GCE A LEVEL MARKING SCHEME

SUMMER 2017

A LEVEL (NEW)
ECONOMICS - UNIT 4
1520U40-1

INTRODUCTION

This marking scheme was used by WJEC for the 2017 examination. It was finalised after detailed discussion at the examiners' conference by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good learner to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

Below are the assessment objectives for this specification. Learners must demonstrate their ability to:

AO1 Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues

AO2 Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues

AO3 Analyse issues within economics, showing an understanding of their impact on economic agents

AO4 Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

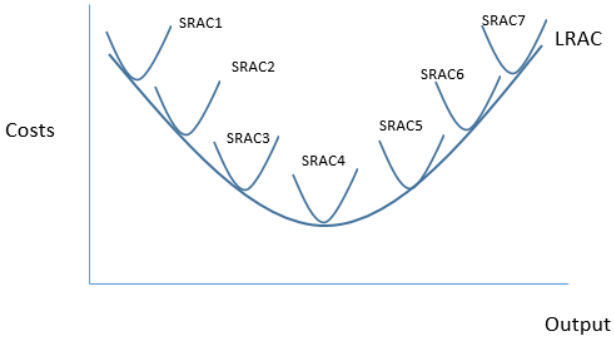
WJEC GCE A LEVEL ECONOMICS - UNIT 4 (NEW)

SUMMER 2017 MARK SCHEME

SECTION A

1 (a)	**Explain, using diagrams, the shape of short-run and long-run average cost curves. [10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5 – 6 marks** Excellent, accurate and comprehensive SRAC and LRAC diagrams – these are likely to be combined as an envelope curve, although separate diagrams are equally acceptable. Excellent use of relevant terminology such as marginal/average product, types of economies of scale, causes of diseconomies of scale, diminishing returns, factors of production throughout the explanation of the shapes of SRAC and LRAC.	
2	**3 – 4 marks** Good understanding of the difference between the SR and LR. Understanding that two different theories explain the shapes of each of the SRAC and LRAC. In this band, candidates are expected to demonstrate that they know diminishing returns to a factor relates to the SR and economies/diseconomies of scale to the LR. SRAC and LRAC are drawn, with minor errors or omissions.	**3 – 4 marks** An accurate and comprehensive analysis of both diminishing returns and economies/diseconomies of scale. At the top of this band, candidates are likely to be able to link SRAC to LRAC.
1	**1 – 2 marks** Some recognition of what is meant by the short-run and long-run. Either the SRAC or LRAC is attempted, or both are attempted but with inaccuracies or omissions.	**1 – 2 marks** Limited analysis of the explanations for each of SRAC and LRAC, with significant errors or omissions. **Or** A good analysis of either SRAC or LRAC but not both.
0	**0 marks** No valid diagram.	**0 marks** No valid analysis.

Indicative content:



- **Explanation of the difference between the short-run and the long-run** i.e. the short-run is the period of time over which at least one factor of production (often capital or land) is fixed and so output is increased through the use of additional labour, whereas the long-run is the period of time over which all factors of production are considered variable and output expands as the scale of the business expands.

- **Explanation of the SRAC:** candidates are likely to outline the concept of diminishing returns to a factor; the best candidates will use terminology such as average product and marginal product (and may even draw the AP and MP curves, with MP intersecting AP at the highest point of AP). The best answers will be those that consider that there will initially be increasing returns to a factor due to, perhaps, specialisation or division of labour, before diminishing returns sink in. Some candidates may use an illustrative example to support their answer.

- **Explanation of the LRAC:** candidates are likely to outline the concepts of (internal) economies and diseconomies of scale. The best answers will be those that give specific examples of the types of economies of scale available to firms as they increase in size i.e. purchasing economies, financial economies, managerial economies, indivisibility of capital and so on. The best answers will also explain why diseconomies of scale occur, perhaps due to low morale, the existence of the principal-agent problem, poor communication. Again, some candidates may use illustrative examples to support their answer.

