



National
Qualifications
2018

2018 Economics

Advanced Higher

Finalised Marking Instructions

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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

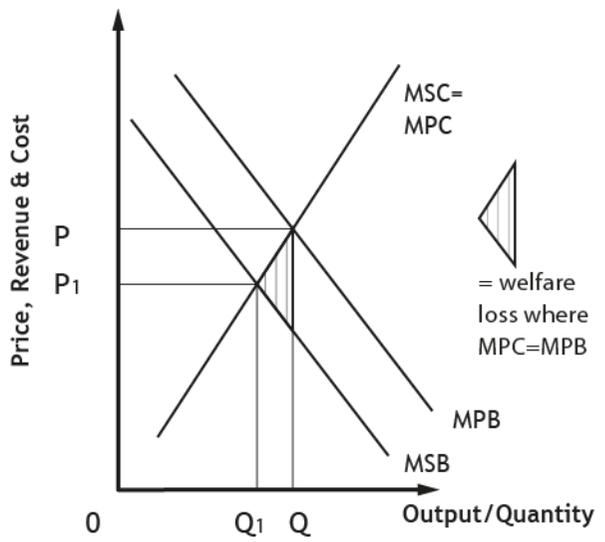
Section 1

Question		Expected answer(s)	Max mark	Additional guidance
1.	(a)	<p>Productivity</p> <ul style="list-style-type: none"> Productivity is concerned with the efficiency of production (1). A productivity measure is expressed as the ratio of output to inputs used in production (1). It is usually measured as output per worker/hours worked (1). 	2	<p>Award 1 mark for each valid description.</p> <p>Up to 1 mark for development.</p>
	(b)	<p>Economic growth</p> <ul style="list-style-type: none"> Economic growth is an increase in the productive potential of an economy (1). It is measured by an increase in real GDP/an increase in the 'real' value of goods and services produced in an economy (1) over time. 	2	<p>Award 1 mark for each valid description.</p> <p>Up to 1 mark for development.</p>
2.		<ul style="list-style-type: none"> Low interest rates have allowed these firms to exist because the cost of their borrowing has been abnormally low (1). These firms are generally inefficient and have low productivity (1), their continued existence lowers the average productivity of the UK (1). If these firms had failed the unemployed resources would have switched to a more productive use (1), thereby raising average productivity (1). 	3	<p>Award 1 mark for each valid description.</p> <p>Up to 2 marks for development.</p>

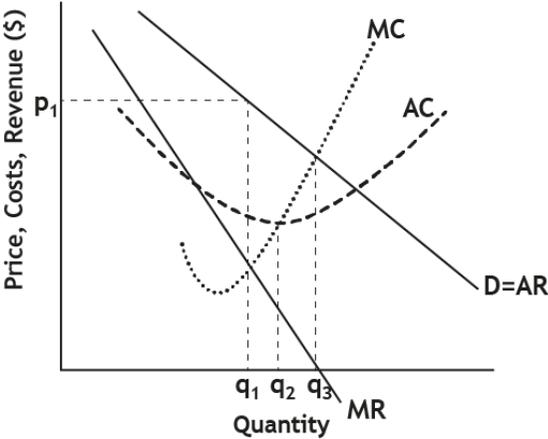
Question	Expected answer(s)	Max mark	Additional guidance
3.	<ul style="list-style-type: none"> • Lower productivity leads to lower wages because firms can't afford to pay higher wages (1). • Lower productivity leads to lower profits because firms have higher unit costs (1) and lower output per worker (1). • This results in lower income tax and/or lower corporation tax revenues for the government (1). This makes it harder for the government to reduce the size of the budget deficit (1). • Lower economic growth might lead to higher levels of unemployment which might lead to higher benefit payments and government expenditure (1). • Low UK productivity growth will have a negative impact on the UK Government's public finances because it leads to lower economic growth (1). • Government spending to raise productivity would also worsen the public funds (1). 	4	
4.	<ul style="list-style-type: none"> • Decline of trade union power and falling membership (1). • Growth of zero hour contracts (1). • Flexible labour markets in the UK - ease of hiring/firing (1). • Business fears over BREXIT climate of uncertainty (1). • Availability of migrant labour (1). • Growth of low paid sectors in the UK economy - UBER and the 'gig' economy (1). • Low wage growth in the public sector (1). 	5	<p>Award 1 mark for each valid description.</p> <p>Up to 4 marks for a well-developed point.</p>
5.	<p>Advantages:</p> <ul style="list-style-type: none"> • Improves the public finances as the government pays lower benefits (1). • Greater consumer spending as individuals in employment earn higher incomes (1). • Higher rates of economic growth/GDP due to higher output (1). • Higher living standards due to higher incomes (1). <p>Disadvantages:</p> <ul style="list-style-type: none"> • Labour shortages will put upward pressure on wages (1). • Higher inflation may be caused by rising wages (1). • Achieving economic growth reliance on rising productivity (1). • Difficult to place long-term unemployed in work (1). 	6	<p>Award 1 mark for each valid explanation.</p> <p>Up to 3 marks for each well developed point.</p> <p>Candidates must explain at least one advantage and one disadvantage to gain full marks.</p> <p>Credit multiplier effect.</p>

