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Examiners' Report
June 2012

GCE Economics 6EC04 01

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Introduction

This was the third exam paper for the 2008 syllabus. Candidates were required to answer one essay (from a choice of three) and one data response question (from a choice of 2).

Question 1

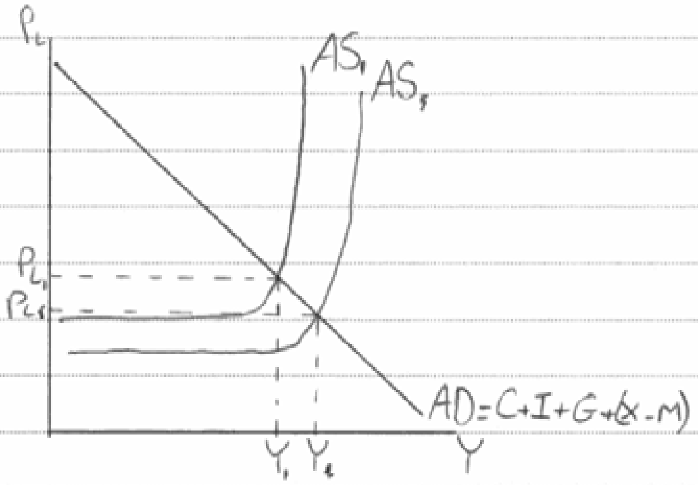
This was the least popular of the essay questions and performance was less convincing than on the other essay questions. In Part (a), the main weakness was in aggregate demand/aggregate supply analysis of the impact of rising commodity prices. Relatively few responses included accurate diagrams showing a leftward shift in the short run AS curve. Further, some candidates ignored the requirement to analyse the impact of a rise in commodity prices on the global economy.

In Part (b), a range of approaches was allowed but the key requirement was to make reference to the context of rising commodity prices and slow economic growth. Unfortunately, some answers focussed only on growth or on rising commodity prices.

1)

a) Commodity prices are prices of oil and other raw materials.

An increase in commodity prices, for example oil, will lead to a fall in AS.



One economic effect of a rise in commodity prices is a ~~fall in the price~~ rise in the price level from P2 to P1 and a fall in real output from Y to Y1.

However, it depends upon how big the rise in commodity prices is. If it is relatively small then it will not have too much of an effect on the price level or real output.

Another effect of a rise in commodity prices is a rise in unemployment levels. It will cause the costs of production to increase, therefore some firms may have to make people redundant.

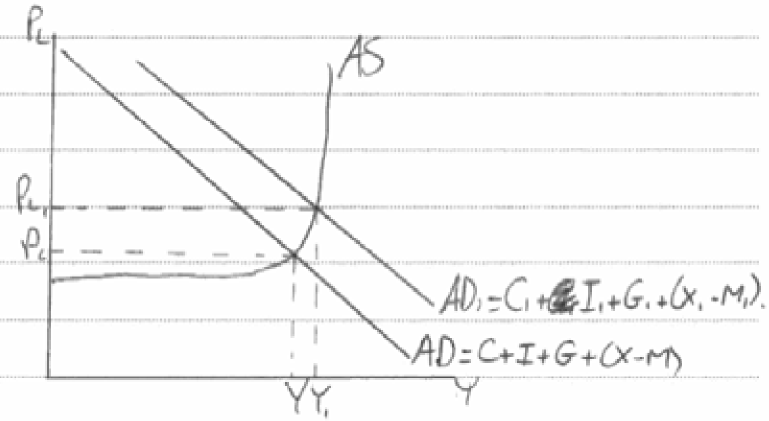
However, although it will increase costs of production, some workers may be still needed for their specific skills, therefore unemployment may not rise necessarily.

A third effect of an increase in commodity prices is that economic growth will slowdown. This will be due to the government having to pay higher prices for commodities instead of spending it on things such as education in order to make the economy grow.

However, economic growth could still occur just at a slower rate. If the government spent wisely then they would be able to achieve economic growth.

b) Macroeconomic policies are policies such as monetary policy, fiscal policy and supply-side policy that are used to achieve macroeconomic objectives such as economic growth.

Expansionary fiscal policy could be used. This is where taxation is reduced and government spending is increased, in order to increase aggregate demand (AD). By doing this it will cause AD to increase.



It will also cause real output to increase from Y to Y1. This leads to economic growth as well as increased employment.

However, it depends on what the government spending will be spent on. If the government is corrupt then they may spend it on pointless equipment which will not achieve economic growth and could lead to a fall in AD.

A second policy that could be used is tight monetary policy. This is where the government drop the interest rates. This then leads to an increase in AD, therefore an increase in economic growth.
This is done by the government dropping the interest rates, which means consumers would much rather spend than save, this means consumption increases which leads to economic growth.
It also means investment will increase because, the rate of return is higher than the rate of interest, therefore this will lead to economic growth.

However, it depends upon how big the drop in interest rates is. It it is relatively small then it will not have that big an effect on economic growth or any of the other macroeconomic objectives.

A third policy that could be used is supply side policies. These are policies that have the primary aim of shifting AS in order to achieve macroeconomic objectives such as economic growth.

One policy is increased spending on education and training. By doing this it increases skills of workers which will therefore mean lower costs of production, and increased productivity. This will mean more people will be employed and this will help to achieve the macroeconomic objectives of increased employment and economic growth.

However this is a long run process. Some ~~countries~~ firms may turn to foreign workers for the short term and this will not help to achieve economic growth.

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Examiner Comments

In Part (a) there was basic analysis of the impact of rising commodity prices including a relevant diagram, although 'real output' should be on the x axis. The evaluation at the top of the second page is not relevant because the question implies there has been a substantial rise in commodity prices. Reference is made to the impact of unemployment and economic growth. Evaluation was superficial.

The response to Part (b) broadly focused on policies to improve economic growth and largely ignored the impact of a rise in commodity prices. Both the analysis and evaluation were superficial.

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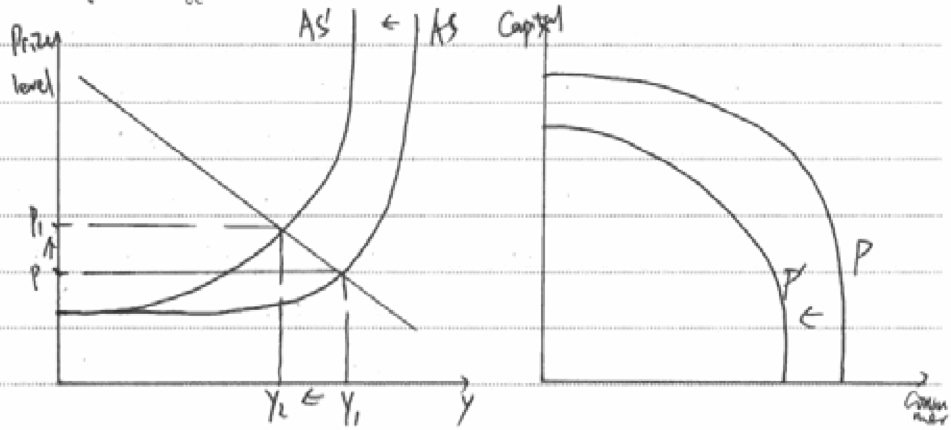
Examiner Tip

In Part (a), it is useful to use AD/AS analysis and then to consider the impact on different macroeconomic objectives. To score highly, however, it is necessary to consider the impact on the global economy as specified in the question.

In Part (b), it is important to consider the impact of each policy on both economic growth and on inflation.

a) Commodity prizes are ~~good~~ prize of goods like oil have increase. This would bring several economic effect.
The first effect is the decrease in LRAS and PPF.



This is because commodities, are often raw materials like oil, irons, coppers, are major resources in the production. and manufacture industries, espeacially oil, all industries will need to use its Therefore, increase in oil prize would mean cost of production rise, and so LRAS shifts to the left as well as the PPF curve, resulting in a ~~slow~~ decrease of output.
However, recent rise in commodity prizes are mainly because the increasing demand of developing countries such as China, developing its manufacturing industry and building the infrastructures. Therefore, even though prizes of commodity rise, it does not necessarily mean output would decrease because developing countries such as China would contributes a lot to world output.
A second economic effect is the inflation. As we can see from the diagram, due to the decrease in LRAS. prize has risen. from P to P_1. ~~Moreover~~. This is because as oil price increase, cost of production increase, goods become more expensive and so caused inflation.
However, ~~th~~ although commodity prizes increase. It does not necessarily mean the prize would passed on to consumers. Firms may choose maintain the same prize

but less profit to maintain its competitiveness. In this case, price of goods and services in the market does not rise and so inflation does not occur.

The third economic effect is on global economic growth. This needs to be divided into two groups — developed countries and developing countries. Rising ~~of~~ commodity prices would shift LRAS to the left, ~~so~~ in the case that AD maintain the same or increase less than LRAS shifts, which is where most developed countries are, economic growth would slowdown or face a negative growth. But in developing countries, such as China, AD increases incredibility and ~~make~~ AD shifts to the right much more than LRAS shifts to the right, in this case, developing countries would ~~f~~ have economic growth because of high demands.

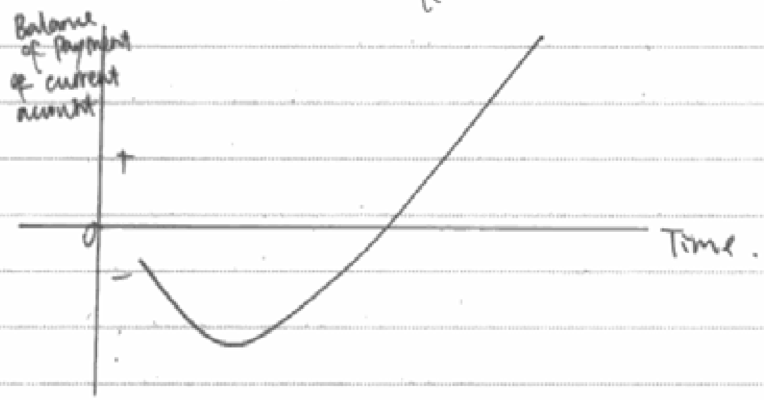
b). Macroeconomic policies are fiscal policies, monetary policies and supply-side policies.

