

INTERNATIONAL ADVANCED LEVEL

Economics

SAMPLE ASSESSMENT MATERIALS

Pearson Edexcel International Advanced Subsidiary in Economics (XEC01)

Pearson Edexcel International Advanced Level in Economics (YEC01)

For first teaching in September 2013

First examination January 2014

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Pearson Edexcel
International
Advanced Level

Centre Number

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Candidate Number

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Economics
International Advanced Subsidiary
Unit 1: Markets in Action

Sample Assessment Material
Time: 1 hour 30 minutes

Paper Reference
SAM

You do not need any other materials.

Total Marks

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Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and **one** question from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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Section A: Answer all the questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** In 2012, the French President, François Hollande, proposed a top marginal tax rate of 75% on high income earners.

Statement 1: The tax would apply to all those earning more than one million euro per year.

Statement 2: The imposition of the 75% rate would share the burden of increased taxation fairly.

Which of the following best describes the two statements above?

(1)

- A** Statement 1 is normative and statement 2 is positive
- B** Both statements are normative
- C** Statement 1 is positive and statement 2 is normative
- D** Both statements are positive

Answer

Explanation

(3)

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(Total for Question 1 = 4 marks)

- 2** Evidence suggests that only a relatively small proportion of consumers change bank accounts, energy suppliers or mobile (cell) phone contracts even where there would be a significant financial gain from doing so.

This behaviour may best be explained by

(1)

- A** consumer purchases being based on habit
- B** consumers having full information
- C** consumers having good computational skills
- D** consumers experiencing diminishing marginal utility

Answer

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Explanation

(3)

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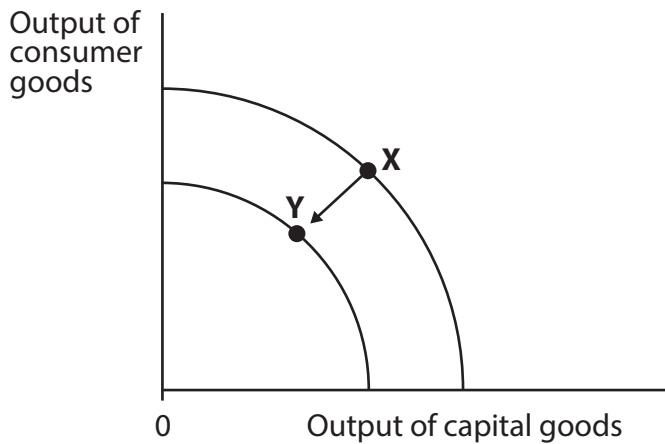
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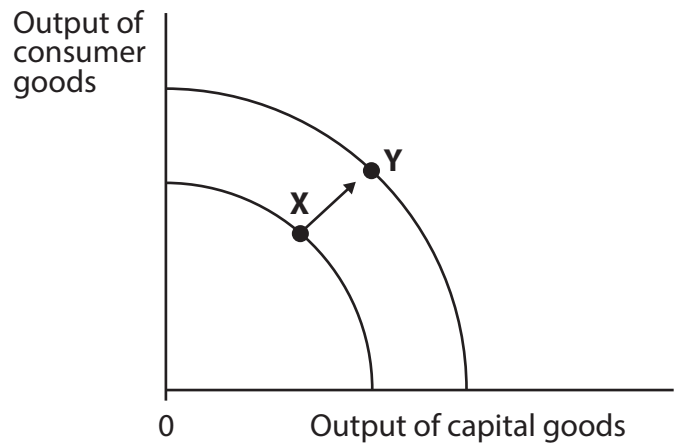
(Total for Question 2 = 4 marks)

Production possibility frontiers

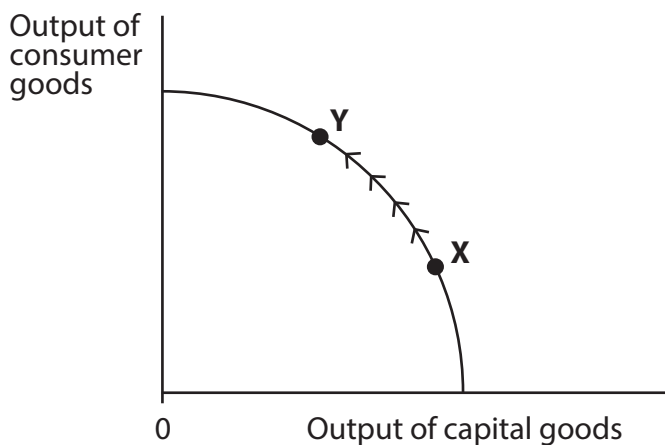
Option A



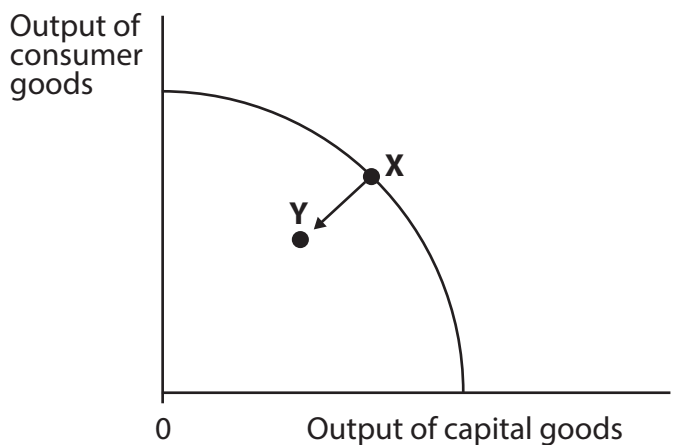
Option B



Option C



Option D



The diagrams show movements from position X to Y on production possibility frontiers. In which of the above diagrams does the movement from X to Y illustrate economic growth?

(1)

Answer

Explanation

(3)

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(Total for Question 3 = 4 marks)

- 4** In 2010, the Kenyan Parliament passed a Bill that proposed to control prices of essential goods including maize, rice, wheat, sugar, cooking oil, petrol, diesel and paraffin. The Bill was later blocked by the Kenyan President.

Other things being equal, a maximum price for a good set below the equilibrium market price would have been expected to cause

(1)

- A** an increased quantity of the good supplied
- B** an increase in the consumption of the good
- C** no effect in the market
- D** an excess demand for the good

Answer

1

Explanation

(3)

(Total for Question 4 = 4 marks)

5

Foodstuff	Income-elasticity of demand	Price-elasticity of demand
Pulses	0.72	-0.65
Cereals	0.19	-0.03
Milk	1.64	-1.04

(Source: 'Estimation of Demand Elasticity for Food Commodities in India' Praduman Kumar, Arjani Kumar, Shinoj Parappurathu and S.S. Raju, National Centre for Agricultural Economical and Policy Research, New Delhi – 110012)

The table shows estimates of demand elasticities in India. From this information, which of the following statements can be deduced about Indian consumer behaviour?

(1)

- A** A 10% increase in the price of milk will lead to an increase in consumer expenditure on milk
- B** The quantity of pulses demanded by consumers increases as the price falls
- C** Cereals are an inferior good
- D** As income rises, milk will account for a smaller proportion of consumer expenditure

Answer

☐

Explanation

(3)

(Total for Question 5 = 4 marks)

6 Geographical mobility of labour is higher in the United States (US) than in the European Union (EU).

Which of the following is the most likely explanation of this?

(1)

- A** Transport links are worse in the US than in the EU
- B** There are more grants available in the EU for individuals to relocate
- C** Most EU countries have better education and training systems than the US
- D** It is easier to obtain affordable housing in the US than in most EU countries

Answer

9

Explanation

(3)

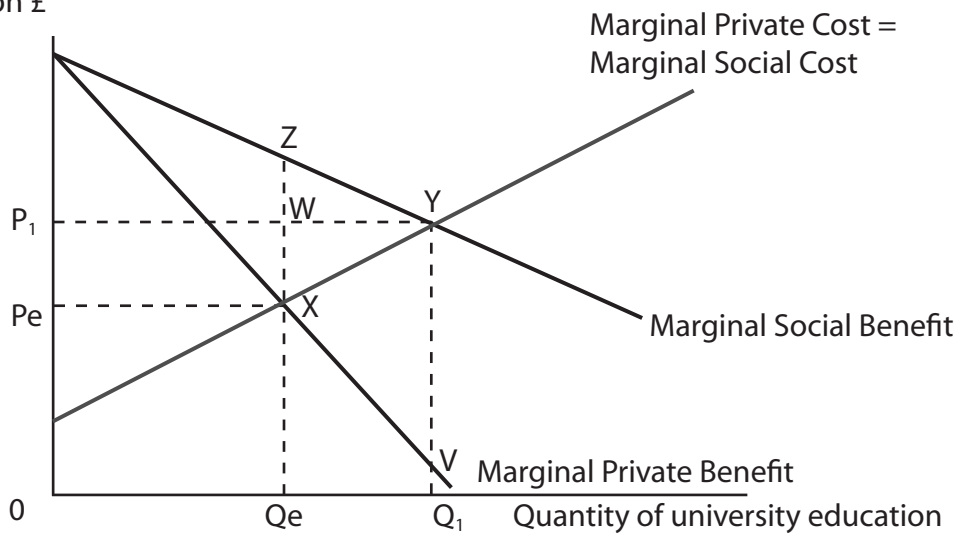
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(Total for Question 6 = 4 marks)

7

Market for university education

Price of university education £



The diagram shows the market for university education. Assume there are no external costs. Which of the following is true?

(1)

- A** The free market equilibrium quantity exceeds the social optimum quantity
- B** There is market failure at quantity Q_e
- C** The triangle of welfare gain is XYV
- D** The marginal external benefit remains constant at all quantities

Answer

Explanation

(3)

(Total for Question 7 = 4 marks)

- 8 In Zimbabwe, consumers, businesses and the government began in 2008 to use US dollars rather than the domestic currency.

The most likely reason for this was

(1)

- A the Zimbabwean currency had ceased to act as an effective store of value
- B US currency is in more convenient units than the Zimbabwean currency
- C the Zimbabwean currency was being hoarded by savers
- D high levels of investment in Zimbabwe by US firms

Answer

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Explanation

(3)

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(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

Section B: Answer either Question 9 or Question 10.

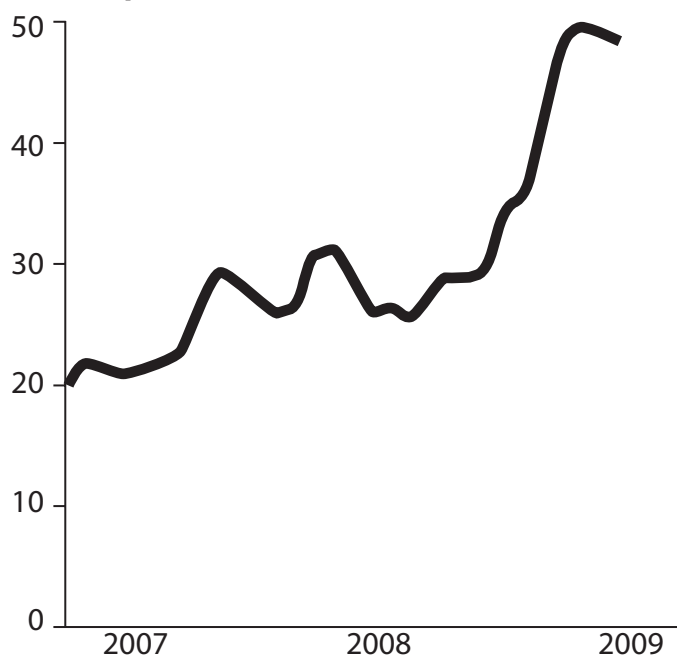
If you answer Question 9 put a cross in this box ☐ .
Question 10 starts on page 23.

You should spend 55 minutes on this section.

9 The price of sugar

Figure 1 World price of sugar

US cents per kilo



(Source: www.mongabay.com/images/commodities/charts/sugar.html)

Extract 1 Soaring price of sugar

Sugar prices around the world more than doubled over the last few years, reaching 50.8 US cents per kilo in 2009, a 28-year high.

Sugar production in Brazil, the world's largest producer, has been hit by heavy rain. Brazil is also diverting part of its sugar cane crop to making ethanol fuel for use by motor vehicles.

5

Speculative demand has also forced up sugar prices. Eugene Weinberg, an analyst at Commerzbank, pointed out that cash-rich speculators have purchased sugar stocks in anticipation of its price rising to even higher levels next year.

For much of the last decade, sugar has not been a very profitable crop compared to other types of farming. Recent high prices cannot result in an immediate increase in sugar production, as it may take up to two years for supply to respond. Destroying rainforests as a means to increase sugar production has a negative environmental and social impact.

10

(Source: adapted from 'Food groups say US is running out of sugar', by Alexandra Frean, *The Times*, 13 August, 2009 and 'Chasing a sugar rush: global deficit drives price rises', by Sean O'Grady, *The Independent*, 11 August, 2009)

Extract 2 US faces sugar shortage

America's obesity problems may soon shrink amid fears that the makers of treats, such as Oreo cookies, Krispy Kreme doughnuts and Hershey bars, could run out of sugar. Leading food companies, including Kraft, Mars and Hershey, have warned the government that there may be a serious sugar shortage unless it allows more imports of the commodity into the country. The food companies blame the shortage on the government's policy of restricting imports of sugar in order to protect the incomes of US sugar farmers in the Midwest.

5

Rising sugar prices have affected the production costs of chocolate and other confectionery companies. However, there are many other costs to consider. At Mars, for example, sugar is third on its list of ingredient costs behind cocoa and milk. Moreover, the price of milk has been falling over recent years, helping to offset the increase in sugar costs.

10

Chocolate and other confectionery companies have experienced increased sales during the recession as people attempt to cheer themselves up by consuming more sugary treats.

15

(Source: adapted from 'Food groups say US is running out of sugar', by Alexandra Frean, *The Times*, 13 August, 2009 and 'Chasing a sugar rush: global deficit drives price rises', by Sean O'Grady, *The Independent*, 11 August, 2009)

- (a) With reference to Extract 1, explain why the price elasticity of supply of sugar is likely to change over time. (4)
- (b) With reference to Figure 1 and Extract 1, explain why the price of sugar 'more than doubled over the last few years'. Use a supply and demand diagram in your answer. (6)
- (c) With reference to the last paragraph in Extract 2 and your own knowledge, discuss whether chocolate and other confectionery are likely to be normal or inferior goods. (10)
- (d) With reference to Extract 2, evaluate the likely effects of the increase in the price of sugar on the producers of chocolate and other confectionery. Illustrate your answer with a supply and demand diagram. (14)
- (e) To what extent is market failure likely to result from the consumption **and** production of sugar? (14)

(a) With reference to Extract 1, explain why the price elasticity of supply of sugar is likely to change over time.

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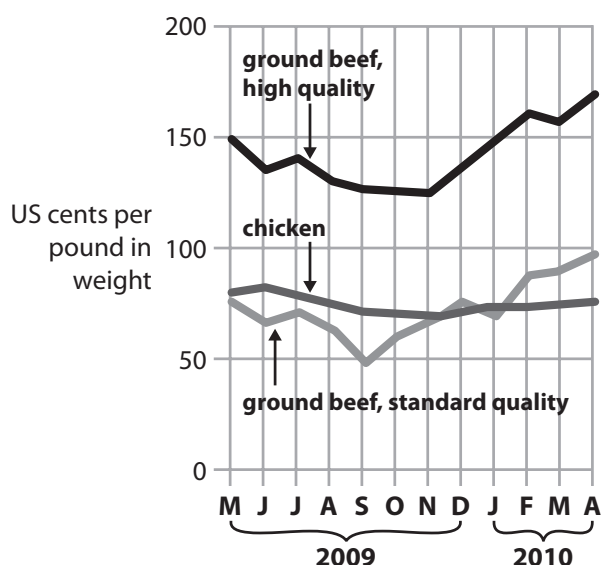
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(Total for Question 9 = 48 marks)

If you answer Question 10 put a cross in this box ☐ .

10 The price of beef

Figure 1 The price of beef and chicken for fast food restaurants 2009 – 2010



Extract 1 Rising price of beef

It is **not** a happy time in American fast food restaurants. Rising beef prices have reduced profit margins at the McDonalds, Burger King and Wendy chains. They have found it difficult to pass on higher beef prices to their customers through the sale of burgers such as the 'Big Mac' and 'Whopper'. Instead, the fast food restaurants have responded by promoting sales of chicken burgers and fish fillets.

5

Beef prices have risen due to higher costs for cattle feed and severe drought conditions in Australia and New Zealand (the main suppliers of beef for American fast food restaurants).