- **Envelope curve**: some strong candidates may develop their answer into an explanation of the "envelope curve", showing falling SRAC curves as additional fixed factors are added.

- **The relationship between MC and AC:** some candidates may use the concept of marginal costs to explain the shape of the average cost curves, and give an explanation of why AC falls when MC is lower than AC, and conversely why AC rises when MC is higher than AC.

1 (b)	**Using examples to support your answer, evaluate the costs and benefits of business mergers.** **[20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5 – 6 marks** Excellent understanding of the key factors including a wide and comprehensive range of costs and benefits from a number of different stakeholder perspectives and ideally for a range of different types of mergers. There is broad and deep coverage of the factors that are relevant with no significant omissions.	**5 – 6 marks** An excellent, balanced analysis of both costs and benefits of mergers with well-integrated examples (not necessarily 'real world') to support the analytical chains.	**6 – 8 marks** An excellent critical evaluation. Clear judgements are made with supporting statements to build an argument. Very top band response will be balanced, and evaluate **both** the costs and benefits of mergers from a number of stakeholder perspectives.
2	**3 – 4 marks** Good understanding of a number of costs and benefits. Good use of some examples of mergers, but these examples may not be fully integrated into the answer. Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band.	**3 – 4 marks** A good analysis of the costs and benefits of mergers, with some integrated examples. Answers in this band show developed chains of argument with a sensible grasp of the nature of costs and benefits in different types of mergers and for different types of firm. Answers in this band may lack depth, diagrams may not always be well-integrated or completely correct (for example, economies of scale diagrams), or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues. At least 2 points are evaluated. The argument may be one-sided, for example candidates may evaluate costs or benefits, but are unlikely to evaluate both costs and benefits.
1	**1 – 2 marks** Limited understanding of what is meant by a merger and the possible types of merger. Some costs and benefits of mergers may be identified but no real understanding is shown. Candidates may refer to a particular merger example but leave the reference undeveloped.	**1 – 2 marks** Limited analysis of the purpose of a merger, and the costs or benefits associated with a merger. Answer tends to lack key economic concepts and avoid technical analysis.	**1 – 2 marks** Limited evaluation; candidates may recognise that there are both costs and benefits but there is no development of the evaluation.
0	**0 marks** No knowledge or understanding present.	**0 marks** No relevant analysis.	**0 marks** No relevant evaluation.

Indicative content:

Explanation of mergers / business growth:
- Candidates may explain that there are different types of mergers i.e. horizontal, vertical, conglomerate, and that vertical mergers can be "forwards" or "backwards"
- Candidates may explain that a merger is a type of external growth, and contrast that with internal or organic growth
- Candidates should give examples of mergers from their own knowledge – these can be specific (e.g. specific businesses) or general (e.g. forwards integration of oil refineries into petrol stations)

Benefits of mergers

The best candidates will be those that explore the benefits of mergers:
- **Benefits for shareholders** – ideally, a merger should lead to increased profit (which in turn leads to higher dividends or higher capital gains for shareholders). Mergers may lead to increased profit by either raising revenue and/or reducing production costs. Mergers may **raise revenue** by: allowing a firm to achieve a higher market share and therefore more price-making monopoly power; allowing a firm to access new markets at home (*e.g. Pfizer and Allergan each have patents on best-selling drugs)* and overseas (*e.g. merger between AB InBev and SAB Miller would allow AB InBev to access SAB Miller's strong market in Africa)*. Mergers may **reduce costs** by allowing firms to rapidly gain skills that they do not have time to develop in-house and to benefit from greater economies of scale; some mergers may take place to take advantage of lower corporation tax regimes in some countries.
- **Benefits for employees** – employees in share-ownership schemes may gain a windfall; there may be more opportunities for promotion or career diversification; there may be better management following a merger so working conditions may improve; if the merged firms earn more profit then wages might rise; a more diverse company might be less risky to work for.
- **Benefits for consumers** – the synergy resulting from a merger may lead to greater dynamic efficiency improving quality and range of products; preferred brands may be more accessible.
- **Benefits for suppliers** – suppliers may be able to carry out less negotiating and streamline their operations / deliveries if they are supplying to one firm rather than two, therefore increasing efficiency and possibly profit.
- **General benefits for the economy** – greater national coverage / access to goods & services, impact on employment / growth etc.
- **General benefits for the government** – potentially higher corporation tax revenue.