The first policy can be the cut in VAT. If the UK cuts its VAT from 20% back to 17.5%, it would have significant effect to its economy. First, it's general price level may come down, this can release inflationary pressure of rising commodity prices. Secondly, this can encourage consumers to spend, consumption is likely to increase and so AD would rise and so ~~it~~ experience a higher level of economic growth.

However, VAT is a big source of tax revenue. Most of countries in the world has now experience large amount of budget deficit, and because of the recession, lots of countries already used fiscal stimulus, if VAT cuts further, budget deficit may worsen and cause serious problems like fear of defaulting like in Greece and may cause the whole economy collapse.

The second policy might be decrease its exchange rate. This can cause a cheaper prize of domestic exports and more expensive to imports. Therefore, the value of exports would increase due to the higher demand and the value of imports would decrease due to less demand. Consequently, "X-M" ~~als~~ would improve and so AD can be pushed up, therefore, higher level of economic growth can be achieved.

However, the "J" curve effects needs to be considered.



We can see in the short-run, even though exchange rate came down, and prize of "X" and "M" changes, people would not realise it and the PED for "X" and "M" is inelastic in the short-run, "X-M" would be worsened and AD would not rise and so cannot solve the problem of slowdown economic growth.

Furthermore, a weak currency means commodities, like oils, irons and copper become even more expensive to the country, and costs of production would further rise and may cause seriously inflationary pressure.

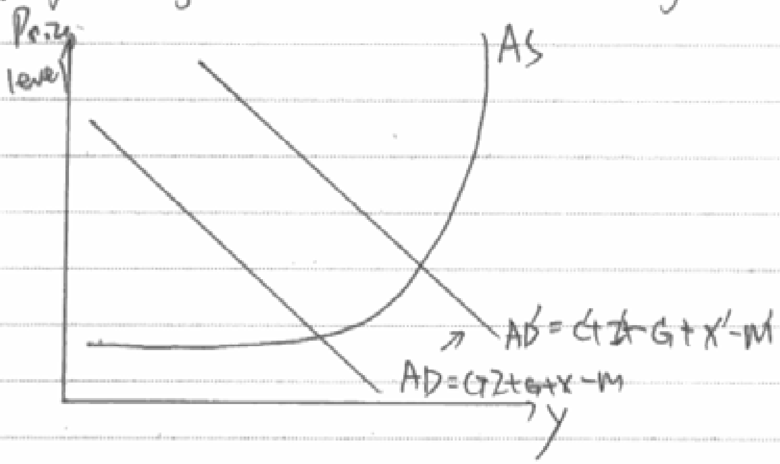
The third policy is decrease the interest rates. This means monthly mortgage payments reduced, people have more money to spend (i.e. case of UK), consumption would rise, investors found rate of return is higher than rate of interest and so invest more, investment would rise, Consequently, both would push up AD and so exprience a higher level of economic growth.

However, time lag is the main issue of this problem. It takes at least 18 months to wait for any change in interest rate to take full effect. Therefore, in the short-run, AD would not rise and so slowdown in economic growth would not be solved. Furthermore, countries within the Eurozone such as Germany, has not got independent ~~AD~~ monetary polizy power, its interest rate is decided by ECB, so this polizy may not suitable for them.

The forth polizy can be cut in coperation tax. In the UK, coperation tax has been ~~cuts~~ cut from 28% to 24% now, and would be further come down to 22%. This makes UK more attractive to foreign investor, MNCs since more profit can be kept, investment is likely to increase and so AD would rise cause economic growth. Morover, because there more profit, firms can use it to develop new technologies and so may increase productivity in the future and rise ~~AD~~ LRAS. Both can sort out problems of slowdown growth.

Nevertheless, we can't gurantee this is effective. Shareholders in each firm may just choose to ~~kept~~ keep its profit and do nothing. In this case, AD and LRAS would not rise and so slowdown growth would continue.

In conclusion, all polizies are aim to achieve higher levels of growth against slowdown economic growth.



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Examiner Comments

Part (a): This had the potential to be a very good answer but the first and third points were really covering the same issue, namely, economic growth. It was also asserted, incorrectly, that the rise in commodity prices would affect the long run aggregate supply curve rather than the short run aggregate supply curve.

Part (b): Three valid policies were discussed: a cut in VAT, a decrease in interest rates and a cut in corporation tax. This was supported by relevant analysis and evaluation. However, much of the discussion focussed on growth and ignored the inflationary effects of the policies.

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Examiner Tip

In Part (a), it is important that there is both breadth and depth. This answer considers the impact of higher commodity prices on only growth and inflation.

In Part (b) only three realistic policies were discussed. It is not good practice to suggest that a valid policy is 'to decrease the exchange rate' without providing a country context where there is a fixed exchange rate or a mechanism by which this can be achieved under a system of floating exchange rates.

Question 2

This was the most popular of the essay questions and was often answered quite well. The main weakness, however, was to give a definition of economic development or to refer to development indictators in either Part (a) or Part (b) of the question. Indeed, some answers focussed almost exclusively on economic growth.

In Part (b), a few answers discussed a wide range of policies to promote economic development and consequently included inadequate analysis of debt cancellation and trade liberalisation. Generally, candidates had a better understanding of the consequences of debt cancellation for economic development than of trade liberalisation.

2a) Developing countries are countries which are trying to grow and increase their output. One factor that limits the growth of developing countries is the corruption of leaders and corruption as a whole. These leaders use the aid given from other countries to improve their lifestyle rather than spending it on their country that needs it especially, this has a detrimental effect as it means the poor aren't getting the aid which they need for wells and food supply. Corruption is also a limit for the more developed developing countries as ~~out~~ their businesses aren't getting the investment they need to grow and become internationally competitive. This means that these companies aren't making the profits they could be as their prices are a lot higher, this leads to a defecit on their current account of the balance of payments, leading to debt building up and up.

Another factor which has limited the economic development in some ~~[illegible]~~ developing countries is poor governance and Civil wars. Civil wars and wars with neighbouring countries ~~[illegible]~~ cause a shift in resource allocation to weapons, this means less money is being spent on the production of products which could be exported, causing less growth than could have been achieved. Civil wars cause a great drain on resources which could be used elsewhere, however in order to win these wars a large amount of money is spent on machinery which has the opportunity cost of grants for farmers or an increase in education spending, reducing growth in the present and also jepadising the chance of growth in the future.

One final factor which has limited economic growth in developing countries is the spread of disease. In many African countries there is a high percentage of the population with HIV/Aids, this means that the population doesn't age with low life expectancy, therefore ~~training is useless~~ ~~of~~ skilled workers are dying young without passing their skills on to other workers, this limits growth dramatically as ~~the~~ most of the workforce is either too young or too ill to work, reducing the chance of growth.

In evaluation, it could be argued that there is a time lag between funds reaching the leaders and the money entering the economy, reducing the worth of that money.
It could also be argued that wars help countries to grow as the workers making ammunition and soldiers are getting paid so they are getting more money.

It could be argued that the information may not be reliable as it is not actually kept.
Finally in producing machinery countries could begin to industrialise helping them to expand, this is also affected by the time lag.

2b) Debt cancellation involves the removal of debt from a certain country. Debt cancellation could be useful for developing countries as ~~and~~ any profits from trade could be used to fund more training or more spending on education in a certain country rather than ~~spendi~~ having to pay off debts to developed countries, this would lead to growth as with more skilled workers productivity would increase making that product more internationally competetive, this would then be a positive spiral as the country would make more money leading to

even more profit and more investment. This would constantly improve efficiency until it rivalled the standards of developed countries. ~~Furthermore~~

Furthermore, debt cancellation would cause these developing countries to have a positive opportunity cost as rather than having to pay money to repay debt, they could use this money and spend it on improving medical facilities in that country, improving life expectancy and increasing the size of the workforce, leading to an improved workforce and more skilled one for longer, once again increasing productivity and improving their international competitiveness.

However if a country has their debts cancelled then some developed countries will be missing out on ~~debt~~ loan repayments, this means that some developed countries will be on a loss as they haven't got in payments they were expecting, this can cause those countries to reduce their ~~outp~~ spending in order to regain the money lost from the debt cancellation, this could lead to a recession in that country, and if that country is a large country such as America then that could have a global impact and ~~a~~ cause a global recession.

In addition debt cancellation could lead to a reduction in future lending to that country as other countries would have lost out as a cause of the debt cancellation, therefore it could lead to short term growth for a country but long term uncertainty. This would cause a negative effect in the future and cause the ~~countryies~~ ~~to~~ country's growth to slow down, meaning it will never become a developed economy.

Trade liberalisation would cause more freedom for a country to trade, it would mean that a countries exports would increase as they are more globally accesible. This would mean that ~~countries will~~ developed countries would have more incentive to import those products as there will be low labour costs causing the product to be cheaper. This will cause an increase in a countries growth as they are receiving more sales ~~from~~ of their exports.

However trade liberalisation could lead to the exploitation of cheap labour in these developing countries, meaning low pay for long hours, this would reduce the working conditions of these employees and cause them to have poor welfare. This exploitation would be good for the country as it experiences more exports, however bad for the workers who have terrible conditions.

One other alternative ~~mean~~ option is to attract FDI, this would reduce costs and also have foreign support, that would help ~~to~~ countries to develop as they will have the right conditions and assistance. It would also boost employment and help to boost growth.

In evaluation debt cancellation would depend on the size of debt, if it was small then the lending countries wouldn't have too many problems, however if it is high then ~~there might~~ debt cancellation may not be an option.