However, there is some good news. The fast food restaurants have benefited from the recession as consumers made savings by switching from eating at expensive restaurants to cheaper burger bars.

10

(Source: © *The Times* 'Increase in meat prices has burger lovers asking: where's the beef?', Alexandra Frean, 24 May 2010)

Extract 2 Cattle farms damaging the rainforest

Deforestation in Brazil releases an estimated 400 million tonnes of carbon dioxide into the atmosphere every year, making the country one of the biggest emitters of the gas in the world. An average of 7,330 square miles of rainforest has been lost each year since 1995. The destruction of rainforest has accelerated over the past few years due to soaring beef and soya prices. Farmers are burning more rainforest to turn land into cattle ranches and into fields for growing crops.

5

However, the President of Brazil announced plans to reduce deforestation by subsidising sustainable development projects. These include replanting trees and creating eco-friendly tourism as alternative means of providing employment and income for local communities. The amount of funds made available has not been revealed.

10

The proposals also include an increase in the policing of forested areas and severe penalties for those breaking the law through illegal logging and farming.

(Source: © Guardian News & Media Ltd 2008, adapted from 'Brazil sets target to slow Amazon deforestation', by David Ljunggren)

- (a) With reference to Figure 1 and the second paragraph of Extract 1, explain the causes of the increase in the price of beef. Use a supply and demand diagram in your answer.
(6)
- (b) Using cross elasticity of demand, explain the likely relationship between the price of beef and the demand for chicken and fish.
(4)
- (c) Assess whether beef and beef burgers are likely to be normal goods or inferior goods.
(10)
- (d) Using the concepts of external costs and market failure, examine the possible economic effects of farmers 'burning more rainforest to turn land into cattle ranches and into fields for growing crops'. (Extract 2, lines 5–6). Use an appropriate diagram in your answer.
(14)
- (e) Discuss the possible economic effects of the government providing subsidies to support sustainable development projects such as those referred to in Extract 2.
(14)

(a) With reference to Figure 1 and the second paragraph of Extract 1, explain the causes of the increase in the price of beef. Use a supply and demand diagram in your answer.

(6)

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(b) Using cross elasticity of demand, explain the likely relationship between the price of beef and the demand for chicken and fish.

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(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS

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Mark Scheme (SAM)

Pearson Edexcel International Advanced Subsidiary in Economics

Unit 1: Markets in Action

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General marking guidance

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

Section A: Supported multiple choice

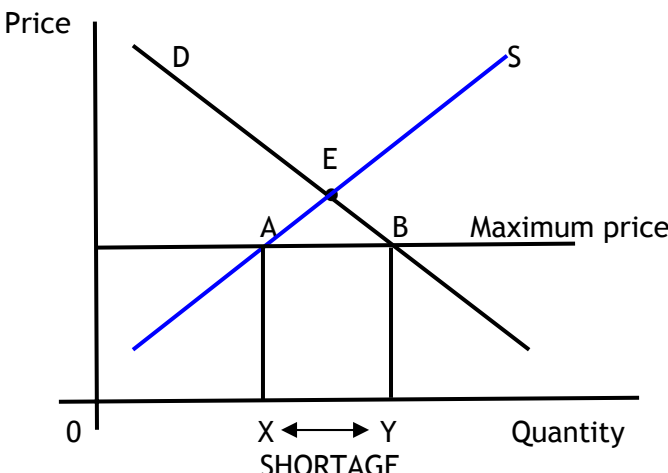
N.B.: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

N.B.: Candidates may achieve up to 3 marks (rejection marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Answer	Mark
1	<p>Answer C (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of a positive statement is required (one that is based on fact/it can be tested as true or false) (1) • Definition of a normative statement (one that is based on value judgement it cannot be tested as true or false) (1) • Application: statement 1 is positive since it can be tested to see whether the tax covers earners in this bracket (1) • Application: statement 2 is normative since it contains the word 'fairly' (1) 	(4)

Question Number	Answer	Mark
2	<p>Answer A (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Behavioural economics suggests that consumers do not always behave to maximise utility (1) • Habit often dominates over conscious decision-making (1) • Habit leads to inertia (1) • Decision-making has a cost in terms of time and effort (1) • Acquiring information also has costs associated with it (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option B: if consumers have full information they are more likely to make switches between suppliers (1) • Option C: working out the costs of alternative packages can require good computational skills. Those with such skills are more likely to change suppliers than those without (1) • Option D: increased competition is likely to mean suppliers will make greater efforts to convince consumers to make a change (1) 	(4)

Question Number	Answer	Mark
3	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of production possibility frontier (maximum output combinations for an economy when all its resources are fully and efficiently employed) (1) • Definition or explanation of economic growth (an increase in real GDP/an increase in the productive potential for an economy/increase in productive capacity) (1) • Application to diagram B: (it is possible to produce more capital and more consumer goods when the curve shifts outwards) (1) • Identification of any one cause of an outward shift in the production possibility frontier: (increase in immigration/quality of labour/capital stock/technology/discovery of new resources) (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A incorrect since this shows a decrease in productive potential/negative economic growth (1) • Option C incorrect since this shows a movement along the production possibility frontier so demonstrating opportunity cost (1) • Option D incorrect since this shows a reduction in output of both consumer and capital goods (unemployed or underemployed resources) (1) 	(4)

Question Number	Answer	Mark
4	<p>Answer D (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • A price set below equilibrium (definition of equilibrium) (1) • Means that producers will wish to supply less than at the equilibrium price - EA (1) • While consumers will demand more - EB (1) • Properly-labelled diagram to support this explanation (up to 2 marks).  <p>[Possible credit for mentioning likely emergence of black markets etc if not all marks above are gained (1)]</p> <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A incorrect because quantity supplied will be reduced (1) • Option B incorrect because, although consumers would like to consume more, they cannot because quantity supplied falls (1) • Option C incorrect because of assumptions of D and S curves, i.e. that quantity S and D depend on price (1) 	(4)

Question Number	Answer	Mark
5	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of price-elasticity of demand (PED) (1 mark for verbal explanation, or 2 marks for correct formula) • -0.65 suggests that demand is relatively price-inelastic (1) • Negative value of PED means that a price fall leads to an increase in quantity demanded (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A is incorrect as consumer expenditure would increase only if demand was price-inelastic (PED less than 1) (1) • Option C is incorrect because the income-elasticity of demand is positive, meaning demand increases as income rises (1) • Option D is incorrect as income-elasticity of demand for milk is greater than 1, spending on milk as a proportion of income/expenditure will rise as income increases (1) 	(4)

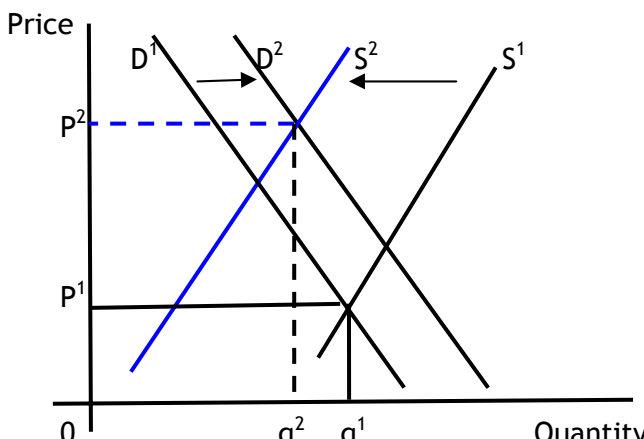
Question Number	Answer	Mark
6	<p>Answer D (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Geographical mobility - the ability/willingness of workers to move from area to area to obtain or change jobs (1) • Availability of affordable housing at destination is important if people are to move in search of work (1) • If giving up accommodation at origin is costly (e.g. difficult to sell property, or have to give up subsidised accommodation which may not be available if worker returns), mobility will be deterred (1) • Hypotheses or information about possible differences in housing markets in US/EU, e.g. extent of owner-occupation, rented sector, subsidies (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A rejected because if transport better in EU would expect more mobility (1) • Option B rejected because such grants would tend to increase mobility (1) • Option C rejected because better education and training is likely to increase geographic as well as occupational mobility (1) 	(4)

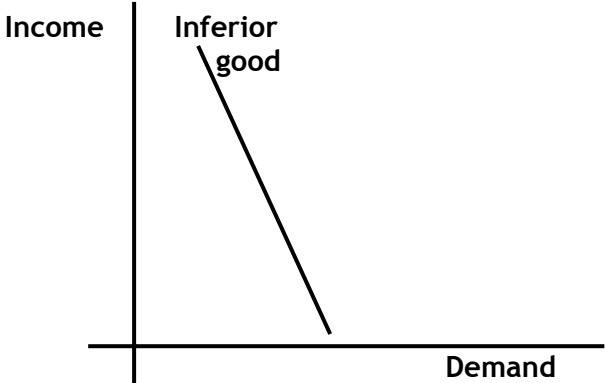
Question Number	Answer	Mark
7	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of market failure (the price mechanism fails to allocate resources efficiently/the price mechanism leads to a net welfare loss) (1) • Social benefit exceeds social cost of university education for QeQ1 students (1) • Welfare gain triangle is ZYX or annotation of diagram (1) • Identification of market equilibrium position $MPB=MPC$ (1) • Identification of social optimum equilibrium position $MSB=MSC$ (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option A is incorrect since the free market quantity $0Q_e$ is less than the social optimum number of students $0Q_1$ (1) • Option C is incorrect since the triangle of welfare gain is ZYX (1) • Option D is incorrect since the marginal external benefit increases/pivots as the quantity of students increases (1) 	(4)

Question Number	Answer	Mark
8	<p>Answer A (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Store of value is one of the key functions of money (1) • Enables people to save some of their income to spend at a later date (1) • This works only if the value of the currency remains stable, i.e. if inflation remains low (1) • Hypothesis (or information) that high inflation led to collapse of confidence in Zimbabwean currency, switch to more stable US currency (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • Option B is inherently unlikely - whatever units the currencies were in, this did not change in 2008 (1) • Option C - hoarding unlikely if inflation was occurring. Implies currency strong (1) • Option D - there wasn't a high level of investment by US firms, but even if there was this is not a plausible reason for changing currencies. US firms invest a lot in Europe but that doesn't mean Europeans adopt the US dollar (1) 	(4)

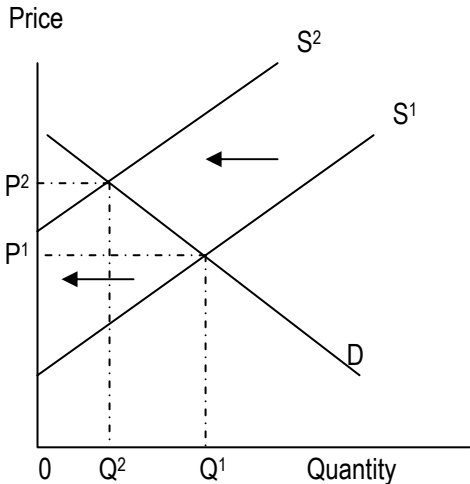
Section B: Data response

Question Number	Answer	Mark
9 (a)	<p>Knowledge, application and analysis (up to 4 marks)</p> <ul style="list-style-type: none"> • Definition or formula of price elasticity of supply (the responsiveness of supply of a good as a result of a change in its price or, $\% \Delta QS \div \% \Delta P$) (1) • Supply appears to be price inelastic in the short run (1) /the extract refers to up to 2 years for supply to respond to changes in price of sugar (1) • Supply may become relatively price elastic in the long run as farmers have more time to grow sugar (1) • The change in price elasticity of supply over time may be illustrated diagrammatically (1) • Understanding that in the short run at least one factor input is fixed in quantity, whereas in the long run all factor inputs are variable (1) 	(4)

Question Number	Answer	Mark
9 (b)	<p>Knowledge, application and analysis (up to 6 marks)</p> <ul style="list-style-type: none"> • An increase in demand because of speculation/speculative buying of sugar (1) • A decrease in supply resulting from excess rain or poor weather in Brazil or supply being diverted to production of ethanol (1) <p>Diagrammatic analysis which shows:</p> <ul style="list-style-type: none"> • a shift to the right of the demand curve (1) • a shift to the left of the supply curve (1) • original equilibrium price and quantity (1) • new final equilibrium price and quantity (1) 	(6)

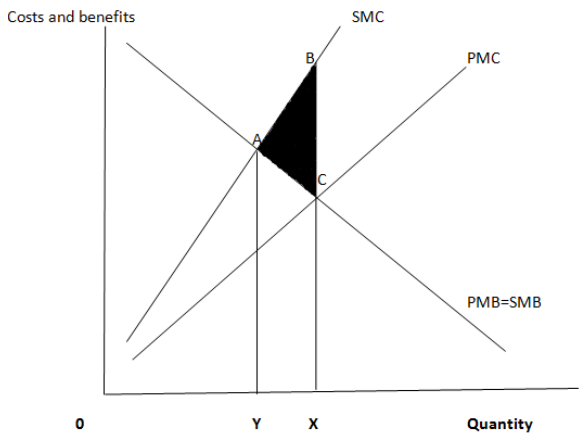
Question Number		Mark
9 (c)		(10)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> • Definition of income elasticity of demand or formula. • Definition/outline of a normal good (as income increases so does demand increase or as income decreases so does demand decrease). • Normal goods have a positive income elasticity of demand. • Definition/outline of inferior good (as income increases demand decreases or as income decreases demand increases). • Inferior goods have a negative income elasticity of demand. • Reference to last paragraph in Extract 2: the recession means falling income/but sales of chocolate have increased so it might be an inferior good. • Diagram depicting chocolate as an inferior good. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of the meaning of income elasticity of demand and/or normal goods and/or inferior goods.
2	3-4	Understanding of income elasticity of demand and the distinction between normal and inferior goods.
3	5-6	Clear understanding of income elasticity of demand, normal goods and inferior goods with appropriate application to context.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • The reason why chocolate and sweets might be regarded as inferior goods in a recession is because they are for example, complements to watching TV rather than going out for entertainment which is too expensive when incomes have fallen. • Chocolate and sweets are not inferior goods when (real) incomes increase. They are more like luxury goods being non-essential. • Chocolate and sweets are not inferior goods - determinants are more to do with other factors, for example, cross elasticity of demand for leisure based products. • Discussion on the type of chocolate and sweets - there are various cheap brands (for example low cocoa percentage mass-produced bars) and also very expensive brands (for example hand-made chocolates). The latter are likely to be luxury goods with a high positive income elasticity of demand. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
9 (d)		(14)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> The increase in price of sugar will increase production costs for companies making chocolate and sweets. It is likely that (if demand remains constant) price will increase and output decrease for chocolate and sweets. <p>This could be shown by diagram:</p> <ul style="list-style-type: none"> a shift in the supply curve to the left new higher equilibrium price and lower equilibrium output.  <ul style="list-style-type: none"> Profits or revenue in the industry are likely to fall/firms may go bankrupt. Firms may seek to cut production costs, e.g. through mergers or by sourcing cheaper materials/reduce employment. Fall in producer surplus. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the significance of sugar as a cost of production. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of sugar as a cost of production and its implications for the price and quantity of sweets and chocolate. This is supported by an accurately-labelled diagram. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.