Question	Expected answer(s)	Max mark	Additional guidance
6.	<p>Possible policies that the government could introduce to improve UK productivity are:</p> <ul style="list-style-type: none"> • Education and training. • Encourage FDI eg Nissan in Sunderland, regional grants. • Infrastructure HS2/green technologies/communication 5G. • Tax credits to firms for capital investment. • Industrial/regional policies - Northern Powerhouse. • Fund STEM research. • Apprenticeships. <p><u>Education and training</u> may lead to a more productive workforce because workers will be more highly skilled in the workplace (1). Training by government and/or employers can lead to higher levels of expertise and motivation which raise productivity (1). On the other hand, education and training are expensive (1) and tend to be long term (1). This will not boost productivity in the short term (1).</p> <p><u>Encourage FDI</u>. FDI by foreign multinationals has brought new production techniques (1) and more efficient management styles (1) to the UK. Some foreign-owned businesses are the most productive in the UK (1) eg Nissan in Sunderland (1) and encouraging more efficient firms to locate in the UK will raise UK productivity (1). FDI may fall due to Brexit (1).</p>	8	<p>Candidates must evaluate at least 2 policies to gain full marks.</p> <p>Maximum 5 marks for any one policy, which is fully evaluated.</p> <p>Maximum 4 marks for description/exemplification with no evaluation.</p>

Section 2

Question			Expected answer(s)	Max mark	Additional guidance
7.	(a)	(i)	 <p>Fully labelled diagram (1). Clearly showing that MPB is higher than MSB (1). Clearly showing output and price for both private and social benefits (1). Clearly showing welfare loss (1).</p> <p>As drivers only take private benefits into account this leads to a negative externality (1). These are negative impacts on third parties (1). From the diagram we can see that the market produces at Q and P, which results in a higher output and a higher price than the optimum output at Q₁ and P₁ (1). The optimum output is where MSB = MSC (1). The individual places a higher value on the good than society (1). The good is over-valued and over-consumed which is the market failure (1). The over production of the good leads to a net welfare loss (1). Driving cars results in external costs such as congestion/pollution (1).</p>	7	Award up to 4 marks for the correct diagram. Award up to 4 marks for the explanation.

Question	Expected answer(s)	Max mark	Additional guidance
	<p>(ii) Possible policies that could be used to reduce market failure of driving private cars:</p> <ul style="list-style-type: none"> • A congestion or pollution charge can be put on drivers to encourage them to cut back their use of private cars. • Laws can be passed that ban the consumption of cars. • Car sharing can be encouraged through campaigns. • Government can improve the public transport system and make it cheaper, thereby encouraging consumers to use this substitute good. • Governments can initiate campaigns to raise the awareness of the benefits to society of less driving of private cars. • Cycle lanes and subsidised cycle purchase schemes can reduce car use. • The UK Government has encouraged the consumption of low emission vehicles through zero/low road tax on certain cars. • The UK Government has stated the intended future of banning fossil fuel cars by 2040. • Banning diesel cars from city centres (Oxford). <p><u>Laws can be passed that ban the consumption of cars/the good (1).</u> This is a bit extreme and is not likely to be introduced (1). However, people may be banned from driving on certain days/times/areas (1), for example a scheme that has been used in New Mexico City, which only permits cars with a certain colour of licence plate into the city on certain days (1).</p>	6	<p>Credit examples - maximum 2 marks.</p> <p>Maximum 5 marks if only one-sided.</p> <p>Maximum 4 marks for only one policy.</p>