FDI would depend on corporation tax and the different rates, if the tax was too high then there wouldnt be much of an attraction. Finally there would be a time lag whatever option was chosen as spending has already been planned, meaning there will be very little in short term effects

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Examiner Comments

Part (a): Three factors were identified and discussed: corruption, poor governance and civil wars, and the spread of disease. However, the main focus was on economic growth rather than on development.

Part (b): Again the primary focus was on economic growth and there was only one good point about debt cancellation. Much of the evaluation was not relevant or rather dubious.

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Examiner Tip

It is important to offer a definition of economic development and consider some development indicators in the answers to both Parts (a) and (b) of this question.

Specific examples of developing countries help to illustrate the points being made and improve the quality of an answer to a question of this nature.

Economic development is an improvement of the standard of living within a country.

A. One factor which might limit economic development in developing countries is a savings gap. According to the Harrod Domar model, savings is necessary because it provides the banks or financial institutions with funds to give as business loans for investment. This savings gap is a major issue in a country ~~o~~ such as Mozambique where only 23% of the population has any access to financial institutions. In Mozambique, it is very cultural to save in 'hiding places' such as in people's houses. The fact that this technique of 'saving' is cultural makes it all the more difficult to change the mindset of the Mozambiquans. Therefore there is insufficient money to be loant as business loans, meaning this lack of investment makes goods and services from Mozambique less ~~pro~~ competitive, thereby limiting their development.

However, this savings gap can be filled through other methods such as loans and aid. If there was more ~~aid~~ loans given to Mozambique, then this would help close the savings gap as the country would now have the funds necessary for investment. This would help improve development as funds could be spent on areas such as better infrastructure, education and healthcare. Therefore increased savings is not the only means by which a developing country can increase funds for investment; other methods include FDI, aid & loans.

Another factor which limits development in developing countries is primary product dependancy. This is when the GDP of a developing country is made up mainly of agricultural products. According to the Prebisch Singer hypothesis, primary products have more income inelastic demand than manufacturing products in the long run. This means that as income rises, there is a more significant increase in demand for manufactured products than there is for primary products. Therefore primary product dependancy is a limit to development in developing countries because in the long run, the terms of trade are better for manufacturing products and there will be more money in the economy to improve welfare conditions and allow for development.

However, Botswana is an example of a country that is successful despite the fact that it is dependant on a primary product, ie diamonds. This is due to the fact that the Price Elasticity of Demand for diamonds is relatively inelastic. It could also be argued that Botswana has been

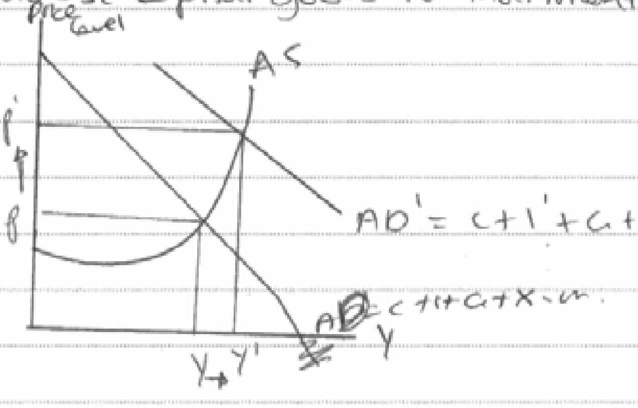
able to develop more due to its stable government and efficient use of resources.

Thirdly, a factor which may limit economic development of developing countries is the geographical make-up of these countries. For example, Bangladesh is a country made up of detaic flood plains. There are severe issues with flooding in this country, where 85% of the ~~whose population~~ population lives in rural areas and are dependant on agriculture. The destruction of crops have lead to the fact that 20% of the rural population live in absolute poverty and 29% live in relative poverty. Therefore the environment and natural disasters can act as a limit to development for developing countries.

B. Economic development is an improvement in the standard of living within a country. Debt cancellation is a means by which economic development can be achieved because it allows the developing country to use funds for public services such as healthcare. By spending more on healthcare and no longer having to allocate money to the repayment and interest on the debt, this improves the welfare of a developing country's citizens. The spending of this money on health & education will also help reduce those living in absolute poverty, as their basic needs are provided for by the government – thereby achieving greater economic development.

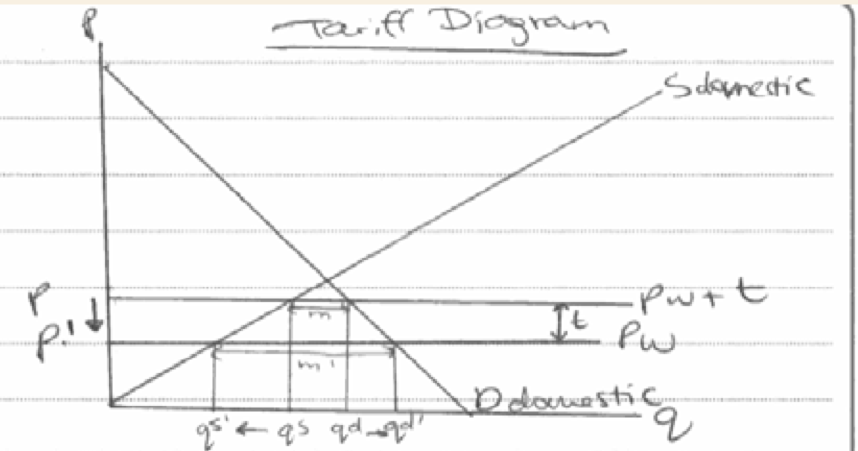
However, in developing countries such as Nigeria, corruption and civil unrest are a major issue. This means that the government may not actually use the funds from the debt cancellation on public services to improve development. There ~~will~~ may be an inefficient allocation of these resources, eg buying the president a private jet, and therefore there will be no improvement in economic development.

Another reason why debt cancellation may help economic development in developing countries is if the funds go towards buying capital. By cancelling the debt, presumably the developing country will be left with more foreign exchange, thereby helping to reduce the foreign exchange gap. This means that the country is now able to purchase capital goods for investment.



This would help improve the competitiveness of the developing countries goods and services, which will in turn ~~lead~~ cause export lead growth. This should bring about economic development as more people will be employed in these export industries and will therefore be earning a living, reducing poverty levels.

In terms of trade liberalisation, this may not be a very successful way of improving economic development in developing countries. This is due to the fact that in these developing countries, industries are very small and ~~for~~ the country is still working on creating a comparative advantage. By removing tariffs, this would open up the country's markets and domestic demand for local goods would fall as infant industries cannot compete with these large foreign multinationals. Therefore in terms of protection of infant industries, trade liberalisation may not improve economic development as it can ruin local industry and result in unemployment.



However, by removing tariffs off imports, this would increase the consumer surplus as consumers now have higher quality goods for cheaper prices. This could stimulate economic development in terms of something like cheaper medication so that healthcare improves. Therefore an increase in consumer surplus could be an argument for trade liberalisation as a means of improving development in developing countries.

Another argument against trade liberalisation in terms of creating economic development for developing countries is because tariffs & subsidies may be necessary to prevent 'dumping'. This is when goods & services are sold under their cost of production. This can be done through subsidisation. For example, if a ~~country's gover~~ China's government subsidises the production of tyres, then when these tyres were sold in Bangladesh, ~~they~~ would be at significantly lower prices. This would ruin local industry in Bangladesh. Therefore as a means of protecting local industry, anti dumping policies such as tariffs may be necessary as a means of promoting economic development.

However, it is important to note that by having tariff barriers, this can act as a constraint on development. For example in India, the government created several tariff barriers to protect local industry. The problem was that the Indian firms became so reliant on these barriers that they were a permanent fixture because the firms did not invest or innovate and the tariffs would ~~be~~ too expensive to remove. This meant that Indian population was buying local quality goods at high prices. Therefore trade liberalisation may be an important step in creating further economic development in developing countries.

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Examiner Comments

This is an example of a very sound response to both parts of the question. In Part (a), three issues are identified, analysed and illustrated with relevant examples: savings gap, primary product dependency and geography. Two thoughtful evaluative comments are also included.

In Part (b), The analysis and evaluation of debt cancellation and trade liberalisation is very good and includes appropriate examples. If there is a criticism, it would be that there should have been more emphasis on economic development.

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Examiner Tip

Individual research into developing countries can provide valuable examples in answeing questions of this nature.

Question 3

Questions on globalisation usually attract a large number of responses and this was no exception, being the second most popular esaay on Trans National Companies (TNCs). While there were some impressive responses to thie questions, the main issue in Part (a) was that the analysis of TNCs as a cause of globalisation was often fairly limited and in Part (b) some candidates considered non-economic issues rather than concentrating on the economic costs and benefits of globalisation.

a) Transnational companies have become more and more significant over the last decade. This is seen by examples such as Apple, or coca cola, which are now found all over the world.

One benefit that transnational companies bring is that they encouraged trade between countries across the globe. This made it more and more apparent that there are huge benefits to be made.

However, globalisation is a process that has been going on for hundreds of years, even before the existence of trans national companies. ~~that~~ ~~be~~ People have been trading goods with other parts of the world for centuries, a good example being herbs and spices.

Globalisation has sped up significantly with technological improvements these allowed goods to be flown accross the globe, or shipped in refrigirated containers allowing fresh goods ~~the~~ to be traded.

The existence of transnational companies is a result of globalisation, but once they became more significant

Globalisation started to happen at a much faster rate, as there was more money available and more profits to be made.

b) There are many cost and benefits to globalisation.