Costs of mergers
- **Costs for shareholders –** shares may be acquired at a lower price than they would otherwise be willing to sell them for especially in a hostile takeover; shareholders may have less influence and oversight over a merged company; the acquired business may be less profitable than expected. There may be diseconomies of scale, which damages profit.
- **Costs for employees –** there will be no need for duplication of some jobs so employees could be made redundant; restructuring can be very unsettling; previous pay deals or contracts may no longer be honoured so working conditions may worsen; the period of readjustment could be very stressful; the best jobs may be taken by employees of the dominant firm.
- **Costs for customers –** the increased market power of merged companies could lead to higher prices and a reduction in choice of available products, reducing utility and consumer surplus.
- **Costs for suppliers –** the number of suppliers may be reduced; there may be increased monopsony power of the merged firms pushing down the prices that can be achieved by suppliers.
- **General costs for the economy –** increase in unemployment (perhaps regionally) as a result of consolidating business operations, possible impact on market failure e.g. negative externalities as a result of increased transportation distances, and subsequent impact on inequality / regional growth etc.
- **Costs for the government** – need for increased spending on regulation e.g. CMA.

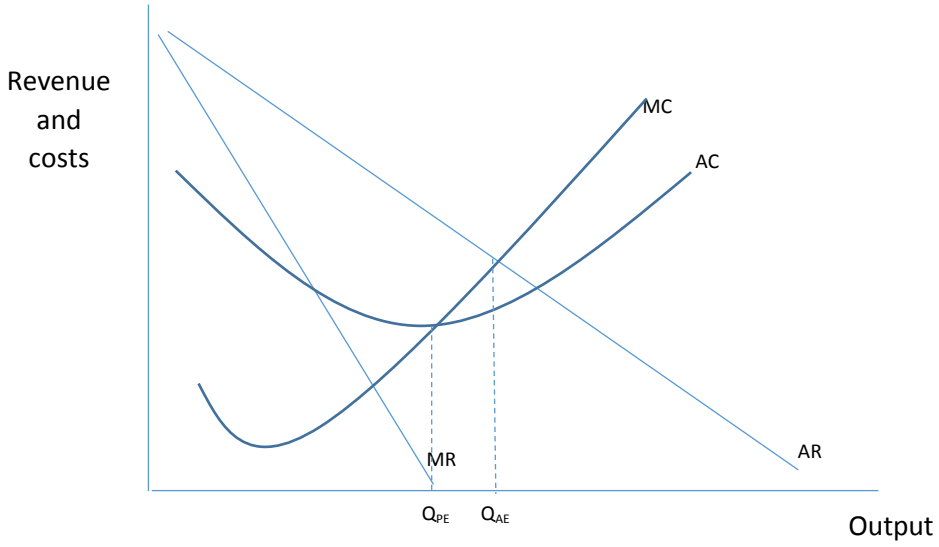
Overall

The costs and benefits of a particular merger really depend on how it is managed and its purpose – some mergers succeed and others don't, leading to demerger. The best answers will consider different types of mergers e.g. conglomerate mergers may reduce risk but may not allow economies of scale to be achieved for example. Overall judgement on the microeconomic and macroeconomic impact.