Question	Expected answer(s)	Max mark	Additional guidance
(b)	<ul style="list-style-type: none"> A monopoly firm is productively inefficient as it does not have to produce at the lowest point on its AC curve (1). This is because there is no competition in the market (1) because there are high/insurmountable barriers to entry (1). The profit maximising output of a monopoly firm is not at the point of productive efficiency (1). Monopoly firms are allocatively inefficient because consumers are paying a price above MC (1). This is because the AR curve is always above the MR curve and at profit maximising output the price is always above the point where MR = MC (1). The higher price and lower output leads to a deadweight loss/welfare loss (1) due to the loss of consumer and producer surplus (1). <p style="text-align: center;"><u>A monopoly</u></p>  <p style="margin-left: 400px;"> - Profit maximisation point (Q1) - Productively efficient point (Q2) - Allocatively efficient point (Q3) </p>	6	Maximum 3 marks for diagram/diagrams.

Question	Expected answer(s)	Max mark	Additional guidance
(c)	<p>Competition and Markets Authority UK</p> <ul style="list-style-type: none"> • Investigate mergers which might substantially lessen competition (1) and can prevent mergers if deemed against the public interest (1). • Conduct market studies where competition or consumer problems are suspected, or into practices that impact across markets (1) and requires those involved to take steps to address the problems for instance by restricting or limiting behaviour (1). • Investigate possible dominant position abuse as laid down under The Competition Act 1998/Enterprise Act 2002 (1) and fine firms for breaches of competition law (1). • Covertly investigate firms suspected of lessening competition to obtain possible evidence (1). • Bring criminal proceedings against individuals who commit cartel offences (1). • Leniency for whistle-blowers (1). <p>Other regulatory bodies</p> <ul style="list-style-type: none"> • They supervise the development and competition in their specific markets (1). • They carry out investigations into companies they believe may be breaching a licence agreement, consumer protection or competition legislation (1). • They can impose fines (1) or specify measures firms must undertake to stop or prevent anti-competitive or abusive behaviour (1). <p>Other measures</p> <ul style="list-style-type: none"> • Trade liberalisation. • De-regulation. • Privatisation. 	6	<p>Up to 5 marks for any one measure.</p> <p>Credit examples - Maximum 3 marks.</p>

Section 3

Question		Expected answer(s)	Max mark	Additional guidance
8.	(a)	<ul style="list-style-type: none"> • The Single Market aims to breakdown all barriers to trading across the EU (1). • Free movement of goods and services means there is no trade barriers on imports and exports between member states (1). • Free movement of capital means that finance can flow freely between EU member states (1). • Free movement of labour means workers from any EU country can work in any other EU country (1). • The Single Market also aims to remove ‘non-tariff barriers’ - different rules on packaging, safety and standards are abolished and the same rules and regulations apply across the area (1). • Membership of the Single Market also normally involves making annual payments towards the EU budget (1) and accepting the jurisdiction of the European Court of Justice (1). • There is a common external tariff (CET) on goods and services from non-member states (1). 	4	<p>Maximum 1 mark for listing the four freedoms with no description.</p> <p>Up to 2 marks for any one characteristic.</p>

Question	Expected answer(s)	Max mark	Additional guidance
(b)	<ul style="list-style-type: none"> • The price of imported food and goods is rising (1). • The price of raw materials for many UK firms tend to be priced in dollars, further increasing prices (1). • UK holidaymakers get less foreign currency for their pounds (1). • Fall in sterling has boosted tourism to the UK (1). • Impact of rising inflation (1) has seen real wages either stagnate or decline - a squeeze on living standards (1). • Some UK exports will in theory become cheaper and more competitive (1). • Some economists argue that sterling's fall 'has greatly boosted manufacturing profits' (Prof. Minford The Sunday Times 27 Aug, 2017) (1). • Fall in sterling has not dramatically boosted UK manufacturing exports (1). Global supply chains hugely undermine the idea that a product is 'British' made. Component parts have to be imported and will become more expensive. Therefore, if imports rise in price, so do exports (1). • Many UK manufactured goods do not compete on price so a drop in the value of sterling is of little benefit to them - McLaren, Rolls-Royce, Bentley, Mulberry etc (1). • Evidence suggests that a fall in real incomes - due to raised import prices - is having an effect on the level of demand of 'big ticket' items such as cars, foreign holidays etc (1), Vauxhall job losses, UK caravanning demand up (1). • Drop in sterling linked to fall in aggregate demand (1). • Credit figure - 15% drop in value approx (1). • Some argue that a fall in sterling could help 'rebalance' the economy - away from consumer spending towards export-led growth (1) (The Economist 2 Sept 2017). • Benefits of a depreciation can take a long time to filter through (1). Credit J-curve (1). • The impact on the current account on the balance of payments depends on the combined PEDs for exports and imports (Marshall Lerner condition) (1). 	7	<p>Up to 4 marks for any one impact.</p> <p>Maximum 2 marks for statistics.</p>

