



Mark Scheme (Results)

October 2024

Pearson Edexcel International Advanced Level
In Economics (WEC14) Paper 01

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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

Question Number	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	<p>The only correct answer is A</p> <p><i>B is not correct because there is no link between a country's national debt and absolute advantage</i></p> <p><i>C is not correct because this would lead to an increase in debt servicing costs</i></p> <p><i>D is not correct because the rate of inflation is likely to increase</i></p>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	<p>The only correct answer is D</p> <p><i>A is not correct because this is a market-orientated strategy to promote economic growth and development</i></p> <p><i>B is not correct because this is a market-orientated strategy to promote economic growth and development</i></p> <p><i>C is not correct because this is a market-orientated strategy to promote economic growth and development</i></p>	(1)
3	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	<p>The only correct answer is C</p> <p><i>A is not correct because this does not relate to the current account of the balance of the payments</i></p> <p><i>B is not correct because this relates to a fiscal/budget deficit</i></p> <p><i>D is not correct because this does not relate to the current account of the balance of the payments</i></p>	(1)
4	<p>QS1: Calculate, use and understand ratios and fractions.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is A</p> <p><i>B is not correct because Country X has an absolute advantage over Country Y in the production of both goods</i></p> <p><i>C is not correct because Country X does not have a comparative advantage over Country Y in the production of both goods</i></p> <p><i>D is not correct because this will happen when the opportunity cost for producing both goods for both countries is the same</i></p>	(1)

<p>5</p>	<p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is B</p> <p><i>A is not correct because this is the role of the IMF</i></p> <p><i>C is not correct because this is the role of the IMF</i></p> <p><i>D is not correct because this is the role of the WTO</i></p>	<p>(1)</p>
<p>6</p>	<p>QS4 Construct and interpret a range of standard graphical forms.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>	<p>The only correct answer is B</p> <p><i>A is incorrect as AD is likely to shift to the left as a result of falling net exports</i></p> <p><i>C is incorrect as SRAS is likely to shift to the right as a result of the falling costs of imports for firms</i></p> <p><i>D is incorrect as SRAS is likely to shift to the right as a result of the falling costs of imports for firms/AD likely to shift to the left as a result of falling net exports</i></p>	<p>(1)</p>

Section B

Question	Answer	Mark
7(a)	<p>Application 2</p> <p>Quantitative skills assessed: QS2: Calculate, use and understand percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Up to 2 marks for calculations:</p> <ul style="list-style-type: none"> • \$22.4 billion x 1.321 (1) • \$29.59 billion (1) <p>NB Award 2 marks for correct answer (\$29.59 billion / \$29.6 billion / \$30 billion) NB Award only 1 mark for \$29.59 / \$29.6 / \$30</p>	(2)

Question	Answer	Mark
7(b)	<p>Knowledge 2, Application 2</p> <p>Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge Up to 2 marks for understanding absolute poverty, e.g.:</p> <ul style="list-style-type: none"> • When a person earns less than \$2.15 per day (accept \$1.90) (1) based on 2017 PPPs (1) • When a person is unable to meet the basic necessities (1) for e.g. food, shelter, clothing, sanitation, etc. (1) <p>Application Up to 2 marks for application to absolute poverty, e.g.:</p> <ul style="list-style-type: none"> • Between 2016 and 2022, the number of people living in absolute poverty decreased from 9.2% (1) of the country's population to 4.2% (1) / Between 2016 and 2022, the number of people living in absolute poverty decreased by 5.0 percentage points (1+1) 	(4)

Question	With reference to Figure 2 and Extract A, examine two likely economic benefits to Vietnam of FDI inflows.	Mark
7(c)	<p>Answer</p> <p>Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p>Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge and analysis Up to 2 marks for identifying two effects and up to 2 marks for linked explanations, e.g.:</p> <ul style="list-style-type: none"> • Higher economic growth in Vietnam (1K) due to greater injections into circular flow of income/increase in aggregate demand (1AN) • Higher employment/lower unemployment in Vietnam (1K) thus increasing incomes/reducing absolute poverty (1AN) • Improvement in Vietnam’s balance of payments (1K) as there will be greater inflows into the financial account (1AN) • Higher tax revenue to the Government of Vietnam (1K) from higher corporation tax from TNCs/can be used to improve the country’s infrastructure/improve public finances (1AN) • Greater productivity through technology transfer as new methods of production/working practices are implemented (1K) will shift Vietnam’s LRAS, increasing potential output (1AN) • Promotes economic development (1K) as the FDI inflows can help close the country’s savings gap/foreign exchange gap (1AN) • Greater skills/productivity of Vietnam’s workforce (1K) if the TNCs decide to invest in training programmes (1AN) <p>Application 1 mark for application to Figure 2, e.g.:</p> <ul style="list-style-type: none"> • FDI into Vietnam increased each year / Japan was the largest source of FDI into Vietnam / FDI inflows into Vietnam from Japan amount to \$3.4 billion / Sources of FDI include Japan, Singapore, China, Denmark and South Korea / TNCs from all countries invested over £1 billion in Vietnam (1) <p><i>AND</i></p> <p>1 mark for application to Extract A, e.g.:</p> <ul style="list-style-type: none"> • 962 new FDI projects in the first five months of 2022 compared with 578 projects in the same period in 2021 / In 2023 FDI inflows into Vietnam increased by 32.1% compared with 2022 / FDI inflows are an important source of national income for Vietnam (1) 	(8)