One significant cost could be that there will always be a loss of local culture. this is because highly "westernised" goods are sold in other parts of the world where they outcompete local goods thus leading to a "westernising" of the rest of the worlds

* at a lower opportunity cost

One significant benefit would be the reduction of costs and therefore lower prices. this is to do with comparative advantage. If one country can produce a good* than another country then it should do so and trade those in for goods it can't make cheaply. this would benefit companies with lower costs and would benefit consumers with lower prices

Another cost of globalisation would be that there are higher levels of competitiveness from international firms. this could lead to the international firms outcompeting local firms and putting them out of business. this would make the economy import dependent. If this happens it would be a short term benefit of lower prices but in the long run the firms will put up prices as they could find themselves in a monopolistic position

The point about international competition could, however, also be a benefit. If the domestic firms survive the international competition and successfully drive down their own costs to be able to compete, the consumers would benefit from long term lower prices, and the businesses would be able to compete internationally

A third cost that Globalisation brings with it is that nations might become inter-dependent on each other. This means that if one economy fails it will cause the other to fail too. this loss of independence can be a huge cost as seen by the fact the Germany had to give a huge amount of taxpayers money to stop Greece from failing.

A third Benefit that Globalisation could bring with it is a bigger diversity of goods for consumers. International trade is likely to bring goods into an economy that wouldn't be there if it had not been for Globalisation. The consumers will have more substitute goods to choose from.

In conclusion I think that the benefits far outweigh the costs that Globalisation has. I think the level of Globalisation we are at at the moment is a good level, but taking it further (for example Europe becoming one country, much like the USA) is a step too far and would simply ruin the local cultures and traditions.

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Examiner Comments

The answers to both parts of this question were very superficial. In Part (a), there is a reference relating to how TNCs promote trade with a reasonable evaluative comment. There is also reference to the importance of technological improvements but little else.

Similarly, in Part (b) a few valid costs and benefits are identified but these are not analysed fully or evaluated effectively.

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Examiner Tip

In Part (a), the role of TNCs in promoting globalisation needs to be examined fully along with a discussion of other factors which might have played a key role.

In Part (b) high marks could have been achieved by considering and evaluating at least two benefits and two costs.

3a) Globalisation is the process by which the world's economies become more closely integrated and interdependent. Globalisation has increased significantly over the past 50 years due to a number of factors.

The increased significance of transnational companies, which are companies that are based in different countries; i.e. have offices in various different parts of the world, has had an impact on increasing globalisation. As these companies have various offices and production points around the world it means that the world's economies are become more interdepedent. For example a car making firm may have its assembly part in one country (the building of the car) but it may have been designed in another country. This means that the process and parts of production is taking place in different parts of the world and coming together at the end as a finished product, demonstrating the world's integrated economies. Transnational companies allow the process of globalisation to take place by setting up in the different countries and bringing the parts all together to make a finished product or service. However it may be argued that the increased significance of transnational companies is not a cause of globalisational but more of a result of it as such companies wouldn't be able to set up in other countries if it weren't for other significant factors contributing to globalisation.

Reduced transport costs is another factor which has increased globalisation. Transport costs via air and sea have fallen over the years due to containerisation, where large amounts of goods can be containerised and stacked allowing room for more goods to be transported. This means that it has become cheaper to export and import goods to and from areas of the world meaning that companies are more likely to set up in a lower wage economy to benefit from cheaper unit costs (such as a country like India with relatively low unit labour costs) without worrying about the fact that transport costs will outweigh these benefits. Yet it could be argued that in recent years transport costs are rising due to

worries about the external costs such that arise from increased air travel, i.e global warming and the burning of fossil fuels. This can mean that such countries are making air travel companies pay for green schemes to help offset their carbon emissions. Yet such schemes haven't been made compulsory in many countries.

Another contributing factor to globalisation is trade liberalisation. After the second world war the World trade Organisation was made with the aim to reduce trade barriers and tariffs. They managed to reduce tariffs from 10% to 3.7%. Again this has made it cheaper and easier to trade contributing to transnational companies setting up and making the worlds economies more integrated. However over recent years it can be argued that countries may be introducing protectionist measures after the 2008 financial crash in order to protect their domestic industries, such as the American Steel industry which was given subsidies by the government. ~~N~~ This could be argued that there has been a ~~dectox~~ in trade liberalisation, yet there are still

improvements from years ago.

Another contribution to globalisation is the reduction of costs and improvement of telecommunications, such as the internet, phone lines and email. There has been huge developments in these areas, such as the internet provides a 24 hour global shopping base in which consumers can buy products from the other side of the world without leaving their homes. ~~It also~~ They also allow transnational companies to run as they can contact each other via email and have conference calls without having to actually visit the country. Yet it could be argued that such things as access to email leaving developing countries behind and preventing them from becoming part of the globalisation and integrated economies, as they don't have the infrastructure and access to such tools.

To conclude the increased significance of transnational companies is a factor which has contributed to globalisation which has contributed to globalisation but it is not the main cause. Such companies would not be able to exist

without things such as reduced transport costs, free trade and telecommunications. Therefore there are equally, if not more significant factors which have contributed towards globalisation.

b) Globalisation has had both benefits to the world yet there has also been significant costs too.

A benefit of globalisation is that world trade as a proportion of GDP has increased. The trade liberalisation and reduced transport costs which have contributed to globalisation have overall increased world output and therefore standards of living in many countries.

Globalisation has also allowed countries to benefit from comparative advantage, where one country can produce a good or service at a lower opportunity cost than another, this means that there is a more efficient allocation of resources and world output increases and therefore standards of living. However it may be argued that in some cases transport costs outweigh the benefits of comparative advantage and the need for supernormal profits distort it.

Globalisation has also meant that producers have lower costs as they can benefit from offshoring and cheaper relative unit labour cost from low wage economies, ~~firms~~ also further exploiting economies of scale. This can also mean consumers benefit from these low costs, through comparative advantage and reduction in transport costs, via lower prices, this in turn increases consumer surplus and consumer welfare. However this depends on whether the companies pass on the lower costs to consumers through prices or choose to increase their profit margin. Globalisation also allows more choice for the consumer as it gives them access to products from all over the world which are not available in their own country. This again increases standards of living.

Despite these benefits of globalisation there are also costs which are associated with the process.

For example is such a thing suistanable? With all the increased transport and trade there are severe external costs as they are with countries like China which

have become more and more industrialised. They contribute to global warming and depletion of fossil fuels, which is degrading to the environment. Yet some theorists argue that this won't be the case as when countries grow more wealthy from the process of globalisation they will invest in more efficient and green ways of producing. It is also argued that globalisation increases exploitation and inequality. As it ~~takes~~ takes advantage of low wage economies which are earning alot less than economies in the west and wages won't want to rise as this may have an adverse effect on international competitiveness, However it can be argued that the situation for such workers may be worse if there was no demand for their goods, i.e. they would be jobless.

Another cost is that increased globalisation can lead to increased instability due to the worlds economies becoming more closely integrated. As what was represented by the 2008 financial crash which began in America, but dragged other countries such as the UK in to a

recession as they were its main exporting partners. Such a thing has caused some degree of deglobalisation where countries have begun to introduce protectionist measures.

Another cost is that there is increased inequality as developing countries don't have access to the infrastructure, in order to set up telecommunications, unlike developed countries, meaning that they may get left behind during the process of globalisation. Yet globalisation may help to improve this situation as the development of transnational companies mean that a company could set up in a less developed country to benefit familys rich natural resources and bring some infrastructure building with it.

To conclude there are costs associated with globalisation, like there is with most things in the economy. Yet there is also huge benefits which can overall increase world output and efficiency and increase standards of living. Therefore it is likely that the costs don't outweigh the benefits, as the more countries

develop and grow through globalisation more precautions will took to reduce external costs and increase financial stability to prevent a reoccurance of 2008.

ResultsPlus

Examiner Comments

Overall, this was a very sound response. In Part (a), the first paragraph discussed the role of TNCs and concluded with a good evaluative comment. There was then a discussion of three other factors: reduced transport costs, trade liberalisation and the reduction in costs of telecommunications. At the end, there is a concluding paragraph.

In Part (b), benefits and costs of globalisation are considered and evaluated. However, the answer could have been improved with more examples and more detailed evaluative comments.

ResultsPlus

Examiner Tip

As with the other essays, relevant examples help to illustrate the points made.

Question 4 (a)

This question was generally answered well although understanding of absoulte poverty was better than that of relative poverty. Some candidates lost marks because they did not provide any data refereneces.

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

(5)

Absolutive poverty is the inability to cover survival needs such as access to clean water, food, and enrolment in education ratios.

Relative poverty involves some of these factors, and those within relative poverty may be able to consume these factors but ~~at an a~~ just marginally. Increased inequality in China due to its capitalistic approach and industrialisation of regions have seen relative poverty rise. However the number of people in absoute poverty in China has been enormously reduced. Half the number of people in absolute poverty have been reduced.

ResultsPlus
Examiner Comments

There is an accurate definition of absolute poverty worth 2 marks and a clear reference to the change in absolute poverty in China, worth 1 mark. Unfortunately, the definition of relative poverty is too vague and imprecise to be worth any marks.

ResultsPlus
Examiner Tip

Ensure that all definitions are precise.

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

(5)

Absolute poverty means that a person does not have the necessary resources for survival eg food, water, shelter. It is measured in the 2005 PPP as being under $1·25 per day or accepted as under $2 per day.

Relative poverty means being more poor compared to the average in society. In the UK it is classed as being under 60% of the average income, and could mean people could not afford a holiday, a car etc.

Extract 1 has suggested that in China, absolute poverty has massively decreased but they are now facing relative poverty. Similarly relative poverty is increasing in the UK and USA.

ResultsPlus

Examiner Comments

An excellent answer which provides accurate definitions of the terms and includes references to the changes in absolute and relative poverty in China.

