • N11 economies are smaller and relatively more developed than BRIC were at a similar stage. Some economists argue that the bigger the gap between a country's output per person and that of the technological leader, the faster the economy is capable of growing (1) Average per person output of N11 is already 14% of United States. BRIC was 7% at a similar stage (1)	**10**	Max 2 marks for examples overall Max 3 marks for each reason Max 1 example per reason Min 3 reasons.

Question			Expected answer(s)	Max mark	Additional guidance
			• The world as a whole has less catch up potential than it used to. Most populous countries are no longer all that poor and poor countries are no longer very populous (1) • Global economy is much larger than it used to be which means that emerging markets must deliver larger absolute increases in output to generate marginal growth rates similar to that over a decade ago (1). A similar situation arises with labour markets, whereby same increase in absolute number of workers will now represent a lesser marginal rate increase in employment (1).		
	(c)		• World Bank comprises two institutions – the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) (1) • World Bank provides grants and low interest rates to countries (1) • World Bank offers policy advice and technical assistance to developing countries (1) • World Bank coordinates projects with governments (1) • IMF aims to stabilise exchange rates and provide loans to countries in need (1) • IMF aims to promote international monetary cooperation (1) • IMF helps deal with balance of payments adjustment (1) • IMF conducts 'economic surveillance' – producing reports on member countries' economies and suggests areas of strengths/weaknesses (1) • Both are agencies of the UN (1) • Credit mention of Structural Adjustment Program (SAP) and/or 'conditionalities' (1) • Credit mention of criticisms of either/both agencies – 'Washington Consensus' and how some argue free trade principles hinder economic development of developing economies (1).	**6**	Max 4 for each description.

[END OF MARKING INSTRUCTIONS]