Question	Expected answer(s)	Max mark	Additional guidance
(c)	<ul style="list-style-type: none"> • Some economists argue that eliminating external tariffs, either through free trade deals or unilaterally, would deliver economic gains (1). • Some argue that leaving the EU will result in cost savings, as the country will no longer contribute to the EU budget (1). Currently there is a net contribution to the EU budget of £8.5bn (1). • The UK would be free to establish its own trade agreements (1) - with large economies such as the US and Japan as well as emerging markets containing over 6 billion potential consumers (1). • Leaving the EU means the UK may no longer have to abide by the working-time directive (1). This could help create a more flexible labour market (1). • Some argue that the majority of small and medium-sized UK firms do not trade with the EU but are restricted by regulation imposed from Brussels (1). Removing this 'red tape' could create a more dynamic economy (1) eg adopting a 'Singapore-style' economy (1). • The UK would regain control of its fishing rights around its coast (1). • Economists for Free Trade, headed by Prof. Patrick Minford argue that a 'hard' Brexit is 'economically much superior to soft' (1). • From Project Fear to Project Prosperity Report foresees a £40bn a year boost from deregulating the economy (1). • Some economists argue that if the UK were to abolish all trade barriers the EU would be under pressure to offer Britain a similar free trade deal, otherwise its producers would be competing in a UK market 'flooded with less expensive goods from elsewhere' (1) (BBC website). • Some economists argue that UK businesses and consumers would benefit from lower priced imported goods as the effects of increased competition would force UK firms to raise their productivity (1). • Unilateral trade liberalisation theory suggests that removing trade barriers produces benefits for consumers and businesses buying components or raw materials that exceed the losses in industries that face stiffer competition (1). Example being policies of John Cowperthwaite in Hong Kong (1). • Lower EU immigration may help UK workers find jobs (1) and may push up wages which would be beneficial to all those on low wages (1). 	8	<p>Up to 4 marks for any one advantage.</p> <p>Up to 2 marks for statistics.</p> <p>Credit a critical appraisal of the advantages.</p>

Question		Expected answer(s)	Max mark	Additional guidance
		<ul style="list-style-type: none"> Some prominent UK businesses actively support the economic potential of Brexit - James Dyson, JD Wetherspoon, Reebok, Phones4U etc (1). Some goods imported from outside the EU currently have high tariffs placed on them - 10% on some cars, 17% on shoes - these goods would be cheaper for UK consumers if the UK could strike free trade deals with their country of origin (1). Some economists argue that Brexit may benefit those on low incomes as RoW external tariffs on clothing, shoes and food may be abolished thereby reducing prices (1) (Credit Engles law). 		
	(d)	<ul style="list-style-type: none"> Reduced inward migration will result in a drop in the labour force/labour shortages (1). Migrants are more likely to be of working age. This drop in supply may result in upward wage pressures (1). Less inward migration may increase the dependency ratio - as migration tends to increase labour force (1). Less inward migration could lead to a fall in aggregate demand (1). There may also be a decline in real GDP (1). Less pressure on housing costs - especially rental market (1). Higher labour costs could lead to productivity gains as firms are forced to invest in capital equipment (1). Negative impact on tax revenue. Inward migration has shown there is a positive net impact on the public tax take (1). There may be inflationary pressures due to rising labour costs (1). Less pressure on public services (local authority budgets etc) (1). There is an argument that inward migration also creates new industries which would disappear - asparagus, Polish shops etc (1). Some sectors of the UK economy are reliant on migrant labour - hospitality industry, travel and tourism, construction industry, agriculture, NHS etc (1). 	6	Up to 4 marks if only UK Business or UK Economy covered.