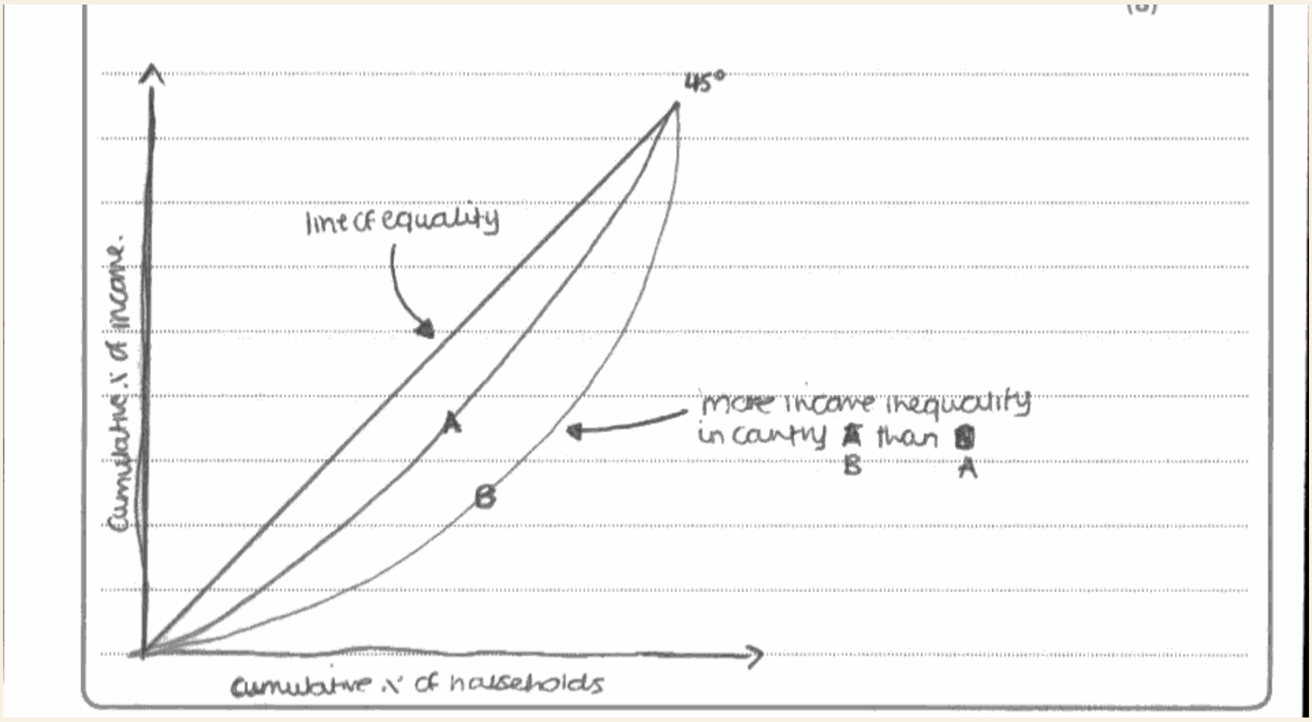
ResultsPlus

Examiner Tip

A well-structuerd answer divided into paragraphs is good practice in answering all questions.

Question 4 (b)

Relatively few responses included a completely accurate Lorenz curve diagram. Most were unable to label the axes accurately. Supporting explanations were generally good although some candidates omitted any data references.



The lorenz curve shows that the further away the curve, a country, is from the 45 degree line, the greater inequality there is in that country. For example, country 'B' on the diagram shown is more income inequality to that of country 'A' because it is further away from the 45 degree line, which represents equality.

A reason for income inequality could be due to the fact that there may be different job positions which have higher wages than other. Inequality may be shown here because the amount of wages you receive does not determine the high level of work the individual does, compared to a low waged individual. For example, farmers may receive less money for the work they put in, in order to produce crops for importing countries, whereas arguably individuals within the entertainment business earn more by doing significantly less amount of work than a farmer only making enough to cover necessities.

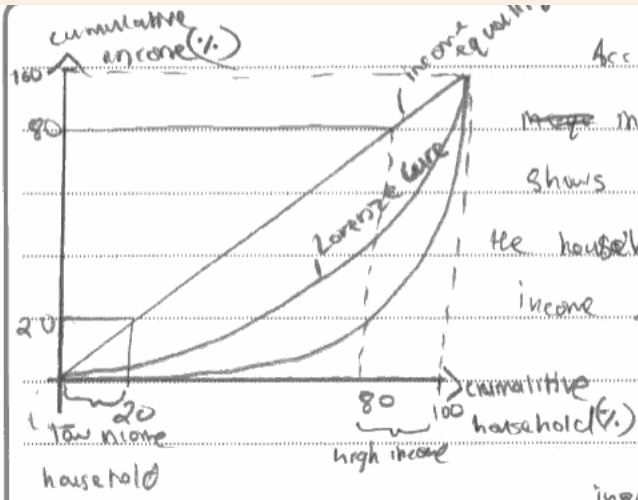
ResultsPlus
Examiner Comments

The diagram is accurate and worth 4 marks. The following paragraph provides a valid explanation and is worth 2 marks. However, the last paragarph is not relevant to the question. There are no data references and so 2 marks are lost.

ResultsPlus
Examiner Tip

When a question includes a phrase such as 'With reference to Figure 1', it is important to use that data in the answer.

Income inequality refers to the situation where the national income on the country is not ~~equalitly~~ equally distributed amongst its citizens. There are mainly two ways of measuring inequality; firstly is the lorenze curve which is a diagramatic explanation of different level of poverty that may exist in a country with the degree of inequality. It has two variables, ~~namely~~ namely cumulative household (on the ~~y~~ x-axis) and cumulative income (on the y-axis).



According to the curve, it has ~~an~~ ~~mcqe~~ income equality line which shows that the bottom 20% of the household earns 20% of the national income & the top 20% of the high income earners earns 80% of the income indicating no inequality. However, as the loreze curve bends further and further away from the income equality line, it indicates an increase in income inequality.

Secondly, Gini coefficient is a statistical measure of of inequality which is measured by dividing the ~~arean~~ area between the income equality and Lorenze curve with the area of triangle formed under the equality line. It ranges from 0 to 1 and the closer ~~the~~ to 1 the greater inequality. Such as in figure 1, inequality in India rose by looking at the index which increased from 0·31 to 0·37 (approximately)

ResultsPlus
Examiner Comments

This answer contains an accurate diagram, a clear explanation including how the Gini coefficient is measured and a reference to the data at the end.

ResultsPlus
Examiner Tip

It is important to be precise. This answer could have been much shorter and would still have been awarded full marks. Spending too much time at this stage may mean that there is insufficient time left to answer the last part of the data response question.

Question 4 (c)

This proved to be a very challenging question. A few candidates were able to demonstrate a clear knowledge of the key features of the capitalist system and only some were able to demonstrate the link between capitalism and inequality or include any pertinent evaluative comments.

(c) To what extent is income inequality an essential ingredient of capitalism?

(10)

~~Income capitalism~~

Capitalism represent freedom and the ability for individuals to start there own businesses and do better than others in life by ~~ea~~ working harder and earning more. Income inequality mean people earn different ~~wages so~~ incomes so to an extent income inequality does represent capitalism. However income ~~ta~~ tax is a progressive tax which mean the more some one earns, the more they pay.

ResultsPlus

Examiner Comments

This response was not untypical of many on this question in that it was brief and contained little analysis. However, it did demonstrate an understanding of capitalism and there is a hint of evaluation in the last sentence.

ResultsPlus

Examiner Tip

Knowledge and understanding of topics covered in earlier units are required in the A2 units. In this case, capitalism would have been covered in Unit 1.

(c) To what extent is income inequality an essential ingredient of capitalism?

(10)

capitalism is a system whereby most of the production of goods and services is done by the private sector. It is a free market system and the profit motive drives firms. I think that income inequality is an essential ingredient of capitalism to a large extent. As seen by China, rapid growth has ~~led to~~ with a drive towards capitalism has led to a big increase in inequality. In the mid 1980s, the gini coefficient of China was about 0.28, whereas by the mid 2000s it had risen to 0.4. The growing entrepreneurial class grows richer and richer and although absolute poverty ~~is~~ reduces, relative poverty rises and the middle and lower classes do not reap as much benefits. Firms in a free market system are driven by profits, and these profits go to the owners and entrepreneurs. The workers who are mainly in the lower class merely receive wages that are but a fraction of profits earned by owners.

On the other hand though, countries ~~to~~ like Sweden have kept the level of inequality low for decades even though they run a capitalist system. This is due to a good progressive taxation system and efficient government policy aimed at reducing inequality. One must note though the Sweden is now ~~only~~ seeing little rises in inequality.

ResultsPlus Examiner Comments

The first sentence demonstrated some idea of capitalism and then there was a reference to the increase in inequality in China with some good analysis at the end of the paragraph. In the last paragraph, there was some effective evaluation related to Sweden. Overall, this was a good answer.

ResultsPlus Examiner Tip

Reference to the specification is useful in preparation for this examination. The unit 4 syllabus includes the phrase 'the extent to which inequality is an essential ingredient of capitalism'.

Question 4 (d)

The context of the information in this question gave the causes of an increase in inequality within countries. However, a significant minority of responses examined causes of a decrease in inequality while others examined measure to reduce inequality which is the focus of Question 4(e). Some candidates also incorrectly discussed growing inequality between countries.

Of those candidtes who did answer the question set, only a few went beyond identifying some causes, giving superficial explanations.

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

(12)

One reason for inequality to change within a country is income redistribution. If the government begin to use a more progressive taxing system then it will mean that there is better income re-distrubtion. By distributing income better you are improving inequality because you are decreasing the gap between the richest and the poorest through proportional taxation.

However by using a more progressive tax system it may mean the revenue gained by the government decreases as they may go above the "optimum" level suggested by the laffer curve. By going above ~~this~~ it means people ~~are~~ may be likely to ~~less~~ work less hours so that they do not fall into the top bracket.