Level	Marks	Descriptor
3	7-8	<p>Clear understanding of sugar as a cost of production and its implications for the price and quantity of sweets and chocolate. This is supported by an accurately-labelled diagram which is explained and applied effectively.</p> <p>Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.</p>

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Discussion of magnitude of the price increase: Extract 1 refers to the raw sugar price increasing by 80% in 2009/so one might expect a significant impact for chocolate and sweet manufacturers. • Discussion on sugar cost as a proportion of total costs for chocolate and sweet manufacturers. Extract 2 indicates that sugar is only the third most expensive ingredient behind cocoa and milk for Mars. It suggests that the rise in sugar prices will not impact much for chocolate and sweet manufacturers/especially as milk prices have been falling. • Discussion on other input costs apart from ingredients, for example labour, capital (machinery and factory), transport, packaging and advertising. Again, it suggests relatively limited impact of the increase in sugar prices. • Discussion of possible shifts in demand curve, meaning that equilibrium prediction is more difficult. • Discussion of price elasticity of demand for chocolate and sweets. If price inelastic demand then chocolate and sweet manufacturers can more easily pass on the extra costs to their customers through higher prices. • Discussion of time period/fluctuations in sugar prices. It might be that sugar prices will fall back in the future so little long-term impact. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

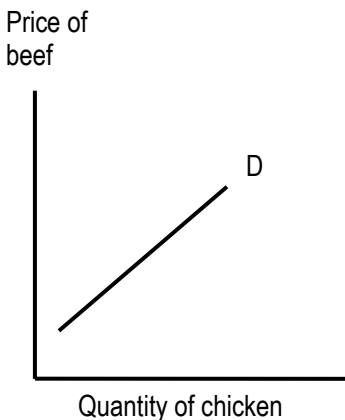
Question Number		Mark
9 (e)		(14)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> • Definition/understanding of market failure (the price mechanism leads to an inefficient allocation of resources/net welfare loss). • Explanation of type of market failure, namely external costs: definition of external costs: cost external to an exchange/negative third party effect/spillover from production or consumption/cost which the price mechanism fails to take into account/cost outside of a transaction/social cost minus private cost equals external cost. • External costs of consumption of sugar: ill health, for example obesity, heart disease, diabetes, tooth decay incur costs to the taxpayer if healthcare is subsidised/paid for by the government or to other individuals if premiums have to be raised in private insurance schemes (N.B. need to distinguish from ill-health costs which fall on individuals). • External costs of production of sugar: clearance of rainforests damages native population/damage to soil/contributes to greenhouse gases. Wildlife and plant extinction has wider implications. • Market failure may also be due to imperfect market knowledge: consumers may not realise the long-term damage from consuming too much sugar. • Relevant diagram depicting external costs in production (also accept diagram depicting the equilibrium output for MSB as less than MPB in the consumption of sugar). • Welfare loss triangle - where marginal social costs exceed marginal social benefits for given output slice:  <p>Welfare loss area is ABC</p>	

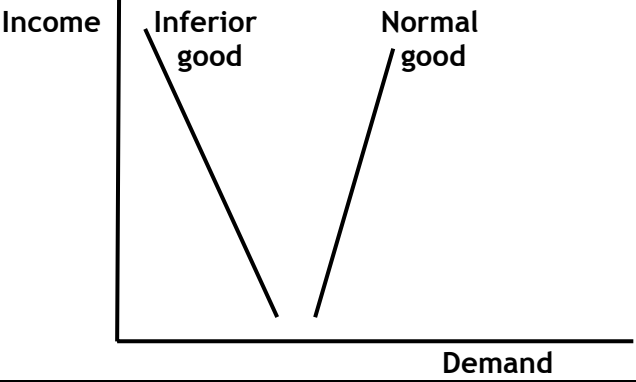
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of market failure and/or external costs and/or external benefits and/or examples of external costs of production/consumption. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of market failure. Explanation and examples of external costs of production sugar which is supported by an accurately-labelled diagram. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of market failure. Explanation and examples of external costs of production sugar. This is supported by an accurately-labelled diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Significance of market failure: concerning external costs the market equilibrium output will exceed the social optimum output/sugar is over-produced and over-consumed/market price differs from social optimum price. • Magnitude of external costs: sugar is heavily over-consumed in developed countries and responsible for many premature deaths/and so enormous pressure on healthcare provision/implications for taxation. • Time factor: external costs from sugar may diminish if healthier substitutes are developed or grow in popularity/improved market knowledge may lead to healthier lifestyles. • The sugar shortage in US is more associated with government failure by restricting imports of sugar to protect domestic farmers. This is not a market failure. Government actions also damage farmers in developing countries. • Speculative buying of sugar in the commodity market /leading to profiteering or uncertainty over future prices. • Need for balanced view which recognises there are benefits associated with production/consumption. • Major source of income and employment in some developing countries. • Export earnings for some developing countries. • Major source of calorie intake for some people on low incomes. 	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

Question Number	Answer	Mark
10 (a)	<p>Knowledge, application and analysis (up to 6 marks)</p> <ul style="list-style-type: none"> • Explicit reference to Figure 1 to show price increase of beef, e.g. from 125 cents to 170 cents or 45 cents rise (36 % per cent rise. (Accept approximate figures) (1) • Increase in price of beef caused by: <ul style="list-style-type: none"> ○ rise in price of cattle feed (1) ○ drought in Australia and New Zealand (1) ○ increase in production costs due to either of the above (1) <p>Diagram (up to 3 marks)</p> <p>Price</p> <p>P^2</p> <p>P^1</p> <p>0 Q^2 Q^1 Quantity</p> <p>S_1</p> <p>S</p> <p>D</p> <ul style="list-style-type: none"> • A shift in supply curve (1) • The original equilibrium price (1) • The new equilibrium price (1) <p>NB: Award a maximum of 4 marks if no diagram.</p>	(6)

Question Number	Answer	Mark
10 (b)	<p>Knowledge, application and analysis (up to 4 marks)</p> <ul style="list-style-type: none"> • Definition or formula for cross elasticity of demand (XED): (The responsiveness in demand for good B due to a change in price of good A) or $(\% \Delta QD \text{ good B} \div \% \Delta P \text{ good A})$ (1) • Reference to the goods being substitutes (1) • Reference to the goods having a positive cross elasticity of demand (1) • Application: e.g. the rise in price of beef is likely to cause an increase in demand for chicken or fish (1) • Correctly-labelled diagram depicting price of one meat/demand for other meat (1) 	(4)

Question Number		Mark
10 (c)		(10)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> Definition or formula for income elasticity of demand (YED): (The responsiveness of demand for a good due to a change in income) or $(\% \Delta QD \div \% \Delta Y)$. Reference to Extract 1 which suggests beef burgers might be inferior goods (e.g. fast food restaurants have benefitted from recession as consumers switch to burger places). Explanation of inferior good (as income rises the demand for a good falls). Inferior goods have a negative YED. Explanation of normal good (as income rises so too will demand for a good). Normal goods have a positive YED. Correctly-labelled diagram depicting a normal good or inferior good: 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the meaning of income elasticity of demand and/or normal goods and/or inferior goods.
2	4-6	Understanding of income elasticity of demand and the distinction between normal and inferior goods.

Evaluation - indicative content		
	<ul style="list-style-type: none"> Discussion of beef in general; it may be a normal good. Discussion of different types of beef - some parts are very expensive and more like a luxury good and Figure 1 refers to 'high quality beef'/other parts might be inferior and Figure 1 refers to 'standard quality beef'. Discussion of free-range or organic beef. Discussion of differences in income elasticity of demand, e.g. due to different income levels of consumers/developed or developing countries/cultural factors. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
10 (d)		(14)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> • Definition of external cost: (cost external to an exchange/negative third party effect/spillover from production or consumption/cost which the price mechanism fails to take into account/difference between private costs and social costs). • Examples of external costs associated with destroying rainforest to convert to cattle ranching and crop growing e.g. increase in carbon dioxide emissions or global warming/effects in terms of crop failure/rising sea levels/wildlife destruction. • Definition of market failure: the price mechanism fails to allocate resources efficiently/price mechanism leads to a misallocation of resources. • Market failure is due to over-production and under-pricing/social costs exceeding social benefits at output Q_e, or, market failure occurs since marginal social costs exceed marginal social benefits at output Q_e. <p>Diagram:</p> <ul style="list-style-type: none"> • MPC and MB curves • MSC curve • Social optimum and market equilibrium positions labelled or explained in text • Welfare loss area shaded in (black triangle above) and named 	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of market failure and/or external cost and/or an example. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of market failure and/or external cost and/or examples. This is supported by an accurately-labelled diagram. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of external costs and market failure. There is an accurately-labelled diagram which is explained and applied effectively to the context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation - Indicative content		
	<ul style="list-style-type: none"> • Magnitude of destruction: seems huge as Extract 2 refers to 7,330 square miles of forest lost each year/problem is increasing over recent years. • Time period: destruction has been going on for many years/a tipping point may come in terms of irreversible climate change. • Discussion of possible benefits, for example employment and income for local communities/increase availability of food/reduction in prices/reduction in hunger. • Government might be forced to take action, for example subsidies to create sustainable development or an increase in policing to protect rainforest/but problems with these such as opportunity cost of the subsidies and difficulty in protecting such a vast area of land. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

Question Number		Mark
10 (e)		(14)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> Definition of government subsidy (grant to increase production or reduce price). Diagram of subsidy or written explanation that supply increases and price falls. <p>Price</p> <p>Quantity</p> <ul style="list-style-type: none"> Increase in supply curve. Original and new equilibrium price. Subsidy area identified (GLRP2). Benefit to local communities, e.g. increase in employment and income/replanting forest and tourism is labour intensive/positive multiplier effects. Benefits to local communities, e.g. maintain way of life/secure lifestyle or forest for future generations. Benefit to environment: reduction in deforestation and thus carbon emissions. Accept macro arguments, e.g. improve balance of payments on current account due to attracting more overseas visitors/increase foreign investment. 	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the significance of subsidies as reducing costs of production. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of subsidies as a factor in reducing costs of production and implications for price and quantity. This is supported by an accurately-labelled diagram. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of subsidies as a factor in reducing costs of production and implications for price and quantity. This is supported by an accurately-labelled diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Extract 2 mentions that the amount of funds available for sustainable development projects has yet to be announced by the government - it may be a very small amount and so little beneficial impact for protecting rainforest and so reducing global warming. • Brazilian government might be able to obtain some funding of the project from overseas, e.g. European Commission/World Bank/International Monetary Fund. Protecting the rainforest could become part of the carbon trading scheme. • Opportunity cost to government/higher taxes or borrowing or less spending elsewhere/affordability of scheme in time of slow global economic recovery. • Time period issue: the subsidies may be required for a very long time - raises issue of affordability. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

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Surname		Other names	
Pearson Edexcel International Advanced Level		Centre Number	Candidate Number
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<h1 style="margin: 0;">Economics</h1> <h2 style="margin: 0;">International Advanced Subsidiary</h2> <h3 style="margin: 0;">Unit 2: Macroeconomic Performance and Policy</h3>			
Sample Assessment Material		Paper Reference	
Time: 1 hour 30 minutes		SAM	
You do not need any other materials.			Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions in Section A and **one** question from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

S44996A

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PEARSON

Section A: Answer all the questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** Croatia's annual rate of inflation fell from 4.6% in January 2013 to 4.4% in February 2013. This suggests that

(1)

- A** the standard of living has necessarily risen
- B** the purchasing power of money has fallen
- C** the price level has fallen
- D** real wages have increased

Answer ☐

Explanation

(3)

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(Total for Question 1 = 4 marks)

2 Which of the following is an example of a monetary policy measure designed to reduce the rate of inflation?

(1)

- A** Asset purchases by the central bank
- B** An increase in income tax rates
- C** Removal of maximum price controls
- D** An increase in interest rates

Answer

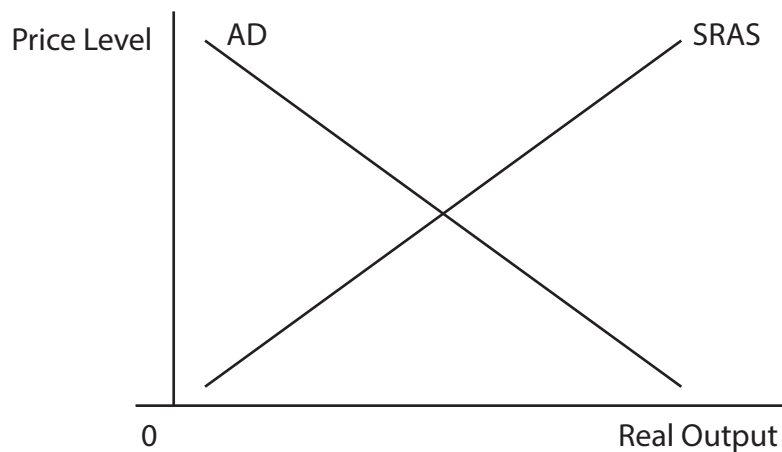
9

Explanation

(3)

(Total for Question 2 = 4 marks)

3 Aggregate demand and short-run aggregate supply diagram



The diagram shows the aggregate demand (AD) curve and short-run aggregate supply curve (SRAS) for a country’s economy. Assume the country is an importer of commodities. What would be the effect of an increase in world commodity prices on the economy’s real output and its price level? (You may annotate the diagram.)

(1)

	Price Level	Real Output
A	Fall	Rise
B	Rise	Rise
C	Rise	Fall
D	Fall	Fall

Answer ☐

Explanation

(3)

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(Total for Question 3 = 4 marks)

4 The Spanish Government increased value added tax, a major indirect tax, from 16% to 18% in 2010 and increased it again in 2012 to 21%. Further, it is increasing income tax rates in 2013 by between 0.75% and 7%. These are examples of

(1)

- A** deflationary monetary policy
- B** supply side policy
- C** direct controls by the government
- D** deflationary fiscal policy

Answer

Explanation

(3)

(Total for Question 4 = 4 marks)

5 Household consumption in Singapore is likely to increase following

(1)

- A an increase in the rate of interest
- B a reduction in consumer confidence
- C an increase in the rate of income tax
- D a sustained increase in house prices

Answer

☐

Explanation

(3)

(Total for Question 5 = 4 marks)

6 In September 2012, the central bank of Argentina increased its base interest rate to 12.36%. The most likely effect on Argentina's economy would be to cause an increase in

- A** investment
- B** unemployment
- C** real output
- D** exports

(1)

Answer

Explanation

(3)

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(Total for Question 6 = 4 marks)

7 Which of the following is most likely to lead to an increase in aggregate demand, assuming all other factors remain constant?

(1)

- A** A decrease in investment
- B** A decrease in imports
- C** An increase in the deficit on the current account of the balance of payments
- D** An increase in taxation

Answer

11

Explanation

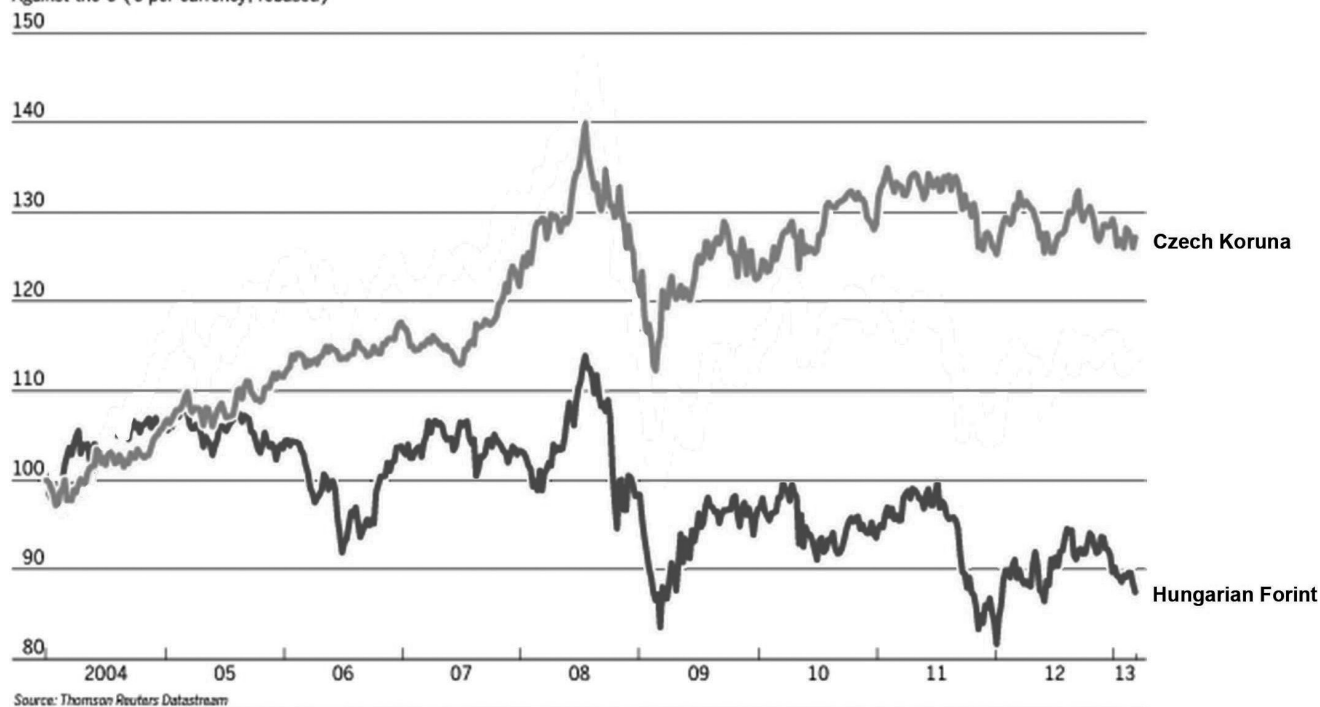
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(Total for Question 7 = 4 marks)

8 Exchange rate indices

Against the € (€ per currency, rebased)



(Source: Financial Times Chart of the week, 13 March 2013)

The above chart shows the exchange rate of the Hungarian forint and Czech koruna against the euro. It can be deduced that, in 2013, compared with 2004

(1)

- A Hungarian goods will be more expensive in eurozone countries
- B Czech exports will be more expensive in eurozone countries
- C Hungarian imports from eurozone countries will be cheaper
- D Czech imports from the eurozone countries will be more expensive

Answer

Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

Section B: Answer either Question 9 or Question 10.