Question		Expected answer(s)	Max mark	Additional guidance
9.	(a)	<p>Advantages:</p> <ul style="list-style-type: none"> • Makes the tax system more progressive. • Raises tax revenue for the government. • Reduces income inequality. <p>Disadvantages:</p> <ul style="list-style-type: none"> • Disincentive effects - tax avoidance, enterprise, relocation-brain drain. • Lower tax revenues, credit reference to Laffer Curve. 	4	<p>Candidates must discuss at least one advantage and one disadvantage to gain full marks.</p> <p>Up to 3 marks for any one advantage or disadvantage.</p>
	(b)	<p>Possible economic costs</p> <ul style="list-style-type: none"> • Cost of share buy-back. • Impact on Public Finances - cost of funding, purchase and running costs may require further government borrowing and worsen the fiscal position. • Burden on taxpayers rather than shareholders - any risks on the business would now cost the taxpayer not the shareholders. • Possible loss of efficiency - loss of profit motive. <p>Possible economic benefits</p> <ul style="list-style-type: none"> • Lower prices for consumers. • Emphasis on quality/health and safety - the government can set the objectives. • Reinvestment of surpluses/profits in the industry - or can be used to improve the public finances. • Potential higher investment. • Possible economies of scale. 	6	<p>Credit relevant examples, eg railways, postal service.</p> <p>Up to 3 marks for each well-developed point.</p>

Question		Expected answer(s)	Max mark	Additional guidance
	(c)	<p>Full descriptions of the following will be credited:</p> <ul style="list-style-type: none"> • Intergenerational unfairness. • Interest Burden. • Opportunity Cost of interest payments. • Risk of Credit Rating Downgrade. • Potential Sovereign Debt Crisis. • Crowding out. • Ricardian Equivalence. • Use of a fiscal stimulus in a recession is limited if the country already has high levels of debt. 	8	<p>Up to 4 marks for any one danger.</p> <p>Up to 2 marks for statistics.</p>

Question	Expected answer(s)	Max mark	Additional guidance
(d)	<p>Possible areas for discussion could include:</p> <p>1) Increase the National Minimum/Living Wage</p> <ul style="list-style-type: none"> • Advantages: Increases incomes of those on low incomes, raising living standards, reducing poverty. It reduces the amount that the government pays out in working tax credits. • Disadvantages: It adds to the costs of firms and may impact employment/competitiveness. It can be inflationary if higher labour costs are passed on to consumers. It only affects a very small proportion of the workforce. Most workers earn above the NMW/NLW. <p>2) Increase benefits</p> <ul style="list-style-type: none"> • Advantages: Can be targeted at most vulnerable groups, reduces poverty, can be means-tested, reduces socio-economic costs of poverty, high marginal propensity to consume leads to higher multiplier effect. • Disadvantages: Cost to taxpayer, impact on Public Finances, disincentive effects. <p>Other Policies might include:</p> <ul style="list-style-type: none"> • Investment in education and training focusing on raising attainment/widening access. • Improving healthcare - reducing health inequality would lead to greater employability. • Investment in affordable housing. • Tackling social deprivation - better educational outcomes, better health outcomes, higher employability, higher social mobility and less criminality etc. • Providing job opportunities. • Affordable transport. 	7	<p>Up to 4 marks for any one measure.</p> <p>Maximum 3 marks if no discussion.</p> <p>Maximum 2 marks for use of NMW/NLW diagram if explained.</p> <p>Maximum 2 marks for examples/statistics.</p>

Question		Expected answer(s)	Max mark	Additional guidance
10.	(a)	<p>Full descriptions of the following will be credited:</p> <p>Inflationary pressures</p> <ul style="list-style-type: none"> • Fall in the £ leading to imported inflation. • Low Unemployment - Labour shortages - wage cost pressures. • The UK is close to full employment. • Rising oil prices/transport costs. • Rising consumer spending fuelled by rising consumer debt. • Pressure on wages to restore 'real' pay increases. <p>Deflationary pressures</p> <ul style="list-style-type: none"> • The rate of economic growth is slowing. • Uncertainty over Brexit. • Falling business and consumer confidence. • The rise in inflation caused by the fall in the £ will fall out of the statistics. • 'Real' wages have been falling. • Debt overhang. 	8	<p>Up to 2 marks for each description.</p> <p>Maximum 2 marks for statistics.</p> <p>Maximum 4 marks for commodities used for illustrative purposes (2/2).</p> <p>Maximum 5 marks if only one pressure is described.</p>