Another likely reason for a ~~fall~~ change in inequality is a change in the education system. If access to education becomes easier within an economy ~~it~~ then it means that more people can improve their human capital and in the long-run improve the chances of receiving higher pay, due to a good standard of education. ~~Education can~~ also reduce inequality ~~because it means that~~

However providing a better education system will cost the government more, increasing their spending. This means that their is opportunity cost involved and if spending on improving education is high then it may mean other public services such as health become affected, as they may not receive the same budget as the previas annum due to increased spending on education. lines 21-22 in extract one also suggest that during a recession government wants to try and reduce its spending in the public sector, this means governments are unlikely to improve education during this time as they may see it as a cost that they can avoid for the immediate future and think about improving later on.

ResultsPlus
Examiner Comments

This answer identifies two relevant reasons for the increase in inequality within countries: a change in the education system and public spending cuts. However, the supporting analysis needs to be stronger and there is no relevant evaluation.

ResultsPlus
Examiner Tip

One line of evaluation would be to focus on factors which might offset the causes of increased inequality.

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

(12)

Spending cuts in the UK may have been one reason for widening inequality, in general taxation ~~[illegible]~~ and spending reduce inequality as the main tax in the UK income tax, is progressive so effects the highest earners more than the lowest. Whereas spending, particularly current spending tends to go to the lowest income households, in the form of benefits and ~~[illegible]~~ grants. Therefore the recently announced cut in top rate tax from 50p to 40p and the on going austerity ~~[illegible]~~ measures should, in theory ~~[illegible]~~ increase inequality. This is especially true for regional inequality, for example London has a low proportion of public sector ~~[illegible]~~ workers and high private sector, many of which are high income earners who will benefit from the cut in taxes but won't be as largely effected by public sector pay cuts. However Newcastle has almost 50% of its workers are public sector workers so will be massively impacted by a pay cut in the public sector, ~~As~~ it sees a drop in consumption as disposable incomes fall it may see output decrease where as London should see on the whole consumption and disposable incomes rise.

However according to figure one Britain's inequality has already risen by the Mid ~~[illegible]~~ 2000's and these cuts had not been announced until 2010. Therefore there must be other causes.

One other likely cause could be lack of investment in certain areas of the country. London has successfully attracted a lot of foreign direct investment (FDI) in recent decades which has meant it has a strong infrastructure which means it's costs of doing business there are much lower than in places like Sheffield where a decline in investment has seen infrastructure grow weaker and businesses leave the area this means that wages have fallen in the area. A lot of this decreased FDI is due to an over reliances on the steel industry which went into decline leaving Sheffield with workers who lacked skills for other work. Where as london has diversified and it's work force has much higher levels of ~~£~~ general and specific human capital. this has been the main cause of the rise in inequality in the UK since 1980's. However as Extract 1 suggests, income gap is likely to rise further, this is most likely due to austerity programmes.

ResultsPlus

Examiner Comments

This answer is very good analytically and includes pertinent examples although the evaluation is less convincing. Various reasons are offered: spending cuts on benefits and on areas employing a high proportion of public sector workers, and the effect of differences in foreign direct investment on particular regions of the country. Evaluation is included in the second paragraph and at the very end of the answer.

ResultsPlus

Examiner Tip

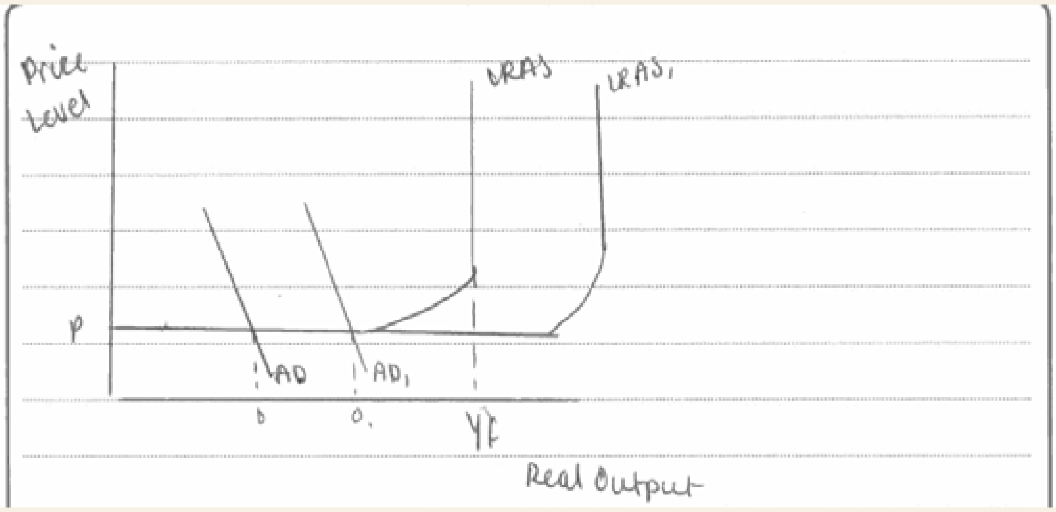
Evaluation should be a central part of answers to Parts (c), (d) and (e) of the data response questions since 30% of the marks are awarded for this assessment objective.

Question 4 (e)

Although this was a fairly straightforward question, there were relatively few responses using the material in the extract to good effect. This could be explained mainly by the fact that some candidates had not allowed sufficient time to answer the question fully.

One policy that a government could employ would be an increase in grants for low income students to go to university. This would help increase social mobility as these students would see there earning potential rise. However this is a long term policy and would be unlikely to see any notable effect for several years, as it would not impact students till they had completed there course, which usually lasts several years. Also it does not necessarily mean any more low income family students would get into university. Many schools in deprived areas are not as good as private or other comprehensive schools so students lack the ability to take advantage of the grants. Perhaps a better policy would be to try and turn around struggling schools. However this can be difficult and costly.

Another policy governments could employ could be investment in infrastructure, in the UK the government has neglected railway and road network investment in the North and compared to other areas, and other countries such as China which now boasts several high speed rails, Foreign direct investment has decreased. However not all infrastructure investment is necessary or valuable, Extract 2 describes how West Virginia has seen a increase in road investment but no growth. This is most likely because it has too much spare capacity in the economy, so a shift in long run aggregate supply LRAS to LRAS, sees no increase in output.



In this scenario expansionary fiscal policy may be more effective, such as a decrease in VAT in the area which would see AD to AD, as consumption rises, this should hopefully reduce regional inequality.

ResultsPlus
Examiner Comments

In the first paragraph, grants for low income students to go to university is identified as a policy and is then evaluated well but there is little supporting analysis. Investment in infrastructure is also identified as another policy but there is little else of relevance in the response.

ResultsPlus
Examiner Tip

Time should be planned carefully to ensure that sufficient time is available to answer the data response question with the highest mark base.

* (e) Evaluate policies which a government could employ to reduce inequality within its country.

(15)

One way a gov^t could reduce inequality is to increase the mobility of labour. If it was easier to travel from an area where the wages are low to a more wealthy area, whether it be moving house or commuting, then those in poor areas but with good skills could earn more and therefore help close the income gap.

However, this may lead to an excess supply of labour and therefore a lower wage level. This in turn would increase inequality.

Another thing the gov^t could do is change the tax levels. Progressive taxes are very useful in redistributing income, as the rich get bigger taxes and the poor get smaller or zero taxes. This helps to create equality and also would increase gov^t revenue (due to the large taxes on the rich) and ∴ ↑ gov^t spending in poor areas that need it most.

However large taxes have been criticised due to the laffer curve which suggests too high taxes lead to less incentives to work and ∴ ↓ gov^t revenue.

Also if the rich get ↑ taxes then they may compensate for this by laying off workers in their firms which would result in an ↑ inequality.

Increasing education is vital in closing the income gap as if children from poor areas can gain the benefits of a good education then they can become entrepreneurs and get themselves a good job and remove themselves from poor areas and close the income gap.
However this may not be easy as removing the barriers to education may not promote education in poor areas as many may not want to attend school past the age of 16 due to information failure about the benefits of an education.

Removing subsidies in uncompetitive industries may close the income gap and ↑ equality because the gov± money is wasted in non-compet ind and could be better spent in areas that need it most. Monopolies shouldn't be subsidized as they are known to exfort consumers and this is bad for the equality levels.

ResultsPlus Examiner Comments

This answer identified three relevant policies: increasing the mobility of labour, progressive taxes and improving education. Although the supporting analysis was not wholly convincing, there was some effective evaluation especially of the second and third policies.

ResultsPlus Examiner Tip

Analysis is a multi-stage process so after points have been identified, it is important that the process by which they work is explained fully.

Question 5 (a)

Although this was generally answered well, a minority of responses confused a budget deficit with a balance of payments deficit. Definitions of a budget deficit were usually more accurate than those of a national debt by many candidates. Some candidates could not access all the marks because there were no data references.

(a) With reference to Figures 1 and 2, explain the difference between a budget deficit and the national debt of a country.

(5)

The budget deficit refers to a country importing more than it is exporting there is therefore a leakage in the economic cycle. Figure 1 shows Ireland have the highest budget ~~deff~~ deficit of -32.5 negative is give to imports and a positive is given to exports, it is therefore clear Ireland are importing more than they are exporting. Italy has the lowest. National debt refers to government spending and borrowing ~~bow~~ /tax. a national debt is when the government spends more ~~more~~ than it's getting in revenue (by tax) Figure 2 shows greece has the largest national debt of 142.8

ResultsPlus

Examiner Comments

This answer could receive no credit because there was total confusion between a budget deficit and a balance of payments deficit. Similarly, the national debt was confused with a budget deficit.

ResultsPlus

Examiner Tip

Precise definitions are essential and can earn useful marks, even in A2 papers.

(a) With reference to Figures 1 and 2, explain the difference between a budget deficit and the national debt of a country.