If you answer Question 9 put a cross in this box ☐ .

Question 10 starts on page 23.

You should spend 55 minutes on this section.

9 Measures of economic performance

Figure 1 Measures of economic performance in selected developed countries (2012)

	Economic growth %	Inflation (% increase in CPI)	Current account of the Balance of Payments (€bn)	Gross Domestic Product (GDP) per capita (\$)
France	0.0	2.2	-38.9	41,140
Germany	0.7	2.1	147.4	41,512
Spain	-1.4	2.4	-37.5	29,288
United Kingdom	0.3	2.8	-24.3	38,588

(Source: Eurostat, <http://epp.eurostat.ec.europa.eu>, © European Union, 1995–2013)

Extract 1 The French Labour Market

The French labour market is often described as being rigid and inflexible. One example of this relates to employment contracts. Roughly 82% of all new jobs are on temporary contracts, the majority held by young people. These are the first to be made redundant when the economy slows down. The result is that those lucky enough to have long-term contracts are reluctant to change jobs. Other factors also increase the inflexibility of France's labour market including the relatively high minimum wage, excessively generous welfare payments and powerful trade unions.

5

(Source: Adapted from Financial Times Editorial *French Labour Market*, 17 January 2013)

Figure 2 Life expectancy at birth and Human Development Index (HDI) ranks in selected developed and developing countries

	Life expectancy at birth 2012	HDI rank in 2005	HDI Rank in 2012
France	81.7	10	20
Spain	81.6	13	23
United Kingdom	80.3	16	26
Kenya	57.7	148	145
Pakistan	65.7	136	146
Ethiopia	59.7	169	173
Niger	55.1	174	186

(Source: © United Nations Development Programme (UNDP). All rights reserved)

- (a) Does France's current account balance in Figure 1 represent a net injection or net withdrawal? Explain your answer. (4)
- (b) Assess **two** possible reasons for Germany's current account balance, with reference to the data in Figure 1. (10)
- (c) With reference to Extract 1, assess the use of supply side policies to achieve economic growth in France. (14)
- (d) Explain how the consumer price index is calculated. (6)
- (e) Evaluate the usefulness of the HDI in making comparisons between countries. (14)

(a) Does France's current account balance in Figure 1 represent a net injection or net withdrawal? Explain your answer.

(4)

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Handwriting practice area with 25 horizontal dotted lines.

(Total for Question 9 = 48 marks)

If you answer Question 10 put a cross in this box ☐ .

10 Consumption, Investment and the UK Government's Fiscal Target

Extract 1 Components of Aggregate Demand (Report from the Office of Budgetary Responsibility)

The real disposable income of UK households is forecast to have fallen by 2.3% in 2011. Earnings growth is not expected to overtake inflation again until 2013 and not by a significant margin until 2014.

We expect private sector employment to rise by around 1.7 million between the start of 2011 and the start of 2017, but this will be partly offset by a fall of around 710,000 in general government employment. The government still aims to reduce the budget deficit rapidly in order to achieve its fiscal target.

Business investment has shown virtually no growth in 2011. An industrial trends survey suggests that the investment that has taken place has largely replaced worn out assets, rather than added to capital stock.

Businesses have used some of their profits to pay back loans. They may also have started to build up cash reserves because uncertainty has risen. This might lead to a reduction in business investment in 2012. We also continue to predict a small current account deficit in the medium term.

(Source: © Crown Copyright Office of Budgetary Responsibility Autumn Report, November 2011)

Figure 1 UK savings ratio: percentage of UK household disposable income saved

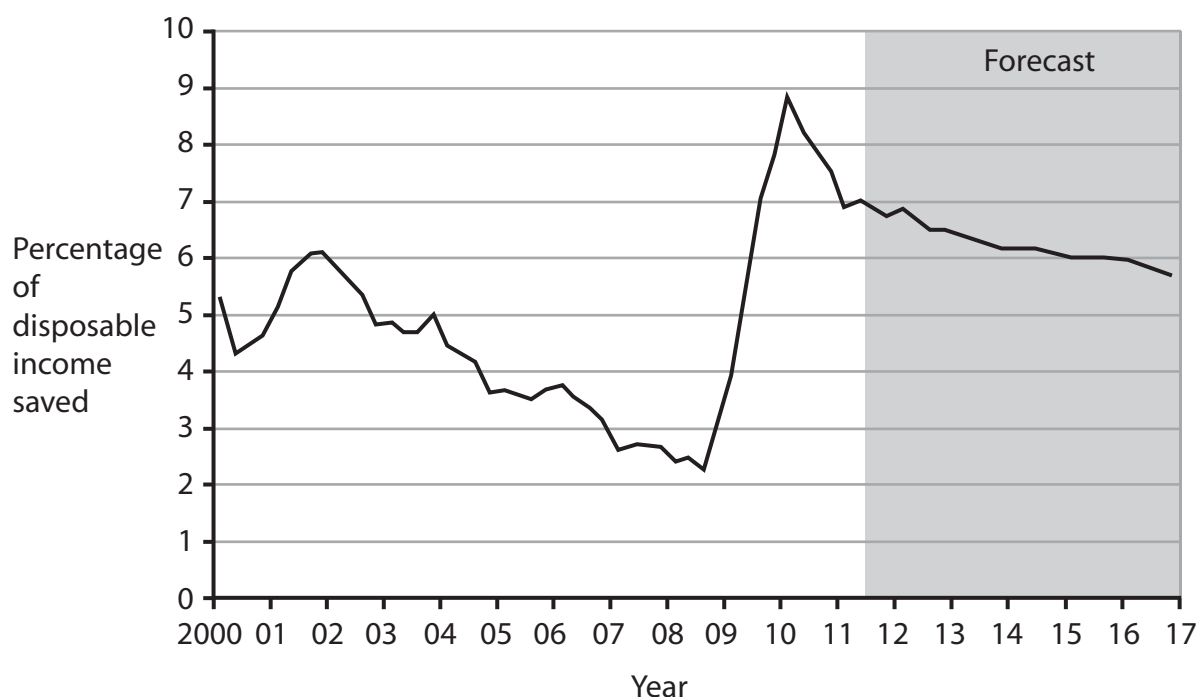


Figure 2 The UK output gap

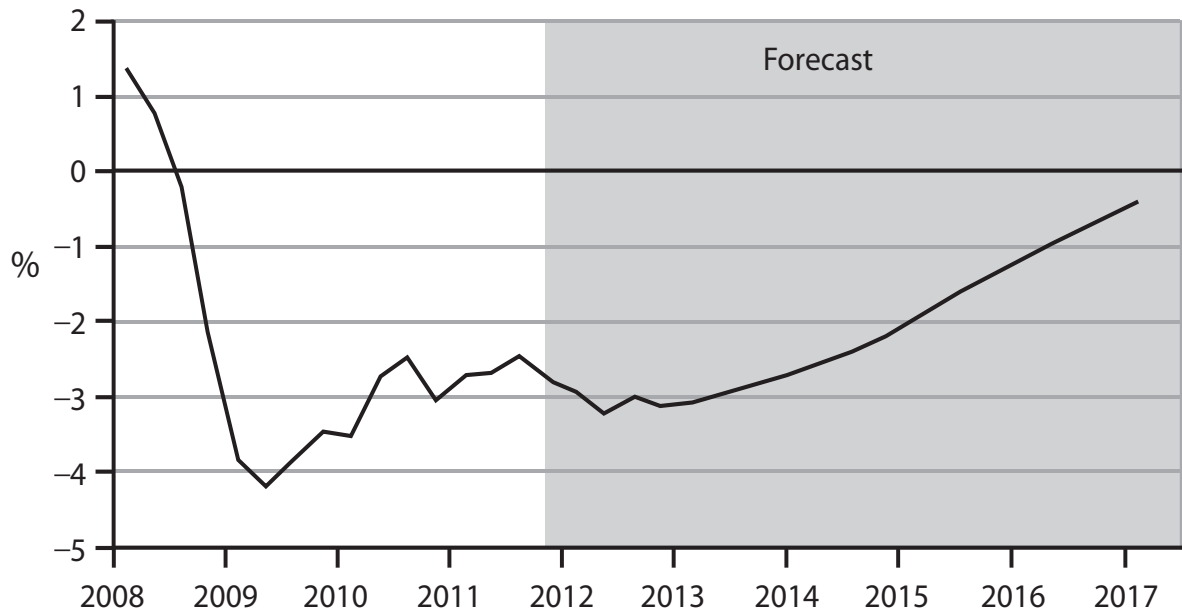
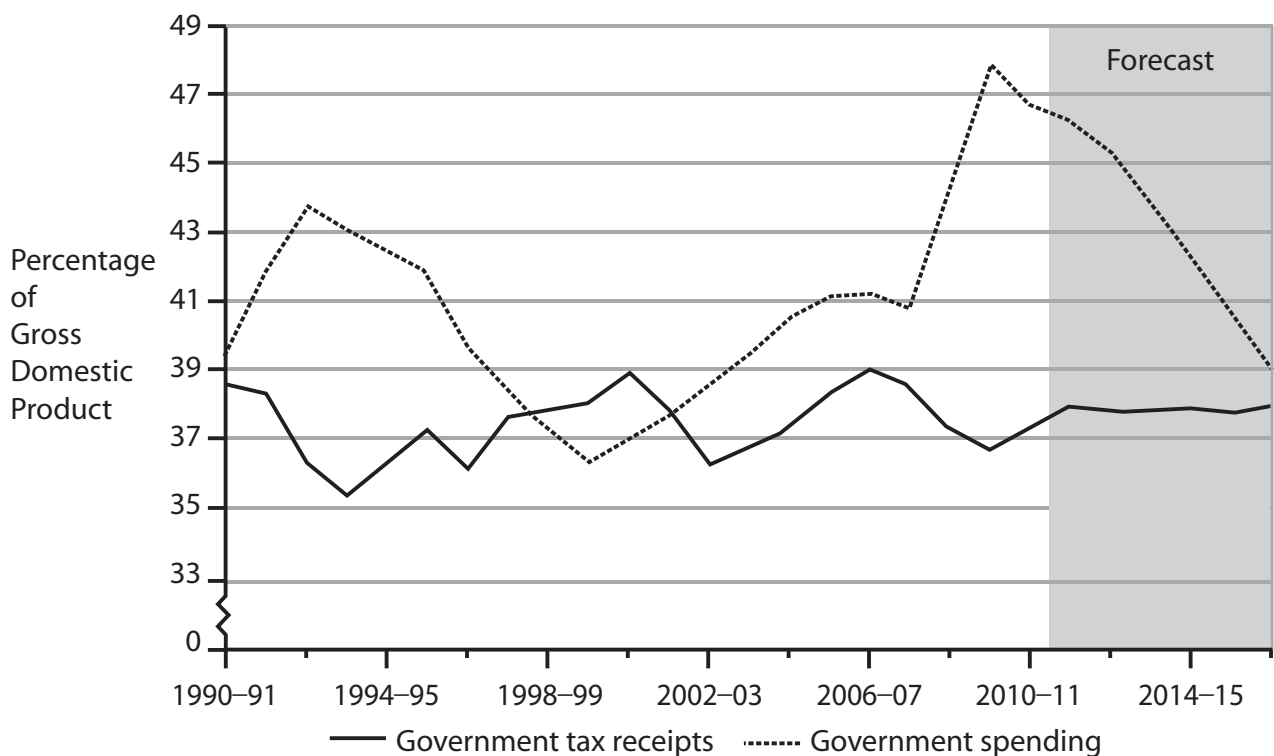


Figure 3 Total UK Government public spending and tax receipts



(Source for Figures 1–3: © Crown Copyright Office of Budget Responsibility Economic and Fiscal Outlook, November 2011)

- (a) Explain whether the relationship between public expenditure and tax receipts in the UK from 2002–03 in Figure 3 represent a net injection or net withdrawal. (4)
- (b) Identify and explain **two** factors that influence the level of business investment (Extract 1). (6)
- (c) With reference to Figure 1, examine how the forecast change in the savings ratio from 2011 might affect the value of the multiplier. (10)
- (d) With reference to Figure 2, discuss the likely consequences of the output gap from 2009 for the UK economy. (14)
- (e) Evaluate the impact on unemployment and the price level of a government trying to reduce its budget deficit. (14)

(4)

[illegible]

(b) Identify and explain **two** factors that influence the level of business investment
(Extract 1).

(6)

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(e) Evaluate the impact on unemployment and the price level of a government trying to reduce its budget deficit.

(14)

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(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS

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Mark Scheme (SAM)

Pearson Edexcel International Advanced Subsidiary in Economics

Unit 2: Macroeconomic Performance and Policy

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General marking guidance

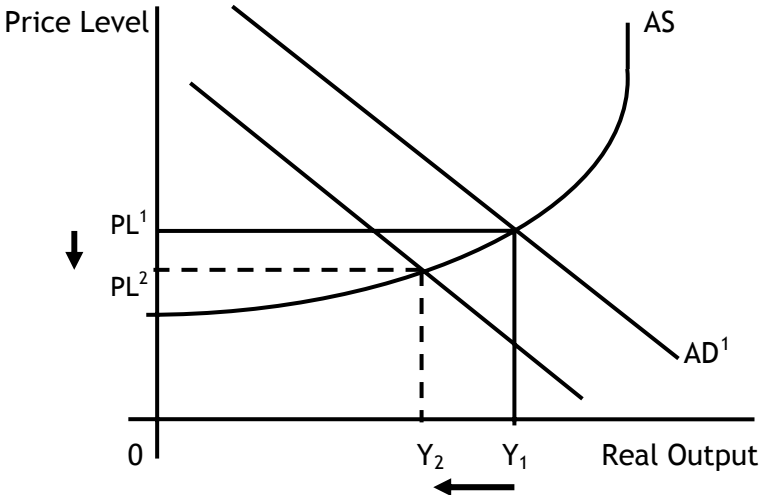
- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should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

Section A: Supported multiple choice

N.B.: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

N.B.: Candidates may achieve up to 3 marks (rejection marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Answer	Mark
1	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none">• Definition of rate of inflation: rate at which prices are rising (1)• When prices are rising, the value of money is falling/less may be purchased for any given unit of currency (1)• Application (explicit data reference): fall in rate of inflation from 4.6% to 4.4% implies that prices are rising but at a slower rate (1) <p>Rejection marks</p> <ul style="list-style-type: none">• A incorrect because the standard of living will fall only if wages are rising at a slower rate than the rate of inflation (1)• C incorrect because the price level would still be rising since there is a positive rate of inflation (1)	(4)

Question Number	Answer	Mark
2	<p>Answer D (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of monetary policy: use of interest rates/changes in quantity of money/use of assets purchases/sales to influence the level of economic activity (1) • Mechanism by which higher interest rates would reduce the rate of inflation, e.g. increased cost of borrowing (1) leading to a fall in consumption/investment (1) • AD/AS diagram showing leftward shift in AD and fall in the price level (up to 2 marks)  <p>Rejection marks</p> <ul style="list-style-type: none"> • A incorrect because asset purchases could increase the money supply by increasing bank deposits (1) • B incorrect because tax changes are an example of fiscal policy (1) • C incorrect because removing price controls would lead to higher prices (1) 	(4)

Question Number	Answer	Mark
3	<p>Answer C (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Leading to an increase in costs of production (1) which causes an increase in the price level (1) and a fall in real output (1) • Annotation of diagram to show leftward shift of SRAS curve (1) causing a rise in the price level (1) and fall in real output (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • A and D incorrect because an increase in commodity prices would raise costs which is likely to feed through to higher prices (1) • B incorrect because real output will fall following rise in the price level (1) 	(4)

Question Number	Answer	Mark
4	<p>Answer D (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of fiscal policy: changes in taxes and public expenditure in order to influence the level of economic activity (1) • Definition of deflationary policy: measures to reduce aggregate demand (1) • Analysis of how the tax increases would affect aggregate demand, e.g. if higher income tax would reduce consumer spending (1) which in turn will reduce aggregate demand (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • A is incorrect because monetary policy would involve changes in interest rates (1) • B is incorrect because supply side policies are those designed to increase productivity and competitiveness (1) • C is incorrect because direct controls relate to measures such as price controls (1) 	(4)

Question Number	Answer	Mark
5	<p>Answer D (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of consumption: expenditure on final goods and services (1) • Explanation/analysis: higher house prices lead to a wealth effect (1) which can lead to an increase in consumption (1) • Increase in house sales leads to increased expenditure on associated products (1) • Increase in remortgaging (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • A incorrect because an increase in the rate of interest would provide an increased incentive to save/increased cost of borrowing money (1) • B incorrect because a fall in consumer confidence would cause consumption to fall (1) • C incorrect because consumers would have less disposable income (1) 	(4)