Question	Expected answer(s)	Max mark	Additional guidance
(b)	<p>Full discussion of the following will be credited:</p> <p>Possible arguments for raising interest rates</p> <ul style="list-style-type: none"> • Normalisation of interest rates to pre-recession levels. • The economy had been growing - at a slower rate than in 2016. • To avoid a Keynesian Liquidity Trap. • Inflation was above the 2% CPI target - 3% CPI in November. • Low rates are damaging the UK Economy - Zombie Firms, low savings ratio, over indebtedness, housing bubble, unsecured debt. • Bank of England credibility. <p>Possible arguments against raising interest rates</p> <ul style="list-style-type: none"> • The impact of £ will drop out of statistic. • The low £ helps exporters. • Brexit uncertainty. • Slowing economic growth. • Risk of personal bankruptcies due to default on secured and unsecured debt. • Risk of firms failing. • Rising unemployment. 	10	<p>Maximum 2 marks for statistics.</p> <p>Maximum 6 marks if only one side of the argument is described.</p> <p>Maximum 3 marks for any one factor.</p>

Question	Expected answer(s)	Max mark	Additional guidance
(c)	<p>Full explanation of the following will be credited:</p> <p>Demand side</p> <ul style="list-style-type: none"> • Expectation of house price rises. • Migration Levels. • Government policy - help to buy scheme, changes to stamp duty making buy to let more expensive. • Growth of single person households. • Foreign investors. • Property ownership has been the norm. • Low returns elsewhere. • Lack of affordability for first time buyers - house prices have been rising faster than incomes. <p>Supply side</p> <ul style="list-style-type: none"> • Constraints on planning permission. • Lack of brown field sites. • Restrictions on green belt. • Lack of construction of affordable social housing. • Lack of sufficient private house construction. 	7	Maximum 4 marks for any one factor.

Question		Expected answer(s)	Max mark	Additional guidance
11.	(a)	<ul style="list-style-type: none"> • The WTO is a global international organisation dealing with the rules of trade between nations (1). • The means for achieving this include the ‘substantial reduction of tariffs and other obstacles to trade’ (1). • Their role is to help producers of goods and services, exporters, and importers conduct their business (1). • It is also a forum for governments to negotiate trade agreements, and where member governments try to sort out trade problems they face with each other (1). • The WTO’s global system lowers trade barriers through negotiation and operates under the principle of non-discrimination (1). • It aims to reduce trade tensions by helping settling disputes about whether countries are playing by agreed rules (1). • The WTO aims to stimulate economic growth and employment/achieve higher living standards, full employment and sustainable development (1) as expressed in the WTO’s founding Marrakesh Agreement (1). • The WTO can cut the cost of doing business internationally (1). • The WTO can encourage good governance. The WTO’s trade rules reduce arbitrariness and opportunities for corruption and help with transparency (1). • The WTO can help countries develop due to the argument that more open trade can boost economic growth (1). • The WTO can give the weak a stronger voice as differences in bargaining power are narrowed by agreed rules, consensus decision-making and coalition building (1). • The WTO can support the environment and health by devising rules and regulation designed to protect the environment (1). • Credit reference to GATT, the Uruguay Round, and Doha (1). 	4	

Question	Expected answer(s)	Max mark	Additional guidance
(b)	<ul style="list-style-type: none"> • Credit definition - an economic situation where countries raise protectionist barriers against each other to protect domestic industries from foreign competition (1). • It can take the form of imposing tariffs and quotas on foreign trade as well as currency manipulation to favour domestic industries (1). • Trade barriers can either make trade more difficult and expensive or prevent trade completely (1). • Trade wars hurt consumers who would be faced with price rises in goods (1). • Trade wars would also hurt many domestic producers because in a global economy supply lines cross borders. Tariffs on imported components would increase the costs of the manufactured good - making it more expensive and thus less competitive (1). • High tariffs on imported food will particularly impact on the poor, who spend a disproportionate amount of their income on necessities (1). • A trade war would mean abandoning an institution - the WTO - that recognises countries are stronger when they work together (1). • Some economists argue that a global trade war would accelerate automation as companies would be forced to cut internal costs - resulting in mass unemployment (1). • Xi Jinping - 'no one will emerge as a winner in a trade war' (1). • Credit reference to catastrophic situation of the Great Depression when major world economies were engaged in a trade war (1). • Credit counter-argument that some economists argue that in the short run domestic companies would benefit being sheltered from foreign competition (1). 	5	