(5)

A budget deficit occurs when government expenditure exceeds tax revenue in a country in a given year. In 2010 Ireland had a budget deficit of 32.5%, nearing ~~tax a~~ expenditure exceeded tax revenue ~~equal to an a a~~ by an amount equal to nearly a third of yearly output. The national debt of a country is the total amount that the government owes to its creditors. National debt arises from an accumulation of budget deficits. Figure 2 shows that Greece's national debt was 142.8% of GDP in 2010.

ResultsPlus

Examiner Comments

An excellent answer containing accurate definitions and illustrated by two relevant data references.

ResultsPlus

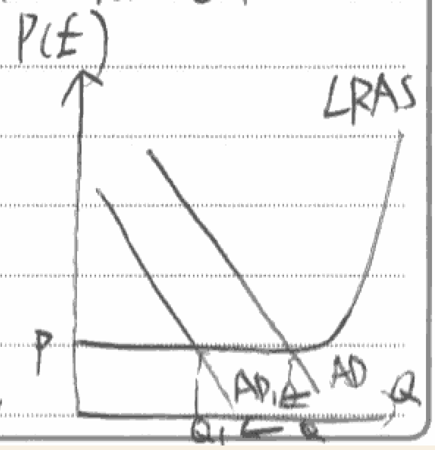
Examiner Tip

This response provides an exemplar of good practice in answering questions such as this one. Precise definitions and appropriate data references are given.

Question 5 (b)

This question demanded an analysis of why weak growth and high unemployment would cause problems for countries which have high national debts. Most candidates accessed some of the marks but relatively few responses included a sound outline of all the issues with an appropriate data reference.

From Extract 1, weak growth and high unemployment could cause serious problem for countries that already have high level of national debt. It will lower the confidence of the consumers and collapse of house prices lead to fall in revenue tax. As they have less confidence, they will spend less. The marginal propensity of consume decrease, and the marginal propensity of saving increase, it will decrease the aggregate demand from AD to AD_1, the output will decrease from Q to Q_1



So the tax revenue will decrease, ~~the~~ the government will have less income tax receive and don't have the money to repay the debt or the debt interest.

As there's high unemployment, government have no ~~hea~~ way to collect money and the weak growth make the government have no incentive in increase tax rate.

And the social benefit had increase because of high unemployment rate, the ~~ca~~ transfer of payment had been increase, so it will increase the government expenditure.

As there's no confidence, there will be less hot money flow in and do investment. government cannot raise ~~ta~~ corporation tax, so it lead the government p borrow ~~more from the~~ more money,

and cause the serious problem for countries.
It will make them have more and more national debt.

ResultsPlus
Examiner Comments

There is good analysis of both the reasons for falling tax revenues and rising public expenditure on benefits. The link is made to the impact on the national debt. However, there are no data references, which are allocated up to a maximum of 6 marks.

ResultsPlus
Examiner Tip

The question includes the phrase 'With reference to Extract 1,...' so it is imperative that some information is used from the extract in order to gain any of the 6 marks available for data references.

According to extract one Greece had a national debt to GDP ratio of 127% in 2009. Figure 2 shows this had increased to 142.8% by 2010. This can be partially explained by weak economic growth. When growth is weak incomes fall. This means that revenues from income taxes fall as some workers are made unemployed and do not pay income tax as a result. In addition, falling expenditure by consumers

as a result of weak growth means that ~~revenue~~ government revenue from indirect taxes such as excise duties. To add to this, firms experience falling profits and they therefore pay less ~~income tax during periods~~ corporation tax during periods of weak economic growth.

High levels of unemployment can also exacerbate a country's debt problems. ~~A fall in aggregate demand leads to a for fall~~ as a result of increased expenditure on unemployment benefits. When aggregate demand falls, employment falls ~~and therefore~~ as the demand for labour is derived from the demand for what it produces. Falling employment as a result of the fall in labour demand means that more people claim unemployment benefits, thus contributing to increased government expenditure.

ResultsPlus
Examiner Comments

This answer begins with a data reference and then uses this to explain the problems associated with weak growth in terms of lower revenues from income tax, indirect taxes and corporation tax and higher expenditure on unemployment benefits. The link to high national debt is also evident although this could have had a stronger emphasis.

ResultsPlus
Examiner Tip

Analysing the impact on different tax revenues and on government expenditure on unemployment benefits is a good strategy in tackling this question.

Question 5 (c)

This question was not answered as well as might have been expected. Some candidates did not appear to understand the difference between the membership of the EU and that of the eurozone. Others had difficulty in interpreting index numbers (in relation to unit labour costs), while some missed obvious issues such as the depreciation in the value of the £ in 2008/9.

(c) Assess possible reasons why the GDP of European Union countries outside the Eurozone grew at a faster rate than the Eurozone average in the first nine months of 2010.

(10)

Countries who are a part of the eurozone will ~~be~~ all be part of the same currency (euro) therefore ~~poor~~ Probems affecting one country in terms of deficit and debt will have a knock on effect on the other countries and value of currency. It could be arguged that a ~~h~~ bugit deficit and national debt results in more leakage as there are less money flow ~~in the econ~~ GDP in Greece fell by 3.9% in 2010 yet countries outside the eurozone grew at a faster rate than the eurozone. Countries outside the eurozone will be less effected by the economic problems other economies who are part of the euro will face as they have different currency and so different value of that currency in terms of value (exchange rate) therefore a leakage in the eurozone didn't necessarily

mean a leakage in other ~~co~~ currencies
Also, other currencies may have a higher value than euro.

ResultsPlus

Examiner Comments

This is not untypical of many answers to this question. A few general points are made but they are not analysed or evaluated well. There is, however, a data reference to Greece's GDP but this is not used to good effect.

ResultsPlus

Examiner Tip

At the forefront of an answer to this question should be the points that countries outside the eurozone have the ability to follow independent monetary policies and also that they have their own currencies which allow the possibility of depreciation against the euro.

(c) Assess possible reasons why the GDP of European Union countries outside the Eurozone grew at a faster rate than the Eurozone average in the first nine months of 2010.

(10)

One reason why EU countries outside the EuroZone grew at a faster rate than the Eurozone average in the first nine months of 2010 is due to the flexibility of exchange rates. After the financial crisis in 2008, the value of sterling dropped 20 points. This allowed the UK to improve the price competitiveness of its exports and thereby the Uk was able to grow through export led growth. Whereas the value of the Euro was kept high by booming economies such as Germany, meaning that Greece did not get the depreciation of the Euro that would have made it easier to deal with the financial crisis. This could be a contributing factor to Greece's GDP 'falling by 3.9% in 2010'.

However, it is important to note that over 60% of Uk exports go to Europe. This means that although the depreciation of the pound aided Uk growth, it may not have been significant due to the lack of demand from countries in the EuroZone eg. Ireland & Italy. Therefore ~~as~~ the flexibility of the ~~exch~~ pound may not have been a significant factor in the Uk's growth.

Another reason why EU countries outside the EuroZone 'such as Britain, Poland and especially Sweden', grew at a faster rate than the EuroZone average in the first nine months of the ~~recession~~ of 2010 is their ability to use monetary

policy. Within the EuroZone, the ECB sets interest rates for the member countries. Due to the fact that it must take into consideration the needs of all these countries, interest rates

~~are not~~ cannot be given to meet the needs of specific countries. For example, a country such as Spain with 20.1% unemployment could probably use a reduction in interest rates to stimulate investment and thereby create demand for labour in the economy. However due to the fact that Germany has a GDP increase of 3.5% and needs to be wary of inflationary pressure, the ECB cannot reduce the interest rates to the extent that would stimulate significant investment in Spain.

ResultsPlus

Examiner Comments

This was an impressive response: it begins with the depreciation in the value of sterling and includes relevant examples and data references. The following paragraph included pertinent evaluation and was rewarded with 3 marks. Finally, there is consideration of the difference in monetary policy regimes inside and outside the eurozone.

ResultsPlus

Examiner Tip

Both of the issues raised should have been evaluated to ensure that all the marks for this assessment objective can be accessed.

Question 5 (d)

There were mixed responses to this question. Some candidates considered a range of inappropriate policies such as devaluation, tariffs, and blanket subsidies. Other candidates did recognise that some policies were impossible for countries inside the monetary union and discussed more relevant policies, especially specific supply side policies.

* (d) Examine policies which might improve the competitiveness of the goods and services produced by Greece, Italy and Portugal.

(12)

The international competitiveness of Greece, Italy and ~~Spain~~ Portugal will depend on numerous factors. Firstly they need to reduce there relative unit labour costs, figure 4 shows they are way higher than that of Germany. In 2011 Germany had an index 107, Greece 138, Italy 131 and Portugal 126. (Year 2000=100). Illustrating perfectly that Greece, Italy and Portugal had allowed there labour costs to rise excessively, thus reducing competitiveness. A Policy that could help reduce this could be the introduction of a lower NMW. However, this might cause anger amongst the workforce and industrial action could be taken thus reducing competitiveness even further as output falls. Therefore, it may be more fitting to firstly reduce the trade union power in that country so that industrial action is less likely and wage demands are not as powerful. On the other hand, Germany have very powerful trade unions but have not seen a fall in competitiveness. Therefore there must be other factors. One factor could be the labour productivity, if Greece, Italy and Portugal have low labour productivity, a policy to help improve this could be training courses for the workforce. However, this option is more difficult for the likes ~~of~~ Greece, Italy and Portugal who are already running significant budget defecits and so ~~[illegible]~~ simply cannot afford an expensive policy like this.

ResultsPlus

Examiner Comments

This answer started well by making use of the data on unit labour costs to support the idea that the national minimum wage in these countries should be reduced. Other policies were identified e.g. reduction in trade union power and training courses but these were not analysed. There was some evaluation in terms of Germany and how its strong trade unions have not led to a fall in competitiveness and also that governments with large budget deficits cannot afford extra expenditure on training courses. More analysis and evaluation would have secured a higher mark.

ResultsPlus

Examiner Tip

High marks could be secured by identifying, analysing and evaluating two policies and including relevant data references or examples.