Question Number	Answer	Mark
6	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of unemployment (1) • Analysis: higher cost of borrowing leads to lower demand (1), lower demand leads to job losses (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • A incorrect because investment likely to fall as a result of higher borrowing cost (1) • C incorrect because lower aggregate demand will reduce real output (1) • D is incorrect because higher interest rate might lead to increase in the exchange rate, making exports more expensive (1) 	(4)

Question Number	Answer	Mark
7	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of aggregate demand: total planned expenditure or formula: $AD = C + I + G + (X - M)$ (1) • Explanation: a fall in imports implies a fall in leakages (1), in turn, this will cause AD to fall because $(X - M)$ will increase (1) <p>Rejection marks</p> <ul style="list-style-type: none"> • A is incorrect because investment is an injection into the circular flow so a decrease in investment will cause a decrease in AD (1) • C is incorrect because an increase in the current account deficit implies that leakages (imports) are rising relative to injections (exports) (1) • D is incorrect because an increase in taxation implies that leakages are rising (1) 	(4)

Question Number	Answer	Mark
8	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of exchange rate: rate at which one currency exchanges for another (1) • Specific use of data: value of the koruna has risen against the euro (1) • Therefore price of Czech exports will rise in eurozone countries (1) making Czech goods less competitive <p>Rejection marks</p> <ul style="list-style-type: none"> • The increased value of the koruna against the euro implies that imports into the Czech Republic will be cheaper so D is incorrect (1) • The forint has fallen in value so exports would be cheaper making A incorrect (1) and imports would be more expensive making C incorrect (1) 	(4)

Section B: Data response

Question Number	Answer	Mark
9 (a)	Knowledge, application and analysis (up to 4 marks) Exports are injection (1) and imports are leakage (1) Net leakage - explanation, e.g. money is flowing out (1) Use of data -€38.9 bn to support this (1)	(4)

Question Number	Mark
9 (b)	(10)

Knowledge, application and analysis - indicative content		
	Accept two possible reasons. Factors might include: <ul style="list-style-type: none"> • low rate of inflation compared to other eurozone countries, increasing competitiveness • relatively low unit labour costs • high level of exports from Germany, which has higher relative competitiveness • reference to data. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of reasons and/or data references.
2	4-6	Understanding of reasons for Germany's current account surplus with appropriate reasoning and/or data references.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Prioritisation with reason. • Could be a short-run issue only. • Need to know current account balance as percentage of GDP to determine significance. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
9 (c)		(14)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> Definition of supply side policies. Diagram showing the effects of relevant government policies on the price level and output, showing an increase to the right of LRAS: <ul style="list-style-type: none"> N.B. The AS curves may be drawn as vertical lines. Policies should include: <ul style="list-style-type: none"> measures to make it easier to hire and fire workers reduction in the national minimum wage reduction in welfare benefits. Credit other measures such as: <ul style="list-style-type: none"> education and training deregulation cutting bureaucracy promotion of competition control of power of monopolies reduction in planning restrictions. Improvement in human capital increases the value of workers' output, meaning that firms can produce more for the same price. Improved education increases opportunities which means that incentives can work more effectively. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of supply side policies and/or examples and/or economic growth. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.

Level	Marks	Descriptor
2	4-6	Understanding of supply side policies with one or two relevant examples and some explanation of their impact on economic growth. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and analysis of supply side policies with relevant examples and explanation of their impact on economic growth. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Time lag for the education to have a result on the workforce. • Education might not be effective, for example Madonna studies, Surf Science. • Expansionary fiscal implications of supply side policies. • Scope for further supply side policies is limited. • Time lags, for example supply side policies can lag for decades. • Supply side policy conflicts, e.g. increased government spending and tax can cause disincentives. • Supply side policy might have positive impact on the fiscal side in the long run. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

Question Number	Answer	Mark
9 (d)	Knowledge, application and analysis (up to 6 marks) Award reference to: <ul style="list-style-type: none"> • basket of goods (1) • price survey (1) • food and expenditure survey (or equivalent) (1) • index (process of how an index is compiled) (1) • base year (1) • 650 items (allow in range 600 to 700) (1) • consideration of weights: reflection of relative importance of item in consumers' expenditure (1) and why they have to be changed each year (1) • further development (1). 	(6)

Question Number		Mark
9 (e)		(14)
Knowledge, application and analysis - indicative content		
	<p>Advantages might include:</p> <ul style="list-style-type: none"> • measures chosen are easy and cheap to collect • measures chosen are fairly reliable • indicates GDP has been used to increase social welfare • GDP rank minus HDI rank as a useful measure of health and education • use of education and health is a sign of successful government policies • shift of PPF or LRAS curve outwards as a sign of increased potential without increases in costs, so HDI rank is a sign of welfare in the future. <p>N.B.: Candidates may approach this question by considering advantages or disadvantages of the HDI. The reverse arguments may be regarded as evaluation.</p>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of advantages of the HDI or identification of one or more points. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of the advantages of the HDI. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and analysis of the advantages of the HDI in making comparisons between countries. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<p>Limitations might include:</p> <ul style="list-style-type: none"> • differences in deprivation or poverty not fully captured by the HDI • PPP values change very quickly and are likely to be inaccurate or misleading • differences in income distribution in this measure • differences in quality of life not fully captured, e.g. wars, political oppression • very difficult to measure human development - sense of prioritisation of options • other measures, such as access to the internet, might be more useful • better to use a combination of measures • changes over time or 'other things are not equal' make the measures less useful. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number	Answer	Mark
10 (a)	Knowledge, application and analysis (up to 6 marks) <ul style="list-style-type: none"> • Taxes are a leakage (1) • Government spending is an injection (1) • Budget deficit (1) equals net injection (1) 	(4)

Question Number	Answer	Mark
10 (b)	Knowledge, application and analysis (up to 6 marks) Two factors identified (1+1 marks) and explanation (2+2 marks). Factors may include: <ul style="list-style-type: none"> • business confidence or start of the recovery/fear of a recession/uncertainty interest rates • willingness of banks to lend to business • government incentives such as a reduction in corporation tax or tax breaks for investment • level of aggregate demand/spare capacity/unemployment/average incomes in the economy • level of consumer confidence • level of pre-tax profits made or existing debt owed by firms • economic conditions in export markets • exchange rate • availability of new technology • the rate of inflation. 	(6)

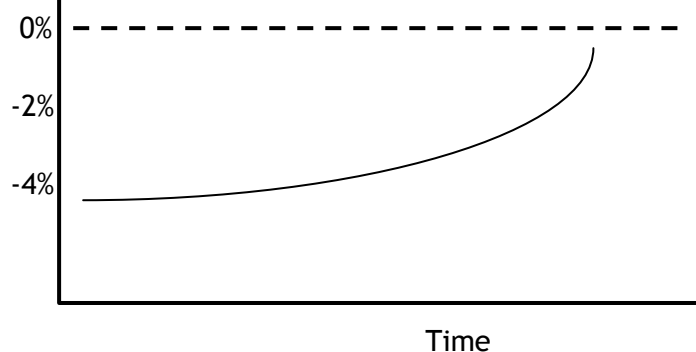
Question Number		Mark
10 (c)		(10)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> • 'Savings ratio has fallen'. • Use of correct figures, e.g. it is forecast to fall below 7% from 2011 onwards. • Definition of multiplier: the number of times a rise in national income exceeds the rise in injections that caused it/it measures the knock-on effects when an injection or withdrawal changes/the idea that one person's expenditure becomes another person's income. • Withdrawals/leakages from the circular flow fall OR the marginal propensity to save/withdraw falls. • Consumption is likely to rise OR the marginal propensity to consume is likely to rise. • The size of the multiplier increases. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some understanding of the multiplier and/or data references.
2	4-6	Understanding of the effect of a change in the savings ratio on the value of the multiplier with appropriate reasoning and/or data references.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Fall in savings ratio may be offset by rise in tax ratio or by increase in the marginal propensity to import. • Fall in savings ratio is forecast to be relatively small so value of the multiplier may not increase very much. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
10 (d)		(14)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> Definition OR diagram illustrating the output gap: <ul style="list-style-type: none"> a measure of the difference between actual and potential (or trend) growth/output/GDP the potential output is where the economy is at full capacity whereas the actual level of real GDP is at the intersection of AD and AS below that appropriate diagram (AS/AD, PPF) or business cycle showing actual and potential growth/output/GDP Possible diagrams: 	
	<p>Price Level</p> <p>0 Y_e Y_{fe} Real Output</p> <p>OR:</p> <p>Consumer Goods</p> <p>0 Capital Goods</p>	

OR:

GDP growth
rate (%)



- Identification of a negative output gap.
- Use of figures showing size of output gap, e.g. there was a negative output gap of approximately 3% in late 2010.
- Two consequences identified and explained. Award **two** consequences only. Accept changes in:
 - unemployment
 - real GDP
 - real incomes/levels of consumption/standard of living
 - confidence
 - investment
 - government budget balance
 - international competitiveness
 - trade balance.

N.B. Answers must relate to the post-2009 situation, i.e. be in the context of a negative output gap, although credit answers that discuss the positive consequences of a decrease in the size of the negative output gap.

Do not credit answers that state solely that the size of the negative output gap has increased since 2009/will increase.

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the meaning of an output gap and/or an appropriate diagram and/or relevant data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	The meaning of an output gap and/or an appropriate diagram and/or relevant data references. Some explanation of the consequences. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and analysis of the output gap; relevant data reference(s) included. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<p>Factors might include:</p> <ul style="list-style-type: none"> • magnitude of different consequences • short-term and long-term consequences • vicious cycle/spiral • although the output gap is negative, it has been decreasing in size since mid-2009 • Extract 1 predicts a continuing current account deficit, rather than an improving balance • forecast may be wrong • difficulty of estimating the output gap. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

Question Number		Mark
10 (e)		(14)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> • Effect on unemployment. • Effect on price level or inflation. • Appropriate AD/AS diagram. <p>N.B. In the long run the AS curve might shift to the left also, for example if government expenditure on infrastructure and education is cut.</p> <p>Price Level</p> <p>PL¹</p> <p>PL²</p> <p>0</p> <p>Y₂</p> <p>Y₁</p> <p>Real Output</p> <p>AS</p> <p>AD¹</p>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects on the UK economy or identification of one or more effects. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and some explanation of one or more possible effects and/or an appropriate diagram. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and analysis of possible effects of a government's attempt to reduce its budget deficit. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<p>Factors might include:</p> <ul style="list-style-type: none"> • magnitude of austerity measures • short-run v long-run effects • significance of the size of the multiplier • other factors may be more important - ceteris paribus might not hold • effects depend on the level of spare capacity/gradient of the AS curve/elasticity of AD curve • different effects in different industries or parts of the country • different effects on different labour markets - private sector and public sector. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application.
3	5-6	For evaluative comments supported by relevant reasoning and clear application.

Write your name here

Surname	Other names
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Pearson Edexcel
International
Advanced Level

Centre Number

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Candidate Number

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Economics
International Advanced Level
Unit 3: Business Behaviour

Sample Assessment Material Time: 2 hours	Paper Reference SAM
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You do not need any other materials.

Total Marks

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Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **two** questions from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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Section A: Answer TWO questions from this section.

You should spend 60 minutes on this section.

You should include diagrams in your responses where appropriate.

- 1** Examine the significance of the distinction between fixed costs and variable costs for a firm's decision on whether to continue in business or close down. (20)
- 2** "Monopolies result in a misallocation of resources compared with competition, and should therefore be broken up". Explain and critically examine this reasoning. (20)
- 3** Assess the ways by which a government might promote the international competitiveness of its country's businesses. Include reference to the measurement of international competitiveness in your answer. (20)
- 4** Discuss whether product differentiation under conditions of monopolistic competition can benefit both firms **and** consumers. Refer to examples in your answer. (20)

Do not use pencil. Use black ink or ball point pen.

Put a cross in the box indicating the question from Section A that you have chosen ☐ for your FIRST essay. If you change your mind, put a line through the box ☐ and then indicate your new question with a cross ☐.

You must answer TWO questions in this section. Please start your second essay on page 8.

Essay Choice 1:

Question 1

Question 2

Question 3

Question 4

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(Total for Question = 20 marks)

Put a cross in the box indicating the question from Section A that you have chosen ☒ for your SECOND essay. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Essay Choice 2: (This must be different from your first essay response.)

Question 1

Question 2

Question 3

Question 4

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(Total for Question = 20 marks)

TOTAL FOR SECTION A = 40 MARKS

Section B: Answer either Question 5 or Question 6.

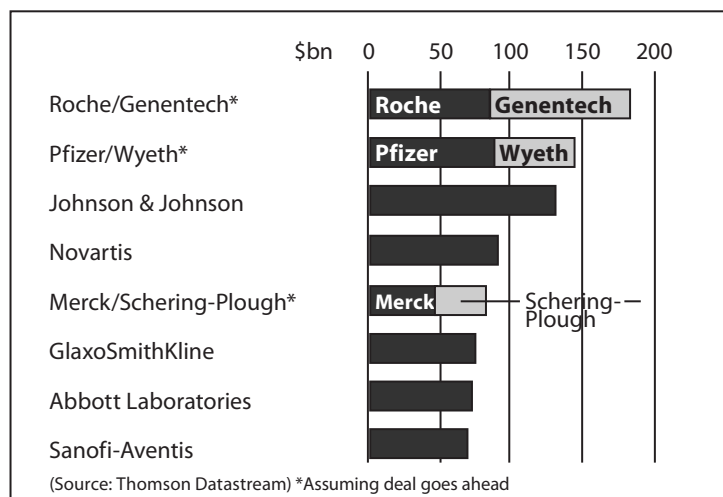
If you answer Question 5 put a cross in this box ☐.

Question 6 starts on page 23.

You should spend 60 minutes on this section.

5 The Pharmaceutical Industry

Figure 1 Global Pharmaceutical Companies by market capitalisation, March 2009, \$bn



Extract 1 Merck's manoeuvres

In recent times there has been a series of mergers between pharmaceutical companies. Merck, a US company, has agreed to take over Schering-Plough; Pfizer is acquiring Wyeth; and Roche, a Swiss pharmaceutical company, is paying \$46.8bn for 44% of Genentech, an American firm.

Big drugs companies hope mergers and takeovers will solve their various problems: the lack of new blockbuster drugs coming through their research pipelines; competition from generic (non-brand name) drugs as patents expire, the global economic crisis, and an over-dependence on sales in America, where health-care reforms are likely to reduce profit margins. However, the evidence suggests that many of the supposed benefits of pharmaceutical mega-mergers fail to materialise: bigger firms are no better at innovation, and are often worse. But bosses are pressing ahead anyway.

The main attraction of buying Schering-Plough is that Merck will double (to 18) the number of drugs it has in late-stage development. Merck will also strengthen its international and over-the-counter sales, both areas where Schering is strong (70% of its revenues come from outside America). In addition, Mr Clark, who will become the boss of the new company, promises that there will be cost savings of \$3.5 billion a year after 2011. But this sounds unlikely, given that both companies are already cutting costs heavily. And if the two firms' research teams are so complementary and do not overlap much, as Merck claims, who is going to get sacked?

The deal does at least answer critics who complained that Merck was not acting as vigorously as competitors in buying rivals and moving into new markets. But it also represents a change in strategy for Merck, which unlike many of its competitors has stayed on the sidelines during the industry's previous waves of mega-mergers. Instead, the company has always preferred to grow by developing new products in its laboratories. The task for Mr Clark will be to make the deal go smoothly, despite his lack of experience with big mergers.

25

(Source: Adapted from 'Merck's manoeuvres' published in *The Economist*, 13 March 2009)

Extract 2 Letter from the Consumers Union to the Federal Trade Commission in the USA

Dear Sir:

On behalf of the Consumers Union, we urge you to review carefully the competitive and innovation consequences of the proposed Pfizer-Wyeth pharmaceutical company merger. Our members consistently tell us that high and ever-rising health care costs are a major household fear, and high brand name prescription drug prices are a particular concern.

25

We urge the Federal Trade Commission to review this proposed merger and its impact on

- long-run competition in the pharmaceutical industry and its likely impact on drug prices;
- innovation and the development of new, breakthrough drugs.

30

The merger will result in thousands of employee redundancies. What percent of those lay-offs are in research and development, and are those lay-offs strictly in areas where the two companies were duplicating research, or are new and unique lines of research being terminated?

35

We are faced with continual abuses of good public policy by many in the industry. For example, some firms use payments to buy delays in the entry of competitive generic drugs into the market.