Question	Expected answer(s)	Max mark	Additional guidance
(c)	<p>Advantages</p> <ul style="list-style-type: none"> • If there was a free trade deal with America this would mean cheaper imports into the UK such as American cars (1). • The US is the UK's biggest export destination by country - approx. worth £3.5Bn. Building stronger trade links could boost this even further (1). • The UK could build on its variety of exports to the US (1). • In addition, the US and the UK are each other's largest foreign investors. This investment would be further stimulated by stronger trade links (1). • The US is the second largest foreign supplier to the UK. A freer trade relationship could reduce the cost of those imports (1). • Some domestic UK industries have welcomed a US/UK trade deal - haggis producers who have faced a US ban on haggis (1). • Similar culture and language (1). <p>Disadvantages</p> <ul style="list-style-type: none"> • The UK would possibly have to end its ban on chlorinated chicken in order to satisfy American farmers (1). • If the UK were to deviate from EU norms in a deal with America on genetically modified foods it would risk tougher customs checks with Europe (1). • More limited access to the EU would also diminish its appeal to America (1). • There are administrative cost implications (1). • There is concern that a trade deal might force the UK government to privatise the NHS - opening up the UK health service to American health care businesses (1). • Beef fed with growth hormones is a practice used in the US. It is currently banned in the EU on the basis of health concerns. The UK may have to approve such meat (1). • The costs of harmonising non-tariff barriers safety standards - such as the difference in car windscreen wiper safety standards (1). 	6	Maximum 2 marks for statistics.

Question	Expected answer(s)	Max mark	Additional guidance
(d)	<p>Pro-trade / anti-aid</p> <ul style="list-style-type: none"> • Foreign aid to LEDC's is wasteful and creates a damaging culture of dependency (1). This is a view held by Dambisa Moyo in her book Dead Aid (1). • Aid is often subject to vested interests and fails to improve living standards (1). • Supporters of trade point to the Asian 'tiger' economies who have been able to dramatically increase economic welfare through increasing trade (1). • Trade provides a long-term basis for international co-operation (1). • If the developed country goes through a bad economic period, the aid budget may be cut (1). • Aid is often misspent on military or 'white elephants' this has been called 'bad aid' (1). • Trade establishes a strong impression in the international market (1). • The promotion of trade can have a positive multiplier effect (1). Once an industry is established and trading other companies can provide services/components to that industry boosting the economy further (ancillary industries) (1). • Trade can boost employment (1). • Trade helps foster transferrable skills as TNCs bring technology and training when they trade in LEDCs (1). • Credit reference to China's emphasis on trade with Africa, not aid (1). • Credit criticism of 'Washington Consensus' or economic neo-colonialism (1). <p>Pro-aid</p> <ul style="list-style-type: none"> • Market failure can lead to an under-provision of important infrastructure such as education (1). Aid can overcome such failures and help the economy grow (1). • Developing economies may not be in a position to benefit from trade. Their comparative advantage may lie in primary products which are subject to fluctuating commodity prices (1) which are the most protected by the EU and US (1) eg American cotton subsidies (1). 	10	Maximum 2 marks for statistics.

Question	Expected answer(s)	Max mark	Additional guidance
	<ul style="list-style-type: none"> • The infant industry argument holds that developing countries may actually be hindered by free trade (1). • Aid can help overcome capital shortages and debt repayments (1). • Aid is not always provided in the form of money and is sometimes provided through expert advisors and is therefore more effective (1). • Trade requires investment first. Aid can deliver this (1). • Aid is often focussed on target groups and specific problem (1). • Aid can create sustainable development as a local level (1). 		

[END OF MARKING INSTRUCTIONS]