2 (a)	**Explain, using an appropriate diagram, the ways in which a firm may be regarded as efficient**. **[10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5 – 6 marks** Excellent understanding of the concept of efficiency that is likely to show both productive and allocative efficiency treated accurately and comprehensively on a diagram. Excellent understanding of dynamic, x and / or Pareto efficiency. Excellent use of relevant terminology throughout the answer. Candidates are likely to provide a detailed treatment of a range of efficiency types. Candidates at the top of this band are likely to link the various concepts of efficiency to market structures. The best answers may consider the difference between theoretical and practical applications of the types of efficiency. Excellent candidates may also show strong understanding of externalities.	
2	**3 – 4 marks** Good understanding of the concept of efficiency shown, that is likely to include both productive and allocative efficiency shown correctly on an appropriate diagram, although candidates may show good understanding of any 2 other efficiencies. Candidates may refer to other types of efficiency but show thin understanding. The diagram should be largely correct with no significant errors or omissions.	**3 – 4 marks** Very good, clear, comprehensive and accurate explanation of at least two types of efficiency. At the top of this band, candidates are likely to provide a clear chain of analysis linking efficiency to market structures.
1	**1 – 2 marks** Some understanding of the concept of efficiency; candidates are likely to identify both productive and allocative efficiency. Some attempt at a relevant diagram to illustrate either productive efficiency or allocative efficiency correctly. There may be significant errors or omissions.	**1 – 2 marks** Limited analysis, with unconvincing explanation of efficiency or types of efficiencies. Some understanding shown of what is meant by productive and allocative efficiency, with an attempt to link those concepts to the diagram.
0	**0 marks** No valid diagrams.	**0 marks** No valid analysis.

Indicative content:

- **A general overview** of what is meant by "efficiency" for an economist i.e. optimising the allocation of resources to maximise utility whilst minimising waste.
- **Explanation of productive efficiency**: maximum output for minimal input / minimising waste of resources in the production process. Productive efficiency is achieved at the point where average costs are lowest – this is equivalent to the level of output at which average product (output per person, or productivity) is highest. Candidates may also use the term "minimum efficient scale", or explain that productive efficiency is achieved when a firm can no longer expand the level of output and gain further from economies of scale. Candidates may use illustrative examples e.g. automation of assembly lines, greater use of division of labour and so on. The best candidates may explain that whilst a firm in perfect competition in the long-run is theoretically efficient and a monopoly firm is not, large monopolists may be *more* productively efficient than smaller firms if they can operate at *lower* average costs.
- **Explanation of allocative efficiency:** the quantity and nature of goods produced matches consumer preferences, so that the marginal benefit/utility from consuming a good is exactly equal to the marginal cost of producing that good, in other words AR = Price = MC. In a free market, allocative efficiency is achieved at the point where demand is equal to supply, or where marginal social cost is equal to marginal social benefit. Sometimes, therefore, allocative efficiency is called "social efficiency" – there is no "deadweight loss". Candidates may use illustrative examples e.g. factories in the USSR were highly productively efficient but often little account was taken of what consumers might want to purchase and therefore were not particularly allocatively efficient. The best candidates may explain that a firm in perfect competition is allocatively efficient in both the short run and long run, but that a monopoly firm or firm in monopolistic competition is not theoretically allocatively efficient. Excellent candidates may identify that natural monopolies in public-sector control may have an allocatively-efficient objective in order to maximise welfare to society.
- **Additional approaches**
- **Dynamic efficiency:** occurs when a firm is innovative in terms of either its products and/or production processes, and this has the effect of causing the AC curve to shift downwards i.e. firms also becoming more productively efficient; firms earning abnormal profits usually have a better chance of being dynamically efficient because they have better access to the funds required for R&D purposes.
    - **Pareto efficiency:** occurs when one person cannot be made better off through a redistribution of resources without another being made worse off; achieved when an economy is both productively and allocatively efficient.
    - **X-efficiency**: occurs when there is competitive pressure to keep costs down, and so AC is as low as it can be.
- Candidates should draw an appropriate diagram to illustrate productive and allocative efficiency. It is likely that they will draw a monopoly diagram, as illustrated below, but candidates should be rewarded for any relevant diagram (e.g. perfect competition, monopolistic competition etc). Candidates should indicate the productively efficient level of output (achieved where average costs are lowest, or where AC = MC) and the allocatively efficient level of output (achieved where AR = MC, or price = MC).