We hope that you will consider a major study of the entire pharmaceutical industry. Why are prices for consumers so high, why has the breakthrough drug pipeline slowed down, and what policies should we pursue as a nation to encourage the more rapid discovery of affordable medicines? Is this merger between Pfizer and Wyeth good or bad for the goal of affordable, new, life-saving drugs?

40

Thank you for your consideration of these views.

Sincerely,
William Vaughan
Health Policy Analyst
Consumers Union

45

(Source: <http://www.consumersunion.org/pub/campaignprescriptionforchange/009344.html>)

- (a) What does the information provided suggest is the market structure of the pharmaceutical industry? Explain your answer. (4)
- (b) Assess the strengths and weaknesses of Merck being dependent on a growth strategy of 'developing new products in its laboratories' (Extract 1, lines 24–25). (12)
- (c) Evaluate **one** pricing and **one** non-pricing strategy that Merck could adopt to increase sales. (12)
- (d) To what extent would further mergers and takeovers in the pharmaceutical industry be in the best interests of consumers and employees? (12)

(a) What does the information provided suggest is the market structure of the pharmaceutical industry? Explain your answer.

(4)

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(12)

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(12)

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Lined area for writing answers, consisting of multiple horizontal dotted lines.

(12)

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(Total for Question 5 = 40 marks)

If you answer Question 6 put a cross in this box ☐ .

6 Iberia and BA merger

Extract 1 Uniting in the sky – Iberia and BA at last agree to get together to sort out their problems



Like two drowning men, Iberia and British Airways (BA) have long seen each other as potential means of staying afloat. The rate at which the airlines have been sinking at last forced them into each other's arms on November 12th 2009, when a merger was agreed. BA made big pre-tax losses in the year to the end of March as it suffered from the credit crisis and the global economic slump. Iberia actually managed a small profit in 2008. Just as the terms of the merger were agreed Iberia announced a loss in the latest quarter, which includes the usually profitable summer months. BA said that it had lost £292m in the first half of the year, which includes the summer period.

These airlines are not alone in their concerns. The total losses for the world's airlines this year are estimated to be £17.6 billion. By agreeing to merge, the two firms will join the trend for big European airlines to get bigger. This has become an attractive means to make substantial cost savings as they compete against low-cost rivals and try to cope with a dramatic fall in numbers of the profit-making business passengers. The two companies estimate that within five years the new group will save some £429m a year by cutting overlapping routes, and by combining maintenance, office functions and business-class lounges. They may also have more buying power when it comes to negotiations to buy new planes from Boeing and Airbus.

The deal will put the firms back into the big leagues of European aviation. Their combined revenues will put them closer to Air France-KLM, the product of a similar deal in 2004 and Germany's Lufthansa, which has expanded its operations with a series of smaller takeovers of Swiss and Austrian airlines since 2005. Iberia and BA will combine their businesses but maintain separate corporate operations. This will allow them to maintain their roles as the national flag-carriers in Spain and the UK while keeping valuable bilateral international landing rights that go along with that status.

One reason for keeping pace with European rivals is that size will become an important factor if consolidation among airlines goes global. The two airlines are already seeking permission from the competition authorities in America and in Europe for an agreement with American Airlines, which would see all three co-ordinating over costs and revenues on transatlantic routes. However, BA may be required to give up landing slots at Heathrow, a price it has been unwilling to pay in the past.

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A protectionist stance in America over the country's troubled airlines has kept a law in place that prevents foreign airlines from owning more than 25% of an American rival. The European Union is pressing for this restriction to be lifted, though there is little sign that it might happen soon.

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(Source: adapted from Economist.com 'Uniting the Sky' 13 November 2009, http://www.economist.com/businessfinance/PrinterFriendly.cfm?story_id=14887815)

Extract 2 Strike action in response to BA crew reductions and cost cuts

British Airways was preparing for what could be a damaging strike after workers voted to walk out for nearly two weeks. The airline plans to reduce generous staff levels and benefits for Heathrow-based cabin crew.

The union said 80 per cent of its more than 12,000 BA members had voted, recording a 92.5 per cent vote in favour of a strike. The airline has said the move would cause chaos for hundreds of thousands of passengers.

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"We're hoping that the size of this vote will make the company think again," said a spokesperson for the union, who added that it would not back down unless BA gave way on the crew reductions that prompted the strike.

(Source: <http://www.ft.com/cms/s/0/75a53942-e8aa-11de-9c1f-00144feab49a.html>)

- (a) Using the evidence, explain the type of integration involved in the agreed merger between BA and Iberia.

(4)

- (b) Examine the likely reasons why Iberia made a loss during 'the usually profitable summer months', (Extract 1, line 7). Use a diagram to support your answer.

(12)

- (c) Assess the likely impact on contestability of the airline industry resulting from the mergers and agreements referred to in the evidence.

(12)

- (d) Evaluate the likely benefits of the agreed merger between BA and Iberia.

(12)

(a) Using the evidence, explain the type of integration involved in the agreed merger between BA and Iberia.

(4)

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(b) Examine the likely reasons why Iberia made a loss during 'the usually profitable summer months', (Extract 1, line 7). Use a diagram to support your answer.

(12)

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(Total for Question 6 = 40 marks)

TOTAL FOR SECTION B = 40 MARKS

TOTAL FOR PAPER = 80 MARKS

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Mark Scheme (SAM)

Pearson Edexcel International Advanced Level in Economics

Unit 3: Business Behaviour

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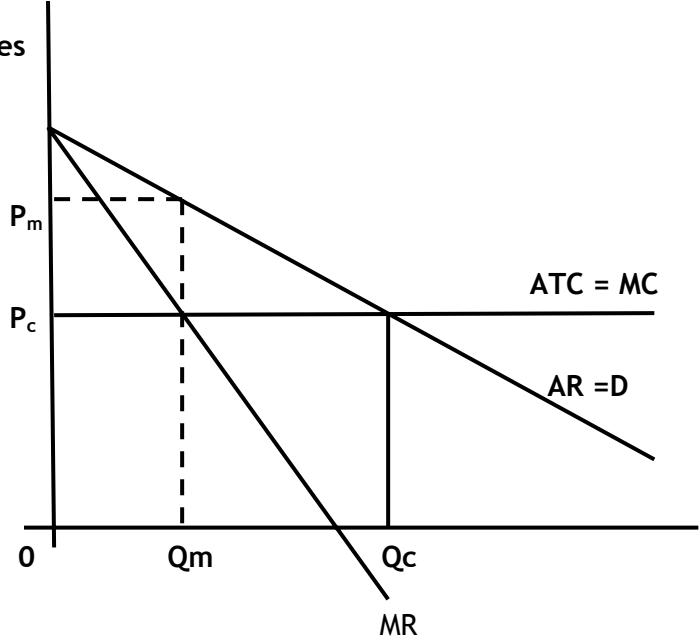
General marking guidance

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

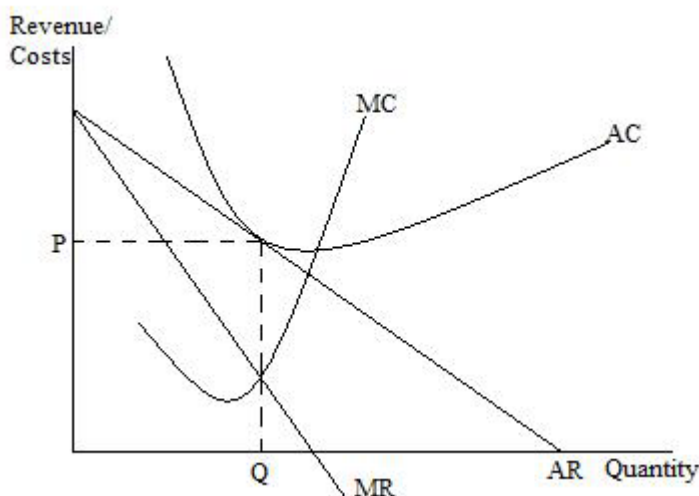
Section A: Essay questions

N.B.: Use levels-based mark scheme (20 marks) to mark this section.

Question Number	Indicative content	Mark
1	<p>Distinction between fixed costs and variable costs, with examples of each.</p> <p>Clear verbal explanation of diagram.</p> <p>Diagram will probably show the case of the firm in perfect competition as this is how it appears in the specification. Diagram should show average variable, average total and marginal cost curves and marginal revenue line for different assumptions, showing short-run and long-run outcomes.</p> <p>Short run:</p> <p>Long run:</p> <p>Evaluation</p> <ul style="list-style-type: none"> • Drawing appropriate conclusions, including limitations of this analysis, e.g. problem of distinguishing between fixed and variable costs. • Emphasis on distinction between short run and long run. 	(20)

Question Number	Indicative content	Mark
2	<p>Use of appropriate diagram.</p> <p>Definition of monopoly. Diagram(s) illustrating how profit-maximising monopoly makes supernormal profits at higher price/lower output combination than perfect competition.</p> <p>Costs/Revenues</p>  <p>Other issues with monopoly such as x-inefficiency and creation of artificial barriers to entry.</p> <p>Evaluation</p> <ul style="list-style-type: none"> • ‘Benefits’ of monopoly - economies of scale (natural monopoly), research and development. • Arguments about contestability keeping supernormal profits down. • Idea of new entry from unexpected directions. • Case for regulation of monopoly rather than breaking it up. 	(20)

Question Number	Indicative content	Mark
3	<p>Measures of competitiveness include productivity, unit labour cost and relative export prices.</p> <p>Measures to improve competitiveness include allowing exchange rate to fall, deregulation of product and labour markets, boosting education and training and incentives for investment, including reducing taxes.</p> <p>Evaluation Assessment of likely effectiveness of these methods, e.g. exchange rate manipulation short term; long-time lag with improving education; other countries may copy tax cuts.</p>	(20)

Question Number	Indicative content	Mark
4	<p>Product differentiation as a non-price strategy associated with monopolistic competition.</p> <p>Examples of product differentiation.</p> <p>Candidates likely to link product differentiation with monopolistic competition and produce appropriate diagram.</p> <p>Long run</p>  <p>Benefits to firms, e.g. reduces price elasticity of demand, possible short-run supernormal profits, increased market share.</p> <p>Benefits to consumers, e.g. variety, convenience.</p> <p>Evaluation</p> <ul style="list-style-type: none"> • Monopolistic competition suggests lower output, higher price than perfect competition (but no supernormal profits in the long run). • However, some product differentiation (e.g. by location) may be highly valued by customers. • Higher cost to firms. • Too much consumer choice may lead to confusion. 	(20)

Section A Questions: performance criteria for mark base 20		
Level 0	0	<ul style="list-style-type: none"> No rewardable material.
Level 1	1-4	<ul style="list-style-type: none"> Displays knowledge presented as facts without awareness of other viewpoints. Demonstrates limited understanding with little or no analysis. Attempts at selecting and applying different economic ideas are unsuccessful. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	5-8	<ul style="list-style-type: none"> Displays elementary knowledge of well-learnt economic facts showing a generalised understanding, together with limited analysis, i.e. identification of points or a very limited discussion. Displays a limited ability to select and apply different economic ideas. Material presented has a basic relevance and lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affect the clarity and coherence of the writing overall.
Level 3	9-12	<ul style="list-style-type: none"> Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues, i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark. Shows some ability to apply economic ideas and relate them to economic problems. Employs different approaches to reach conclusions. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
Level 4	13-16	<ul style="list-style-type: none"> Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved. Demonstrates an ability to select and apply economic ideas and to relate them to economic problems. Evidence of some evaluation of alternative approaches leading to conclusions. Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.
Level 5	17-20	<ul style="list-style-type: none"> Displays a wide range of knowledge of economic principles, concepts and theories, together with a rigorous analysis of issues. Demonstrates an outstanding ability to select and apply economic ideas to economic problems. Evaluation is well balanced and critical, leading to valid conclusions. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Section B: Data response

Question Number	Answer	Mark
5 (a)	Knowledge and application (up to 4 marks) <ul style="list-style-type: none"> an oligopoly (1) - at least reference to one characteristic (1) identification of characteristics in evidence provided (2 marks) 	(4)

Question Number		Mark
5 (b)		(12)

Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> Many businesses grow 'organically' by developing larger share of market and new products. Advantages - keep teams together, keep control, good relationship with investors, familiarity with customers reducing risk. Disadvantages - in pharmaceuticals new products are costly and take a long time to bring to market, shortage of funds may limit investment. 	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the advantages and disadvantages. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of advantages and disadvantages with explanations. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of advantages and disadvantages with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	Balance of arguments may shift over time as a result of regulatory change, technical innovation, increased competition, changing cost structure.	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

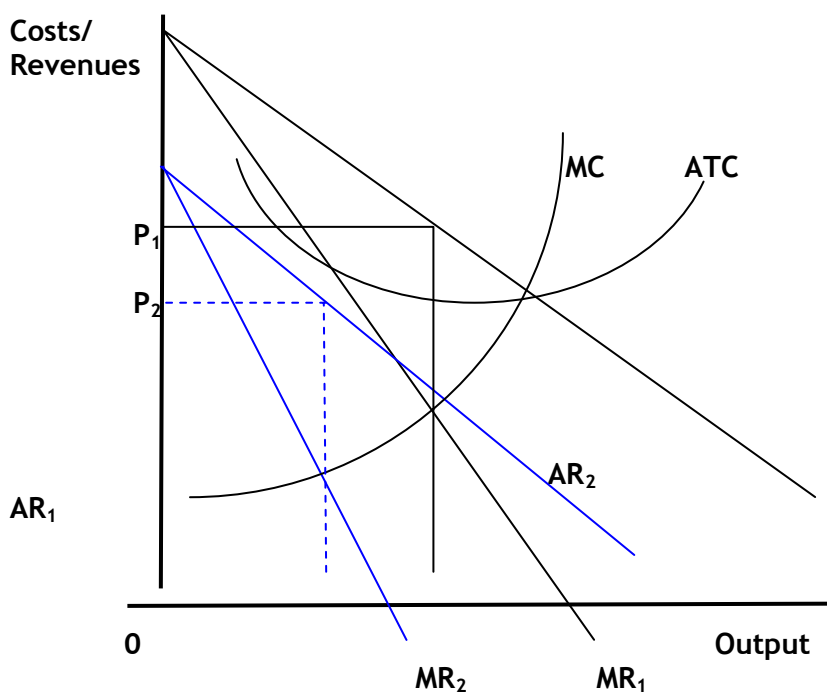
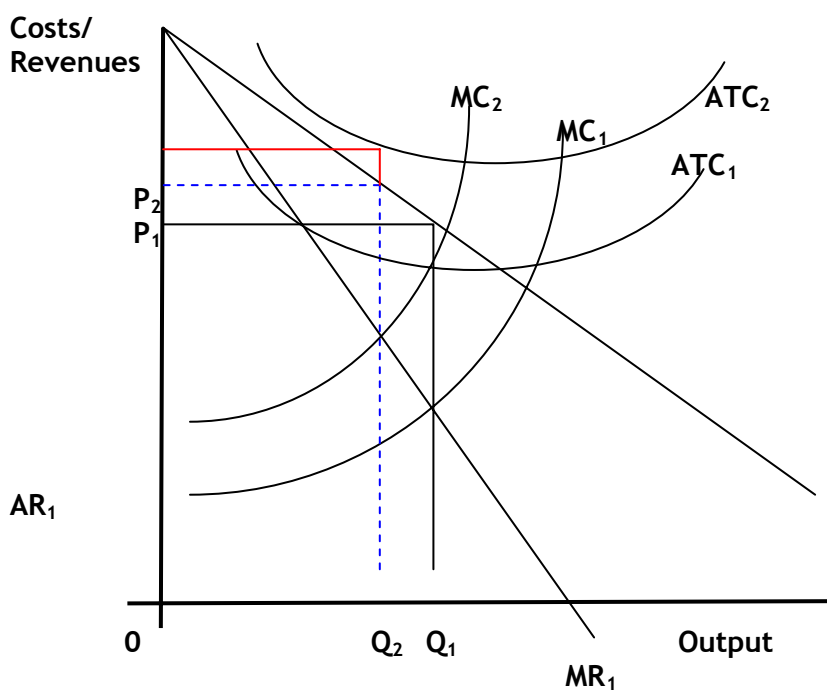
Question Number		Mark
5 (c)		(12)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> • Identification of one non-price strategy and application and/or analysis. Strategies may include: <ul style="list-style-type: none"> ◦ investment in new technology to develop new products ◦ improve product quality ◦ marketing campaign to win business customers ◦ advertising ◦ promotion through other means, e.g. to doctors. • Identification of one price strategy and application and/or analysis. Strategies may include: <ul style="list-style-type: none"> ◦ predator pricing ◦ limit pricing ◦ sales maximisation ◦ revenue maximisation ◦ buy one get one free. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of a price and a non-price strategy with very limited development. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of one price and one non-price strategy. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of one price and one non-price strategy with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	A range of ideas could be developed, for example: <ul style="list-style-type: none"> • it may be harder to make further increases in efficiency; all firms trying to engage in R & D • investment/R & D is expensive and there is no guarantee of success • improving product quality is expensive • marketing is expensive and no guarantee of success. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
5 (d)		(12)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> • Identification and explanation of advantages to consumers: <ul style="list-style-type: none"> ◦ economies of scale mean lower LRAC and therefore lower prices ◦ greater R & D budgets mean more breakthroughs ◦ reduction in completion may mean firms can divide up market to research particular areas of expertise. • Identification and explanation of advantages to employees: <ul style="list-style-type: none"> ◦ larger organisation with greater job security ◦ more opportunities for promotion. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of advantages to consumers and/or employees. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of advantages to consumers and to employees. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of advantages to consumers and to employees with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	Factors may include: <ul style="list-style-type: none"> • greater possibility of collusion to raise prices • less incentive to innovate and produce better drugs • increased chance of x-inefficiency and exploitation or price discrimination • restructure might lead to job losses. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
6 (a)	Knowledge and application (up to 4 marks) <ul style="list-style-type: none"> • Identify horizontal integration, firms at same stage of production, gain economies of scale (2 marks). • Both offer similar flights, increased buying power (e.g. for planes), cost savings from office functions (2 marks). 	(4)