Evaluation

Up to 2 marks for evaluative comments **(1+1)** or **(2+0)**:

- Impact on economic growth depends on the value of the multiplier and/or the level of spare capacity in the economy **(1)**
- Poorly paid employment and low-skilled jobs **(1)** if TNCs bring their own skilled workers and managers from abroad e.g. Denmark **(1)**
- Could result in exploitation of workers in Vietnam **(1)** as TNCs may offer them low wages/poor working conditions **(1)**
- Employment may not rise/unemployment may not fall if investment is made in capital intensive industries **(1)** resulting in less derived demand for labour **(1)**
- Inflationary pressures are likely to increase **(1)** as a result of an increase in aggregate demand **(1)**
- Negative impact on the current account of balance of payments **(1)** due to the repatriation of profits and dividends by TNCs **(1)**
- Higher competition for domestic producers who may not be able to compete with TNCs from Japan/South Korea **(1)** who may benefit from significant economies of scale **(1)**
- Tax avoidance schemes/transfer pricing could be used by these TNCs **(1)** thereby reducing government tax revenues **(1)**
- Negative production externalities **(1)** as TNCs may contribute to greater pollution **(1)**
- TNCs may exert political influence **(1)**, e.g. on the tax policies of Vietnam's Government **(1)**
- Firms in Vietnam may not benefit if technologies of other countries e.g. South Korea are protected by patents **(1)** and may not benefit from dynamic efficiency/technical economies of scale **(1)**
- Increased dependence of Vietnam on decisions made by managers abroad **(1)**; may be significant if the investment is withdrawn in the future: can reduce economic development (TNCs are footloose) **(1)**
- Overall impact depends on net FDI **(1)** as effects are likely to be highly insignificant if FDI inflows are less than FDI outflows **(1)**
- FDI inflows as a proportion of GDP are likely to be more significant than absolute values **(1)**
- High costs of bureaucracy/weak physical infrastructure/labour shortages **(1)** could restrict FDI into Vietnam in the long-term/creates uncertainty on the impact of the benefits of FDI **(1)**
- The magnitude of FDI - 32.1% in 2023 - is large **(1)** so will bring significant economic benefits to Vietnam **(1)**

Question	With reference to Figure 3, analyse the likely impact of the change in the average monthly earnings of manufacturing employees on Vietnam's international competitiveness. Answer	Mark
7(d)	<p>Knowledge 2, Application 2, Analysis 2</p> <p>Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge</p> <p>1 knowledge mark for understanding the term 'international competitiveness', e.g.:</p> <ul style="list-style-type: none"> • Ability of a country to produce and sell its goods/services at a price/quality that is attractive in international markets / Ability of a country to compete in international markets / Attractiveness of goods/services in the global markets (1) <p><i>AND</i></p> <p>1 knowledge mark for identifying the impact:</p> <ul style="list-style-type: none"> • Could reduce Vietnam's international competitiveness (1) <p>Analysis</p> <p>Up to 2 analysis marks for linked development (1+1), e.g.:</p> <ul style="list-style-type: none"> • Increase in average monthly earnings is likely to increase unit labour costs/cost of production (1) causing an increase in the price of Vietnam's exports (1) • Increase in average monthly earnings is likely to increase export prices (1) and this may reduce demand for Vietnam's exports (1) • Increase in average monthly earnings is likely to cause a rise in domestic prices (1) resulting in an increase in imports (1) • Firm's supernormal profits fall (1) resulting in less funds for investment in innovation/improving quality (1) <p>Application</p> <p>Up to 2 marks for use of Figure 3, e.g.,</p> <ul style="list-style-type: none"> • Vietnam's average monthly earnings increased (1) from around \$180 in 2012 to around \$300 in 2020 (1) • Between 2012 and 2020 Vietnam's average monthly earnings increased (1) by around \$120 (1) 	(6)