2 (b)	**Using examples to support your answer, discuss the view that privatisation always leads to greater efficiency.** **[20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5 – 6 marks** Excellent knowledge of the key reasons why privatisation does or does not lead to greater efficiency. A wide range of appropriate technical vocabulary is used accurately. There is broad and deep coverage of the factors that are relevant with no significant errors or omissions. There are some valid, accurate examples that are well integrated into the answer.	**5 – 6 marks** An excellent analysis of the reasons why privatisation does or does not lead to greater efficiency. A well-developed argument is made that fully supports either the view that privatisation does lead to greater efficiency or that it does not. Relevant examples are integrated throughout the answer.	**6 – 8 marks** An excellent critical evaluation of whether privatisation leads to greater efficiency. The very best answers will tackle the discriminator words “greater” and “always”. Clear judgements are made with supporting statements to build an argument that is well justified. The best answers will identify that there are a number of factors that determine whether or not privatisation will lead to greater efficiency.
2	**3 – 4 marks** Good identification of the reasons why privatisation may or may not lead to greater efficiency. Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band. There may be some valid diagrams attempted, but they may not be well integrated or wholly accurate.	**3 – 4 marks** A good analysis of the reasons why privatisation does or does not lead to greater efficiency. Answers in this band generally show good chains of argument using relevant examples to illustrate key points. Some chains may lack depth and any diagrams used may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues, although the evaluation may be one-sided. At least 2 points are evaluated with a clear discussion of whether privatisation does or does not lead to greater efficiency. No clear judgement is reached, or a judgement is reached but with a weak underpinning argument.
1	**1 – 2 marks** Limited understanding of what is meant by privatisation and efficiency. There may be brief references to examples of privatisation but with no integration of those examples into the body of the answer. Limited use of appropriate technical vocabulary.	**1 – 2 marks** Limited analysis of whether privatisation leads to more efficiency. Efficiency may be considered in broad terms without distinguishing between the types of efficiency. Answer tends to lack key economic concepts, and avoids technical analysis.	**1 – 2 marks** Limited evaluation, that is one-sided and unbalanced, and limited in terms of depth or breadth.
0	**0 marks** No valid knowledge or understanding of privatisation present.	**0 marks** No relevant analysis of privatisation or efficiency.	**0 marks** No relevant evaluation of whether privatisation leads to efficiency.

n.b. this is a reversible answer.

Indicative content:

Explanation of what is meant by privatisation:
Privatisation is the selling of nationally-owned assets to private sector shareholders. Examples from recent years include Tote Betting and the Royal Mail. Some candidates may consider the background to privatisation i.e. very much associated with Thatcherism, and was regarded by Thatcher's government as a means of reducing the size of the state, widening share ownership and improving efficiency within the newly-privatised firms.

Some candidates might develop the concept of privatisation and note that it has taken different forms over the years. For example, many local councils make use of *contracting-out* for essential services such as prison management (G4S) and refuse collection (Biffa, Serco). There is also increased used of approaches such as the *Private Finance Initiative (*e.g. building the M6 Toll Road – the provision of major capital infrastructure by the private sector in return for money from the public sector) and *Public-Private Partnerships (*a government service which is provided by a private sector organisation, which bears the financial and technical risk of provision). Some areas use *Social Impact Bonds* to make public sector organisations e.g. NHS operate more responsibly and efficiently.

Some candidates might consider the role that regulators might play in ensuring the efficiency and performance of privatised firms. Better candidates may be able to name some regulators and examine their role.