Question Number		Mark
6 (b)		(12)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> A diagram or diagrams is/are expected showing cost and revenue functions and loss clearly marked. Factors that may have affected demand (e.g. business passengers decline, new budget competitors) and costs (fuel, wages). <p>Costs/ Revenues</p>  <p>Costs/ Revenues</p> 	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Some awareness of the reasons for the loss and/or a partially accurate/incomplete diagram. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of reasons for the loss and partially accurate/incomplete diagram. OR Some awareness of the reasons for the loss and an accurate diagram. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and explanation of reasons for the loss supported by an accurate diagram. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - Indicative content		
	May bring in factors that mitigate Iberia's problems: other airlines in a similar position, improvements may come as economy recovers, long- and short-run elasticities, protectionism in USA.	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
6 (c)		(12)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> • Can be argued to increase or decrease contestability. • Definition of contestability - low or zero sunk costs, low or zero barriers to entry/exit. • Factors suggesting lower contestability: increased barriers to exit and entry, economies of scale, concentration increased. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the meaning of contestability with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the meaning of contestability and explanation of the impact of mergers. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding of contestability and explanation of the impact of mergers with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Counterarguments, e.g. suppliers of airplanes have monopoly power, this is reduced. • Brand loyalty reducing. • Low-cost entry remains a big issue. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
6 (d)		(12)
Knowledge, application and analysis - indicative content		
	<ul style="list-style-type: none"> Economies of scale. Rationalisation. Governments get more tax from successful airlines. Increased buying power. Finance more easily available. Benefits to shareholders. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefits of the merger. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the benefits of the merger. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and explanation of the merger with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<ul style="list-style-type: none"> Reduced choice to consumer. Unemployment. Diseconomies of scale. Culture clashes/loss of synergy. Costs of redundancies. Lower morale among workforce. Risk of competition authorities intervening. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Write your name here

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Pearson Edexcel
International
Advanced Level

Centre Number

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Candidate Number

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Economics
International Advanced Level
Unit 4: Developments in the Global Economy

Sample Assessment Material Time: 2 hours	Paper Reference SAM
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You do not need any other materials.

Total Marks

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Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **one** question from Section A and **one** question from Section B.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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PEARSON

Section A: Answer ONE question from this section.

You should spend 60 minutes on this section.

You should include diagrams in your responses where appropriate.

- 1 (a) Between January 2005 and January 2011, The Economist's commodity price index increased from 100 to 230. Evaluate the likely economic effects of such a rise in commodity prices on the global economy. (15)
- (b) Assess macroeconomic policies which might be used to respond to rising commodity prices during a period of slow economic growth. (25)
- 2 (a) Assess the effects of the growth of trading blocs on the global economy. (15)
- (b) The bolivar, the Venezuelan currency, was devalued by 32% in February 2013. Evaluate the likely effects of such a devaluation on the Venezuelan economy. (25)
- 3 (a) Assess the view that the main cause of globalisation is the increased significance of transnational companies. (15)
- (b) To what extent do the costs of globalisation outweigh the benefits? (25)

Journal Pre-proof

Chosen Question Number: Question 1 ☐ Question 2 ☐ Question 3 ☐

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TOTAL FOR SECTION A = 40 MARKS

Section B: Answer either Question 4 or Question 5.

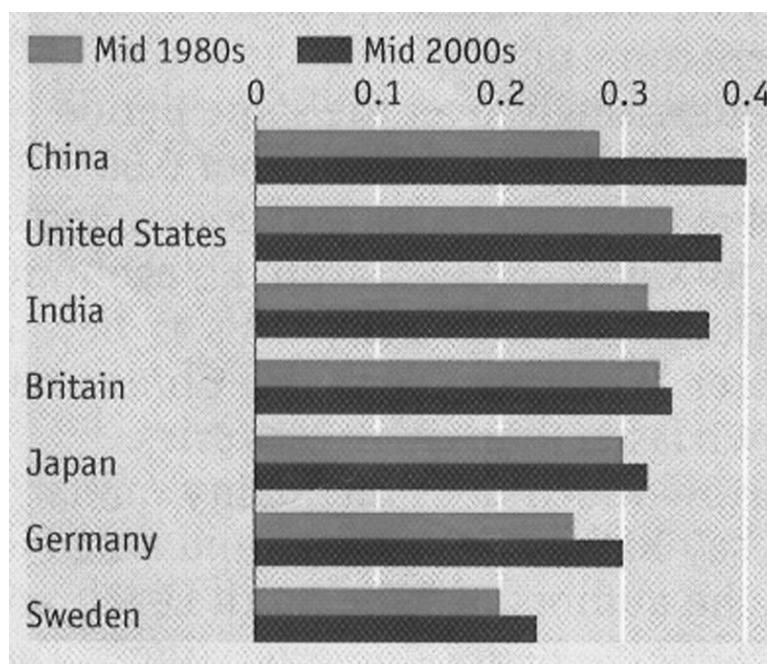
If you answer Question 4 put a cross in this box ☐.

Question 5 starts on page 22.

You should spend 60 minutes on this section.

4 Inequality

Figure 1 Inequality within selected countries as measured by the Gini Coefficient



(Source: © The Economist Newspaper Special report on global leaders, 22 January 2011, page 8)

Extract 1 Changes in income inequality

Globally, the income gap *between* the rich and poor countries has been narrowing as some poorer countries are achieving faster rates of economic growth. However, the gap between the rich and the poor has increased *within* many emerging economies (notably India and China) as well as *within* many rich countries. This is true not only in the United States, but also in countries with a reputation for being more focused on equality, such as Sweden.

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In China increased inequality has been associated with the drive towards capitalism, helping to enrich the growing entrepreneurial class. The continued industrialisation of regions bordering the sea has helped to increase incomes of urban workers. Consequently relative poverty is increasing. Poverty is becoming increasingly difficult to address, as the rural poor are now concentrated in remote regions with difficult natural conditions.

10

However, at the same time, China's rapid economic development in the past two decades has generated the most rapid decline in absolute poverty ever witnessed. It has already achieved the goal of halving the number of people in extreme poverty by 2015, set by the UN as one of eight Millennium Development Goals.

15

In the United States, income inequality began to widen in the 1980s largely because the poor fell behind those in the middle income group. More recently, the shift has been overwhelmingly due to a rise in the share of income going to the very top – the highest 1% of earners and above – particularly those working in the financial sector.

20

Analysis by The Economist suggests that the gap between poorer and richer regions of a country increased during the recession of 2008–09 in some developed economies. In Britain, the income gap between richer and poorer regions is likely to widen further as government spending cuts fall disproportionately on less prosperous parts of the country. GDP per head in the poorest quarter of Britain's regions is now lower than the richest region of China.

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Extract 2 Attempts to reduce inequality

The European Union's "structural funds", more than a third of the EU's budget, are designed to shift cash from the richer to the poorer regions of the single market. The United States Government has invested federal dollars into deprived regions such as West Virginia.

Unfortunately, the regional development strategies have a poor record. Despite massive transfers, the gap in participation rates between Italy's richer north and its poorer south is still huge: only 40% of people in Calabria have a job compared with 65–70% in Lombardy and Bolzano. Even policies that, in principle, should be helpful, such as improving infrastructure, provide no simple solutions. West Virginia now has an extensive road network, but is still poor.

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The best ways to combat inequality are as follows. First, governments should invest in and remove barriers to education, and refocus government spending on those that need it most. Oddly, the urgency of these kinds of reform is greatest in rich countries, where prospects for the less-skilled are poor and falling. Second, governments should eliminate subsidies for uncompetitive industries. In the emerging economies the policies should be aimed at eliminating monopolies and reducing trade barriers. Third, governments should make it easier for people to move from declining regions to prospering regions.

15

(Source for Extract 1 and Extract 2: © *The Economist Newspaper*, 22 January 2011, page 11 and 12 March 2011, pages 14–15)

- (a) With reference to Extract 1, explain the difference between absolute and relative poverty.

(4)

- (b) With reference to Figure 1, explain how income inequality is measured. Illustrate your answer with a Lorenz curve diagram.

(8)

- (c) With reference to the information provided and your own knowledge, assess the likely reasons for the change in inequality **within** countries.

(12)

- (d) Evaluate policies which a government could employ to reduce inequality within its economy.

(16)

(a) With reference to Extract 1, explain the difference between absolute and relative poverty.

(4)

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Pearson Edexcel International
Advanced Level in Economics

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(d) Evaluate policies which a government could employ to reduce inequality within its economy.

(16)

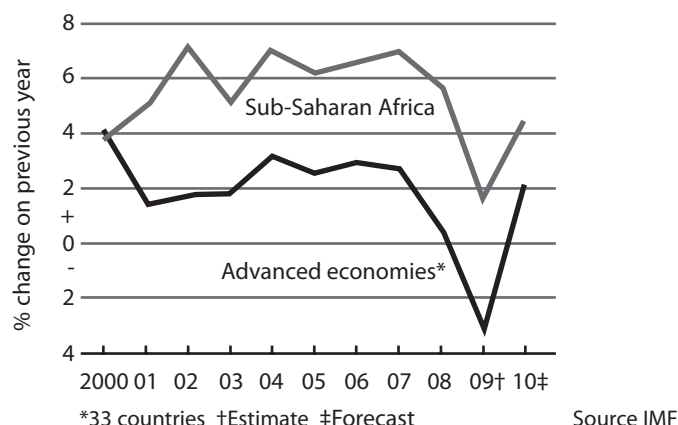
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(Total for Question 4 = 40 marks)

If you answer Question 5 put a cross in this box ☐ .

5 Sub-Saharan Africa and the Global Recession

Figure 1 GDP, % change on previous year



Extract 1 The Impact of the World Recession on Sub-Saharan Africa

The global recession was slow to hit Africa. Its banks and stock exchanges were isolated enough from the wider capital markets to suffer few shocks. Foreign investment remained steady. Oil-rich countries such as Angola continued to boom. However, reduced demand for African exports in 2009, together with the shrinking of private investment flows, has hit the continent hard after a long period of unusually strong growth. It is estimated that countries south of the Sahara (Sub-Saharan Africa) on average grew by less than 2% in 2009. In many countries income has started to fall and unemployment to rise.

Therefore, the confidence of Dominique Strauss-Kahn, the IMF's head, who has been touring Africa, struck some as strange. He went out of his way to praise Africa's central banks. He even said Africa's economies were more dynamic than most of Asia's. The main point, he said, was that Africa was recovering from the global crisis faster than expected.

According to the IMF, Sub-Saharan Africa's economy will grow overall by 4.5% in 2010. But this may be distorted by a large boost from oil and gold, as well as from the guaranteed aid which makes up half the budget in some countries. Kenya will struggle to grow by 3% in 2010 and even that depends on an upswing in tourism. Nearly every African country will grow more slowly than the 6% that many development economists consider is the minimum necessary to allow countries with rapidly increasing populations to maintain living standards.

(Source (for both Figure 1 and Extract 1): *The Economist*, 11 March 2010, http://www.economist.com/world/middle-east/displaystory.cfm?story_id=15679939)

Extract 2 Emerging Economies and Sub-Saharan Africa

As poor countries emerge from recession and the rich world struggles to recover, the BRIC countries – Brazil, Russia, India and China – see an opportunity to increase their influence. A new study by the Overseas Development Institute (ODI), says the emerging countries, such as the BRIC countries, increasingly affect the growth of poorer countries. China has a huge list of pledges to Africa: it has promised \$10 billion of cheap loans over 3 years; it has also offered debt forgiveness, new hospitals, professional training for 15,000 Africans and a doubling of aid. When Sudan ran into trouble repaying \$34 billion foreign debt, it turned to China, India and regional development funds in the Gulf. India helped to bail out Tanzania's financial institutions.

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Trade and foreign direct investment (FDI) from the West are already falling, but the middle-income countries are filling the gap. While total FDI in Africa fell by about a third between 2008 and 2009, the flow from China rose by 80% (admittedly from a low base). Brazil says it has invested \$10 billion in the continent since 2003. Since 2009, the BRIC countries' investments and loans have increased rapidly (see Figure 2).

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Aid agencies consider that China and others are "rogue donors" because they give to and support corrupt regimes. Aid from China is usually 'tied' to hospitals, roads and equipment built or sold by Chinese companies. Further, much 'aid' is loans at near-commercial rates of interest. African governments have had their debts to the West mostly forgiven and are accumulating new loans elsewhere.

20

Trade with the BRIC countries may be a trap. The BRIC countries import raw materials like copper and cotton from poor countries; rich countries tend to buy manufactured goods such as garments. So more trade with the BRIC countries and less with the developed world offers less chance of growth in the secondary sector – the opposite of how China grew richer. Eswar Prasad of Cornell University says that China and India's enormous appetite for raw materials may help poor countries diversify their export markets but not their industry, leaving them more dependent on volatile commodities than before.

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Figure 2 Examples of Foreign Direct Investment (FDI) and loans by BRIC countries in Africa since January 2010

COUNTRY	SECTOR	\$m	TYPE
BRAZIL			
Angola	Oil	800	FDI
Mozambique	Mining	1 300	FDI
Nigeria	Oil	2 000	FDI
RUSSIA			
Angola	Construction	500	FDI
Nigeria	Gas	2 500	FDI
INDIA			
Chad	Textiles	25	Loan
Malawi	Development Projects	50	Loan
Zambia	Hydro Power	50	Loan
CHINA			
Liberia	Mining	2 600	FDI
Tanzania	ICT	180	Loan
Zambia	Development	1 000	Loan

(Source (for both Extract 2 and Figure 2): *The Economist*, 20 March 2010)

- (a) With reference to lines 18-19 of Extract 1, explain why many development economists think that a growth rate of 6% per annum is the minimum desirable in many African countries. (4)
- (b) With reference to Figure 1 and Extract 1, analyse why the growth rate of the Sub-Saharan African economies was higher than that of Advanced Economies between 2000 and 2010. (8)
- (c) With reference to Figure 2 and Extract 2, assess the benefits of foreign direct investment in primary sector industries of countries in Sub-Saharan Africa. (12)
- (d) With reference to Extract 2, to what extent might aid from the 'BRIC' economies promote development in Sub-Saharan Africa? (16)

- (a) With reference to lines 18-19 of Extract 1, explain why many development economists think that a growth rate of 6% per annum is the minimum desirable in many African countries.

(4)

(8)

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(Total for Question 5 = 40 marks)

TOTAL FOR SECTION B = 40 MARKS
TOTAL FOR PAPER = 80 MARKS

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Mark Scheme (SAM)

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Unit 4: Developments in the Global Economy

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General marking guidance

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

Section A: Essay questions

Please use the appropriate levels mark scheme for part (a) – 15 marks and part (b) – 25 marks, to mark this section.