Question	<p>With reference to the information provided and your own knowledge, discuss measures, apart from promoting FDI, that the Government of Vietnam could use to increase the country's international competitiveness.</p> <p>Indicative content</p>	
7(e)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge, Application and Analysis (8 marks) – indicative content</p> <p>Measures include:</p> <ul style="list-style-type: none"> • Developments to the infrastructure through improved access to energy, transport links and communications will lead to increased efficiency and reduce firms' cost per unit. This policy will address the "weak physical infrastructure, especially electricity network" • Privatisation/deregulation/trade liberalisation will increase competition in domestic markets making firms more efficient as the barriers to entry to markets will be lower. This would reduce cost per unit, and consequently, the market price. This policy will address "the costs of bureaucracy for firms are high" • Greater levels of / more targeted spending on education and training. This investment in human capital will improve skills (or reduce skills gap) and hence productivity levels, that will lower cost per unit. This policy will address "a shortage of skilled labour" • Incentives for exporters through tax breaks, reduction in corporation tax, subsidies, etc. This would allow them to undertake more investment as a result of lower costs and reduce export prices • Supporting entrepreneurship through greater access to business finance, e.g. incentives for business innovation, reduction in levels of bureaucracy • Credit any other measures that may be used to increase the country's international competitiveness 	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.

Level 3	7-8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples that are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
<p>Evaluation (6 marks) – indicative content</p> <ul style="list-style-type: none"> • Opportunity cost of government spending – e.g. more expenditure on subsidies/education/infrastructure may mean less for the business sector, especially in the short-run • If government investment/spending leads to demand-pull inflation due to greater injections, it could reduce Vietnam’s price competitiveness • Unit labour costs are already relatively low, hence Vietnam may not lose its international competitiveness – “The country has an abundant supply of labour that will be cheap for a long time” • “The country’s infrastructure was improving and becoming more modern” resulting in less need for infrastructure spending • Monopoly power (less competition) helps generate dynamic efficiency and benefits of economies of scale may be lost if monopolies are broken up • Levels of investment would depend on confidence in the future state of the economy; incentives may be insufficient/ineffective where confidence is low • Distinction between SR and LR; are these measures financially sustainable in the long-run? Time lags and implementation lags may mean measures take a long time to come into effect • Spending likely to increase the possibilities of government failure as the costs of these measures may outweigh the benefits that could be gained • Measures taken have to be considered in the context of a dynamic global economy where other countries are also increasing their international competitiveness • Government of Vietnam should take out a combination of measures to achieve an increase in the country’s international competitiveness 		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5-6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

<p>Question</p>	<p>In 2022 an additional 2 500 trade restrictions were introduced globally.</p> <p>Evaluate the likely effects of an increase in protectionist policies on the global economy.</p> <p>Indicative content</p>	
<p>8</p>	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge, Application, Analysis (12 marks) – indicative content</p> <ul style="list-style-type: none"> • Understanding of protectionist policies <p>Possible effects could include:</p> <ul style="list-style-type: none"> • Distortion of comparative advantage leading to less specialisation and reduced trade as a proportion of world GDP. This reduces world output • Higher prices for consumers as domestic firms face less competition from abroad, leading to greater global inflationary pressures • Higher prices for consumers, especially on goods and services that cannot be produced domestically, reducing consumer surplus • Diagrammatic analysis e.g. of the effects of tariffs/domestic subsidies on a particular country • Less choice for consumers as imports become more expensive; it will reduce global living standards • Greater chance of retaliation by countries using protectionist policies • Fewer firms may decide to export due to higher costs of bureaucracy, reducing global competition and therefore lower global GDP <p>N.B. Candidates may explain negative effects as KAA and positive effects as evaluation (and vice versa)</p> <p>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to the global economy in their answer</p>	
<p>Level</p>	<p>Mark</p>	<p>Descriptor</p>
	<p>0</p>	<p>No rewardable material.</p>
<p>Level 1</p>	<p>1–3</p>	<p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.</p>
<p>Level 2</p>	<p>4–6</p>	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context.</p>