* (d) Examine policies which might improve the competitiveness of the goods and services produced by Greece, Italy and Portugal.

(12)

~~One policy~~ Figure 4 shows that unit labour costs ~~are much higher than~~ in Greece, Italy and Portugal are much higher than in Germany. This is likely to have reduced the price competitiveness of their goods and services because labour costs are usually the most important factor contributing to final costs, particularly in labour intensive industries. Unit labour costs could be ~~a~~ reduced by increasing productivity. This could be achieved if the governments of these countries increased investment in education and training. Increases in education and training lead to increases in productivity ~~of~~ and human capital amongst ~~the~~ workers. If absolute wage costs remained relatively constant, unit labour costs would therefore fall, thereby leading to an ~~imp~~ fall in costs and an increase in price competitiveness. However, it is important to note that it is unlikely to be possible for the likes of Greece to improve education at the moment because doing so

would involve increasing public expenditure. There is little scope for doing this since the countries mentioned are pursuing contractionary fiscal policies and borrowing costs are high. ~~In addition,~~

Deregulation of labour markets could also lead to improvements in international competitiveness. In particular, the governments of these countries could make it easier for firms to hire and fire workers by relaxing some employment laws. For example, it could be made ~~easier for firms to make workers redu~~ more difficult for workers to claim unfair dismissal. Such changes would decrease costs for businesses and make them more likely to hire new employees. Such falls in costs would lead to increased price-competitiveness. However, it is important to note that the relaxation of such laws could prove to be counter productive because workers may become more stressed if they feel that they are more likely to lose their jobs. Stressed workers ~~are~~ tend to be less productive as they are more likely to fall ill and take paid sick leave.

ResultsPlus

Examiner Comments

This answer begins with a reference to the data and then scores 2 evaluation marks for commenting on the significance of labour costs to businesses. Two policies (increased investment in education and deregulation) are then identified, explained and evaluated well. Overall, this was a sound response to this question with just 1 mark lost for inadequate use of the data.

ResultsPlus

Examiner Tip

It is good practice to use specific data references to support the line of argument, if these are available in the information provided or from own knowledge.

Question 5 (e)

This is a highly topical issue and, therefore, it was rather surprising that many answers did not really get to grips with the question by discussing the case for and against reducing budget deficit quickly. As with Question 4(e), it was apparent that some candidates did not have sufficient time to develop their answers.

* (e) Discuss the view that governments of countries with large budget deficits should take measures to reduce them as quickly as possible.

(15)

Budget defecit is the difference between government expenditure and taxation, with expenditure greater.
Short term budget defecits are okay if they are intended to improve GDP in the long run, capital spending on things like infrastructure (roads, internet etc) or projects like schools that will benefit the future labour force. However if a budget defecit is running simply to fund current transfers, i.e paying public sector wages then it becomes a worry, it is unsustainable and should be reduced. Austerity measures like cutting public sector jobs however can have a devastating effect, especially when public sector is such a huge employer, there will be a negative multiplier effect, for example; greater unemployment → less disposable income → lower consumption → AD fall
Furthermore, if there is greater unemployment then the government will then have to pay more in unemployment benefits and so the budget defecit will not have improved. The intention is for the private sector to sweep in and offer jobs, however evidence of this happening to date is weak. With market confidence low, they too are under a retrenchment process.
However, it is unsustainable to continue running large defecits, fueled by borrowing. As seen with the 'PIGS' they have had a credit downrating and so interest repayments have soared for them, the UK on the other hand had introduced

austerity plans fairly early on and so did not see a credit downrating.

ResultsPlus
Examiner Comments

Although brief, this answer does address the question directly and explains some of the arguments on both sides. For example, the problems of cutting the deficit quickly are identified as increased unemployment, downgrading of the country's credit rating and loss of future productive capacity if the deficit is being used to finance capital projects, whereas the case for cutting the deficit includes unsustainability if the deficit is being used to finance public sector wages.

ResultsPlus
Examiner Tip

It is a good idea to plan your time carefully to allow sufficient time to answer questions with higher marks.

*(e) Discuss the view that governments of countries with large budget deficits should take measures to reduce them as quickly as possible.

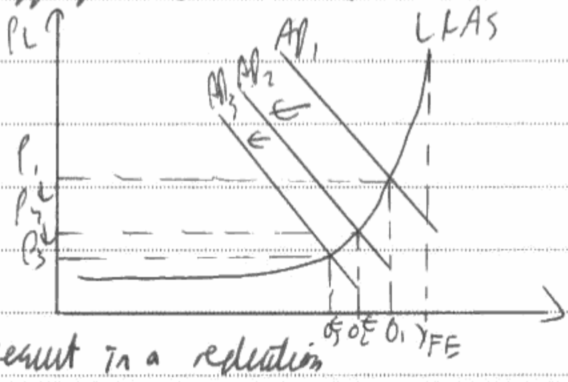
(15)

Countries such as Spain and Greece have large budget deficits - Spain's was 9.6% of GDP in 2010, while Greece's was 10.5% of GDP. One reason governments should reduce their deficits as quickly as possible is to reduce the risk of financial crowding out. If governments continue to have large budget deficits, investors are likely to require higher bond yields to recompense them for their higher risk. This will lead to the commercial banks increasing their interest rate on saving (in order to compete with the government), thus increasing interest rates for borrowing to fund investment and consumption, thus reducing investment and consumption. Thus, if a government quickly reduces it, this problem will not arise and interest rates will remain low to fund investment - this has been seen in the UK, where government bond yields ~~and thus commercial interest~~ are at record lows, forcing down commercial interest rates.

Another reason governments should reduce their deficits quickly is to restore investor confidence and prevent a downgrade from credit ratings agencies. If investors begin to fear that a country cannot fund its budget deficits - as seen with Greece - then they will stop lending money to the government, leading to the government simply having insufficient funds to finance public spending. This will either result in huge cuts immediately (harming growth) or will result in a bailout from the IMF, which will come with very harsh terms including large scale structural reforms, which are likely to reduce AD and growth and be very unpopular.

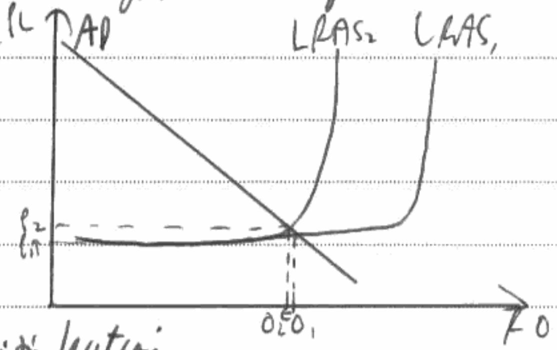
A third reason governments should reduce them as quickly as possible is due to the opportunity cost of not doing so in future. If budget deficits are run for a long period of time, the national cumulative debt burden will increase as governments fund the deficit with new borrowing. This will thus result in greater interest payments in future, thus reducing the ability of government to spend on merit goods or growth-enhancing fiscal policy in the future.

However, in evaluation, reducing budget deficits quickly will result in a large fall in aggregate demand due to the ~~...~~ negative multiplier effect. Government spending is a component of AD, thus a reduction in spending caused by ~~the~~ austerity will result in a reduction



of AD to AD2. This will have a negative multiplier effect - as government employees have lower wages with which to spend, thus lowering incomes and spending of other employees. This will result in AD falling further to AD3, reducing growth to O3, increasing unemployment and reducing tax receipts and increasing benefit spending, thus potentially resulting in a self-defeating increase in the budget deficit.

Secondly, in evaluation if the government cuts spending on education or healthcare, there will be a reduction in the positive externalities caused. Lower human capital will be the result, as such LRAS will shift in to LRAS2, thus harming long term growth prospects - this has been seen with the fall in 6th form students following the cut to EMA.



Finally, in evaluation, austerity is likely to harm the government's redistribution of income objectives. While tax rises may help to improve equality, the reduction in benefit spending will reduce the incomes of the poor, thus widening inequality. Furthermore, the poor tend to rely on government services the most, thus any cut in them will further reduce equality. Any rise in VAT will be regressive as it reduces the real income of the poor by proportionally more. Thus, austerity will harm the government's redistribution of income objective

ResultsPlus
Examiner Comments

This is one of the more impressive answers to this question. Three well-reasoned arguments are provided for reducing the budget deficit quickly, namely, to prevent financial crowding out; to prevent a credit downgrade; and the opportunity cost of running a high budget deficit for future generations. Similarly, the case against a fast reduction of the deficit is well-argued: the dangers of a fall in aggregate demand and increasing unemployment which would increase the deficit; a fall in long run aggregate supply; and increased inequality.

ResultsPlus
Examiner Tip

While this was a very impressive answer, it could have been improved further if a conclusion had been included.

Paper Summary

The 6EC04 paper proved to be accessible for most candidates. The open-ended nature of the essays and some of the data response questions resulted in a broad range of responses as evidenced by the standard deviation. Candidates who achieved high marks produced excellent, well-informed and analytically sound answers.

The mean mark was slightly higher than for June 2011 (60.2). The standard deviation also increased compared with 2011 when it was 13.2.

The essays were slightly more accessible than for 2011 and this was the main explanation for the increase in the mean mark.

In Section A (essays) Question 2 was the most popular (51%) followed by Question 3 (37%) with Question 1 (12%) being the least popular.

The overall highest mean mark was achieved on Question 2 with Question 3 slightly behind and Question 1 around 5% less than Question 3.

In Section B (data response) Question 5 was more popular than Question 4 with about 57% answering Question 5 and 43% answering Question 4. The overall mean marks across the Question 4 items was slightly above the overall mean mark for Question 5 items.

A major concern throughout was poor handwriting. Indeed, some answers were almost completely illegible. It is recommended that candidates are aware that legible and accurate writing is important to convey clarity and meaning.

Note: Exact figures relating to the means marks can be found on Results Plus.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

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