Question Number	Indicative content	Mark
1 (a)	<p>Effects include:</p> <ul style="list-style-type: none"> • Cost push inflationary pressures - AD/AS analysis showing leftward shift in AS curve for manufactured goods. <i>But increased costs might be offset by increased productivity or efficiency gains.</i> • Danger of wage price spiral and rising inflationary expectations. <i>But... monetary policy might help to keep inflation under control.</i> • Lower growth - AD/AS analysis. <i>But... if the rise in commodity prices is caused by rapid world growth, then the impact on growth might be limited.</i> • Possibility of increased unemployment. <i>But not so likely if increased global demand is the cause of higher commodity prices.</i> • Impact on the trade in goods balance. <i>Differential effects depending on whether the country is a net importer or exporter of commodities. In the UK's case, there is likely to be an adverse effect on the trade in goods balance but countries exporting commodities will see a rise in their terms of trade and will benefit from increasing export revenues (assuming demand is price inelastic).</i> <p>N.B. If no part of the analysis is related to the global economy, restrict to Level 4.</p>	(15)

Question Number	Indicative content	Mark
1 (b)	<p>Policies include:</p> <p>Monetary policy</p> <ul style="list-style-type: none"> • Discussion of inflation targeting by the central bank; use of interest rates to achieve inflation target; transmission mechanism. • <i>Evaluation: consideration of whether it is appropriate to target inflation or asset prices; adverse effects on other variables of changing raising interest rates, e.g. on exchange rate; time lags; negative impact on growth and employment; inappropriate to raise interest rates when inflation is caused by cost push factors.</i> <p>Supply side policies</p> <ul style="list-style-type: none"> • Discussion of those which impact on the price level, i.e. measures to increase competition and productivity; transmission mechanism. • <i>Evaluation: some policies will have implications for public finances; time lags.</i> <p>Fiscal policy</p> <ul style="list-style-type: none"> • Discussion of deflationary fiscal policy; transmission mechanism. • <i>Evaluation: ineffective if consumers reduce savings following a rise in taxes; very blunt instrument - adverse impact on other variables, e.g. unemployment.</i> • In the case of oil, governments might react by cutting the tax on petrol. <p>N.B. If there is no reference to ‘slow economic growth’ then restrict to Level 4.</p>	(25)

Question Number	Indicative content	Mark
2 (a)	<ul style="list-style-type: none"> • Understanding of the term ‘trading blocs’ - usually groups of countries in specific regions that manage and promote trade activities. Could consider various types: free trade areas; customs unions; common markets; monetary unions. • Consideration of trade creation - based on the law of comparative advantage. • Consequent implications for: <ul style="list-style-type: none"> ○ global economic growth ○ resource allocation ○ global inflation rates ○ inequality. • Consideration of trade diversion - distortion of comparative advantage might be used in evaluation. • Free movement of labour within a common market leading to increased geographical and occupational mobility. • Increase in FDI. <p>Evaluative comments might include:</p> <ul style="list-style-type: none"> • <i>Differential impact on those countries in blocs and those outside blocs.</i> • <i>Trade diversion: distortion of comparative advantage.</i> • <i>Short-run and long-run effects, e.g. in long run WTO might have further success in reducing trade barriers between blocs.</i> • <i>Impact depends on number of trading blocs and on size and extent of protectionist measures.</i> <p>N.B. If no reference to the impact on the global economy then restrict to Level 3.</p>	(15)

Question Number	Indicative content	Mark
2 (b)	<p>Explanation of devaluation</p> <p>Effects include:</p> <ul style="list-style-type: none"> • Improvement in competitiveness of Venezuelan goods: fall in price of goods exported; increase in price in goods imported. • Impact on balance of payments. • On price level and real output (use of AD/AS analysis). • On employment. <p>Evaluation could include:</p> <ul style="list-style-type: none"> • <i>Discussion of size of devaluation, e.g. significance for inflation.</i> • <i>Short-run v long-run impact: J curve effect.</i> • <i>Significance if elasticities: Marshall-Lerner condition.</i> • <i>Impact on employment depends partly on elasticity of supply of exports.</i> • <i>Higher inflation might eliminate competitive advantage gained from devaluation.</i> 	(25)

Question Number	Indicative content	Mark
3 (a)	<ul style="list-style-type: none"> • Meaning of globalisation: increased economic interdependence between countries, e.g. increased trade as a % of GDP; more FDI. • Comment on increased significance of transnational companies as major cause of globalisation, e.g. growth of offshoring and outsourcing by multinationals resulting from factors such as: <ul style="list-style-type: none"> ○ reduction in transport costs ○ reduction in communication costs ○ low labour costs ○ regulations (health and safety and environmental) less stringent than in developed economies. <p>Other factors causing globalisation (these may be regarded as evaluation):</p> <ul style="list-style-type: none"> • <i>Reduction in trade barriers linked to the work of the WTO.</i> • <i>Application of theory of comparative advantage.</i> • <i>Opening up of economies to world market, e.g. China, former Communist countries.</i> • <i>Economic development in LDCs leading to more demand for foreign goods.</i> • <i>Higher real incomes create increased demand for imported goods (depending on value of the marginal propensity to import).</i> • <i>Increase in the number and size of trading blocs.</i> <p>Other evaluative comments could include:</p> <ul style="list-style-type: none"> • <i>Prioritisation of factors.</i> • <i>Critical view of accuracy of measures of trade and world GDP.</i> • <i>Application of concepts such as income elasticity of demand and marginal propensity to import.</i> 	(15)

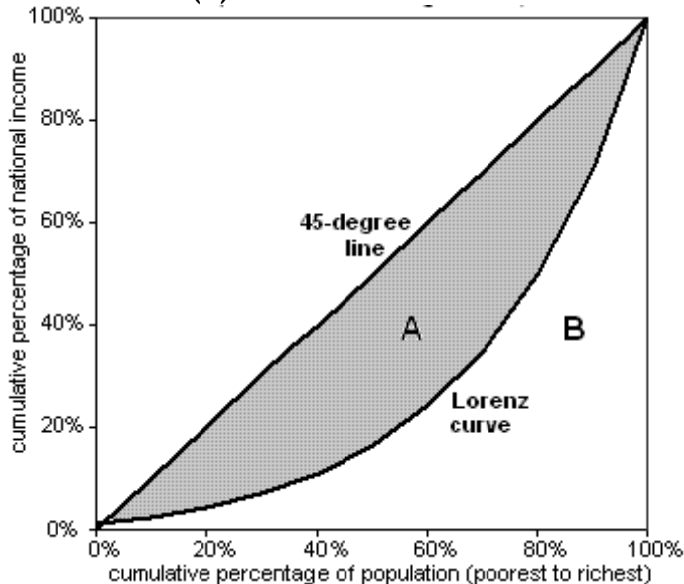
Question Number	Indicative content	Mark
3 (b)	<p>Costs of globalisation include:</p> <ul style="list-style-type: none"> • over-dependence on imports • exploitation of labour • negative externalities from increased trade, e.g. increased air freight causing pollution - climate change • increased inequality between developed economies and LEDCs • TNCs might engage in tax-avoidance policies so causing reduction in tax revenues for governments. <p>Benefits of globalisation include:</p> <ul style="list-style-type: none"> • application of the principle of comparative advantage explanation leading to: <ul style="list-style-type: none"> ○ increased world output ○ higher living standards • reduction in absolute poverty in LDCs • consumers: lower prices (increased consumer surplus); more choice • firms: larger markets; benefits arising from economies of scale. <p>Other evaluative approaches that may be rewarded include:</p> <ul style="list-style-type: none"> • <i>conclusions based on a weighing up of the arguments</i> • <i>assessment of the significance of the point(s) considered</i> • <i>prioritisation of the points made supported by reasoned arguments.</i> <p>N.B. Candidates may take either perspective and use the reverse arguments for evaluation.</p>	(25)

Section A Part (a) questions: performance criteria for mark base 15		
Level 0	0	<ul style="list-style-type: none"> No rewardable material.
Level 1	1-3	<ul style="list-style-type: none"> Displays knowledge presented as facts without awareness of other viewpoints. Demonstrates limited understanding with little or no analysis. Attempts at selecting and applying different economic ideas are unsuccessful. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	4-6	<ul style="list-style-type: none"> Displays elementary knowledge of well-learned economic facts showing a generalised understanding together with limited analysis, i.e. identification of points or a very limited discussion. Displays a limited ability to select and apply different economic ideas. Material presented has a basic relevance but lacks organisation but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	7-9	<ul style="list-style-type: none"> Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues, i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark. Shows some ability to apply economic ideas and relate them to economic problems. Employs different approaches to reach conclusions. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
Level 4	10-12	<ul style="list-style-type: none"> Displays a good knowledge of economic principles, concepts and theories, together with an analysis of the issues involved. Demonstrates an ability to select and apply economic ideas and to relate them to economic problems. Evidence of some evaluation of alternative approaches leading to conclusions. Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.
Level 5	13-15	<ul style="list-style-type: none"> Displays a wide range of knowledge of economic principles, concepts and theories, together with a rigorous analysis of issues. Demonstrates an outstanding ability to select and apply economic ideas to economic problems. Evaluation is well balanced and critical leading to valid conclusions. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Section A Part (b) questions: performance criteria for mark base 25		
Level 0	0	<ul style="list-style-type: none"> No rewardable material.
Level 1	1-5	<ul style="list-style-type: none"> Displays knowledge presented as facts without awareness of other viewpoints. Demonstrates limited understanding with little or no analysis. Attempts at selecting and applying different economic ideas are unsuccessful. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	6-10	<ul style="list-style-type: none"> Displays elementary knowledge of well-learned economic facts showing a generalised understanding together with limited analysis, i.e. identification of points or a very limited discussion. Displays a limited ability to select and apply different economic ideas. Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	11-15	<ul style="list-style-type: none"> Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues, i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark. Shows some ability to apply economic ideas and relate them to economic problems. Employs different approaches to reach conclusions. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
Level 4	16-20	<ul style="list-style-type: none"> Displays a good knowledge of economic principles, concepts and theories, together with an analysis of the issues involved. Demonstrates an ability to select and apply economic ideas and to relate them to economic problems. Evidence of some evaluation of alternative approaches leading to conclusions. Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.
Level 5	21-25	<ul style="list-style-type: none"> Displays a wide range of knowledge of economic principles, concepts and theories, together with a rigorous analysis of issues. Demonstrates an outstanding ability to select and apply economic ideas to economic problems. Evaluation is well balanced and critical leading to valid conclusions. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Section B: Data response

Question Number	Answer	Mark
4 (a)	<p>Absolute poverty: insufficient resources to meet basic needs, e.g. food, shelter, water, clothing (2) OR measurement of absolute poverty: those living on less than \$1.25 a day (accept \$1 or \$2 a day) (2)</p> <p>Relative poverty: those living below a certain income threshold in a country (1) OR measurement of relative poverty: e.g. the % of the population living below 60% (accept 50%) of the median income (1)</p> <p>Application: reference to example from Extract 1: e.g. China: fall in absolute poverty (1); rise in relative poverty (1)</p> <p>2 marks for knowledge; 2 marks for application/i.e. two data references.</p>	(4)

Question Number	Answer	Mark
4 (b)	<p>Lorenz curve diagram: 4 marks awarded as follows. Axis correctly labelled (allow cumulative percentage of income and cumulative percentage of population; numbers need to be included): (1 + 1 marks) Line of income equality (45° line): (1) Lorenz curve: (1)</p>  <p>Explanation of measurement of Gini coefficient: Area A (between 45° line and Lorenz curve) ÷ Area A + B (whole area under 45° line) (2) Application: Specific data reference from Figure 1 e.g. to a specific country and its Gini Coefficient (2)</p>	(8)

Question Number		Mark
4 (c)		(12)
Knowledge, application and analysis - indicative content		
	<p>Reasons in developing countries include:</p> <ul style="list-style-type: none"> income gap between rural and urban areas increases as industrialisation takes hold - workers in more productive manufacturing industries earn more than those in less productive agriculture entrepreneurs and shareholders in these industries benefit from profits increased capitalism in developing countries. <p>Reasons in developed countries include:</p> <ul style="list-style-type: none"> falling demand for unskilled workers and those of low skills as labour intensive manufacturing transfers to low wage countries differences in qualifications increased incomes of the top 1% - bankers' bonuses impact of public expenditure cuts, e.g. cuts in benefits; job losses among low paid; benefits and pension increased in line with CPI rather than RPI the increased inequality is part of a long-term trend associated with declining trade union power. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of reasons for the change in inequality with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the reasons for the change in inequality. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and explanation of the reasons for the change in inequality with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<p>Counterarguments for developing countries, for example:</p> <ul style="list-style-type: none"> workers may be exploited and paid low wages, i.e. owners of resources are getting richer at the expense of workers profits may be repatriated to shareholders of TNCs in developed economies. <p>Counterarguments for developed countries, for example:</p> <ul style="list-style-type: none"> still possible to become very wealthy without formal qualifications bankers' bonuses now being subject to 50% tax and special taxes more generous public sector pensions have contributed to increased inequality among the elderly until recently state means-tested benefits have been increasing to reduce inequality. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
4 (d)		(16)
Knowledge, application and analysis - indicative content		
	<p>A range of policies may be considered, including:</p> <ul style="list-style-type: none"> education: improving access to education for all; government efforts directed especially to those who need it most removal of subsidies; promotion of free trade measures to eliminate monopolies measures to increase the geographical mobility of labour, e.g. housing subsidies; increased provision of affordable houses. <p>Discussion of policies not in the extract, for example:</p> <ul style="list-style-type: none"> increase in means-tested benefits more progressive tax system on incomes wealth taxes increased public expenditure. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of reasons for the change in inequality with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of policies to reduce inequality. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and explanation of policies to reduce inequality with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation - Indicative content		
	<p>A range of policies may be considered, including:</p> <ul style="list-style-type: none"> education: much depends on the quality of education; also considerable time lag removal of subsidies; promotion of free trade could cause some domestic industries to close down if they are unable to compete measures to eliminate monopolies could result in loss of economies of scale cost of schemes to increase the geographical mobility of labour to the government; implications for taxes. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation.
2	4-6	For evaluative comments with limited explanations.
3	7-8	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
5 (a)	<p>Population growing rapidly (1) OR definition of GDP per capita (1)</p> <p>GDP needs to grow faster than population for living standards to increase (1) Kenya expected to grow by only 3% so resulting in a fall in living standards (2) or 'grew less than 2% in 2009' (2)</p> <p>2 marks for knowledge; 2 marks for application/data reference.</p>	(4)

Question Number	Answer	Mark
5 (b)	<p>Reasons include:</p> <ul style="list-style-type: none"> • FDI remained relatively stable • less integrated into world economy/less dependence on foreign trade • banks and stock markets less exposed to financial crisis • oil-rich countries benefited from relatively high oil prices • commodity price boom. <p>Data reference (2 marks): 'growth rate 3-4% higher' or from extract.</p> <p>Could approach this question by considering why advanced economies suffered more than those in SSA.</p> <p>2 marks for understanding of 'weak growth'; 2 for application as indicated above and 4 marks for analysis.</p>	(8)

Question Number		Mark
5 (c)		(12)
Knowledge, application and analysis - indicative content		
	<p>Benefits could include:</p> <ul style="list-style-type: none"> • impact on growth - AD/AS analysis; multiplier effect • employment implications • inflow into financial account of B/P • longer term: increase in foreign currency earnings from exports: improvement in current account • boost to tax revenues • TNCs might provide new infrastructure • technology transfer. <p>Also: reward analysis of benefits to those making the investments.</p> <p>N.B. Do not reward analysis related to loans or aid.</p>	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefits of FDI with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the benefits of FDI. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and explanation of the benefits of FDI with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Might limit diversification out of primary products. • Overspecialisation, leading to unbalanced or unstable growth, especially when primary product prices are unstable. • Repatriation of profits to TNCs in developed countries. • Employment might be in low-skilled jobs only. • TNC might exert political influence on governments of these countries. • Repatriation of profits: adverse impact on current account of balance of payments. • TNCs might leave the country - resulting in economic and social disruption. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
5 (d)		(16)
Knowledge, application and analysis - indicative content		
	<p>Key issues, aid might help to:</p> <ul style="list-style-type: none"> • reduce poverty • fill savings gap • fill foreign exchange gap • impact on AD; multiplier effects • improve infrastructure • improve health and education. <p>Also:</p> <ul style="list-style-type: none"> • provision of expertise • provision of new technology. 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the role of aid in promoting development. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of aid as a means of promoting development. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and explanation of aid as a means of promoting development with appropriate application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation - indicative content		
	<ul style="list-style-type: none"> • Issue of tied aid. • Loans may not be at much below market rate. • Aid might help to keep corrupt governments in power. • Corruption. • Creation of dependency culture: reduction in productivity and efficiency. • Undermining of domestic industries. • Time lag before aid trickles down to poorest members of society. • Asymmetric information may mean that aid is not used efficiently. 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation.
2	4-6	For evaluative comments with limited explanations.
3	7-8	For evaluative comments supported by relevant reasoning.

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