		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7-9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully or some stages are omitted.
Level 4	10-12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
<p>Evaluation (8 marks) – indicative content</p> <ul style="list-style-type: none"> • Magnitude – 2 500 new restrictions is likely to be very significant • Depends on the level of trade restrictions that countries have introduced • May only be short-term trade wars as countries could agree on new terms • WTO enforces global trade rules to ensure countries do not distort trade • Protection of infant industries to allow them time to grow and expand in order to benefit from economies of scale to compete internationally • Protection of geriatric industries allowing these to restructure/rationalise to become more competitive on a global scale • Protection of domestic industries helps to protect domestic employment and income, helping to reduce global inequality • Protection of an economy from a country dumping products on other countries – loss of jobs, output, etc. • Improvement in environment/decrease in external costs from transport • If tariffs are increased, greater tax revenue for the governments that could be used to reduce income inequality 		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	<p>Between 2000 and 2022 globalisation was a significant factor that led to an increase in average incomes in Indonesia. However, income inequality within the country also increased during the same period.</p> <p>Evaluate reasons why globalisation may lead to an increase in income inequality within a country. Refer to a country of your choice in your answer.</p> <p>Indicative content</p>	
9	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge, Application and Analysis (12 marks) – indicative content</p> <ul style="list-style-type: none"> • Understanding of globalisation • Understanding of income inequality <p>Reasons may include:</p> <ul style="list-style-type: none"> • Inward migration of low-skilled workers may depress wage rates and could widen the wage gap between skilled or semi-skilled, and unskilled workers who are likely to experience a reduction in their relative wage • Skilled workers can earn higher incomes as there will be increased global demand for their services • Workers who are mobile and who have the skills can move from declining to expanding industries • Workers who lack the skills and occupational mobility are likely to face structural unemployment • Businesses may gain greater profits as they are able to locate to low-cost countries, and therefore workers in developed economies may be made redundant <p>N.B. Accept why globalisation increases income inequality as KAA and why it does not as EV, or vice versa</p> <p>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country(s) in their answer</p>	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	<p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach which has no chains of reasoning.</p>
Level 2	4–6	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p>

		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7-9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10-12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
<p>Evaluation (8 marks) – indicative content</p> <ul style="list-style-type: none"> • Improvements in labour mobility as a result of globalisation might help to reduce income inequality • Economic growth resulting from globalisation could lead to an increase in tax revenue for governments that may be spent on raising incomes of low-income groups • TNCs usually spend on training, so human capital may increase resulting in a decrease in unemployment and income inequality • Higher profits of businesses can be used to raise wages of unskilled workers • Increased protectionism may be reducing the impact of globalisation on income inequality • Higher average incomes associated with globalisation might not necessarily result in increased income inequality i.e. the impact is unlikely to be the same for different countries • Other factors are more important than globalisation in causing inequality 		
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	<p>In 2022 Pakistan’s currency, the rupee, fell by 27% against the US dollar.</p> <p>Evaluate factors that might cause a depreciation of the exchange rate of one currency against another currency. Refer to a developing country of your choice in your answer.</p> <p>Indicative content</p>
10	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge, Application, Analysis (12 marks) – indicative content</p> <ul style="list-style-type: none"> • Understanding of the depreciation of an exchange rate <p>Factors include:</p> <ul style="list-style-type: none"> • Relative inflation rates: reference to purchasing power parity theory – e.g. if inflation in Pakistan is relatively higher than elsewhere, then Pakistan’s exports will become less competitive, and there will be a fall in demand for rupee. Hence, higher inflation rates will lead to a depreciation of the rupee • Relative interest rates – e.g. if Pakistan’s interest rate falls relative to other countries, it will become less attractive to deposit money in Pakistan. There will be less hot money flows and the demand for the rupee will fall, and the currency would depreciate • Speculation – e.g. if speculators believe the rupee will fall in the future, they will demand less of the currency now. This fall in demand will cause its value to fall. Therefore, the currency would depreciate • Balance of payments: current account balance – e.g. if there is a persistent current account deficit, it would lead to a greater supply of currency relative to demand leading to a fall in exchange rate and the rupee will depreciate • Relative strength of the economy: debt crisis – e.g. if markets feared that Pakistan’s Government may default on its debt, then investors would sell their bonds causing a fall in the value of the rupee exchange rate • Developing countries tend to rely on exports of primary products that are often volatile in price, and this can have an impact on the exchange rate – e.g. if prices of commodities fall, the exchange rate of exporting countries will depreciate (reference to “commodity currencies”) • Macroeconomic management – e.g. quantitative easing/asset purchases has caused a depreciation in the value of some currencies such as Chile, Poland • Allow analysis based on government/central bank manipulation of exchange rate through the buying and selling of the currency • Political instability/capital flight/reduction in FDI might result in depreciation

	<ul style="list-style-type: none"> The strength of the US economy has led to the appreciation of the US dollar against many other currencies <p>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country in their answer</p>	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	<p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach which has no chains of reasoning.</p>
Level 2	4-6	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>
Level 3	7-9	<p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>
Level 4	10-12	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>
	<p>Evaluation (8 marks) – indicative content</p> <ul style="list-style-type: none"> Discussion of the most significant factor, e.g. speculation; confidence about the future state of the economy Significance of factors in changes over time/short-run and long-run Combination of factors will have a greater impact on exchange rate Different factors will be important for different developing countries Impact depends on the magnitude of the change in exchange rate/factors Current account is relatively minor because other capital flows are much more significant – discussion of financial account position Comparison with developed countries, e.g. in Japan’s case, the national debt of over 230% has not prevented an appreciation of its currency 	

	<ul style="list-style-type: none"> The underlying strength of the economy is more important than short-term macroeconomic management
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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