Privatisation does lead to greater efficiency:
The profit motive of private sector firms, rather than nationalised firms which do not need to turn a profit, should lead them to increase **productive efficiency**. Private sector firms may seek to keep average costs down by, for example, adopting pay structures that reward productivity of employees, or taking better advantage of economies of scale. Many large public sector organisations may be too big and suffer from diseconomies of scale – going private may encourage them to be leaner. Privatised firms may also have to respond more quickly to market forces to remain profitable by diversifying product ranges and improving product quality therefore being **dynamically efficient** (*e.g. would BT have provided high-speed broadband as quickly if it was still in public ownership? Would water companies have had as much incentive to fit water meters to houses so that consumers only pay for the water they use?*). Regulators such as Ofwat and Ofcom play a role in ensuring that firms meet consumer needs.

Privatisation increases contestability of markets, especially if incumbents are forced to share their networks *(e.g. BT and the landline network, British Gas and the gas network*) – candidates may draw a contestability diagram, showing a firm operating at the normal profit/limit pricing level (AR = AC) rather than profit maximising – **this reduces the size of the deadweight loss** / welfare loss to society and therefore improves efficiency, in particular **allocative efficiency**.

The existence of shareholders should mean that privatised firms are subject to more scrutiny, and therefore managers have **less incentive to be x-inefficient**. Privatisation may also reduce the power of trade unions in the firms, and so wages may be lower reducing average costs, and fewer days might be lost due to industrial action e.g. train operating companies.

Privatisation does not lead to greater efficiency:
In the case of **natural monopoly** (where the economies of scale/sunk costs are so large that a firm can never reach maximum productive efficiency) it may be more efficient to run the firm as a national concern rather than a privatised industry, because the profit-maximising level of output may be very small compared with the degree of economies of scale that could be achieved. Neither productive nor allocative efficiency is achieved if a natural monopoly is run as a profit-maximising private enterprise; if the natural monopoly was nationalised then it could be run at a loss but at an allocatively efficient point. This is one reason why Network Rail still has significant public sector control. Candidates may draw a natural monopoly diagram.

In the search for profit, privatised firms may cut costs so much that worker morale is affected and quality of service reduced. This can have the effect of reducing product quality, reducing allocative efficiency. If barriers to entry remain high, then the firm will remain as a **monopoly**, leading to **deadweight welfare loss** (which could be illustrated using a monopoly diagram). There may be room in the market for a small number of firms, therefore leading to **oligopoly** (e.g. the UK's energy suppliers) in which there is potential for **collusion** (raising prices high and exploiting consumers – not allocatively efficient).
In an attempt to further cut costs, privatised firms may fail to invest properly and so long-run consumer benefits are jeopardised. More worryingly, **safety** could be compromised (e.g. Railtrack in the 1990s, leading to a number of rail disasters), or **pollution/environmental damage** could result (e.g. water companies releasing sewage into the sea rather than paying to treat it). The existence of negative externalities leads to a large deadweight welfare loss as allocative efficiency is not achieved.

Shareholders may struggle to hold the firms to account, especially since so many shares are held by pension companies and large institutional investors. The **principal-agent problem** might exist; there may be **x-inefficiency**. Regulators may also theoretically hold firms to account, but there is the danger of **regulatory capture**, and the administrative cost to the government of running regulators.

Overall: Some privatised firms have been efficient, especially those subject to stronger market forces (e.g. BA?). The extent to which efficiency is achieved depends somewhat on factors such as the impact of the regulator, the degree of contestability, and the interest taken by shareholders.
n.b. candidates may produce an answer that focuses more on deregulation – do not over-reward unless it is explicitly linked to privatisation.

3 (a)	**Explain, using a diagram, how increased factor market flexibility can lead to economic growth.** **[10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5 – 6 marks** Excellent understanding of factor market flexibility, with excellent range and depth of understanding shown, for example, considering different factors of production and different types of flexibility (spatial, temporal, price etc.) Excellent understanding of the concept of economic growth both in the short run and long run. Accurate diagram showing how increased factor market flexibility can lead to economic growth, with the diagram fully integrated into the answer for the top of this band.	
2	**3 – 4 marks** Good understanding of what is meant by factor market flexibility and good understanding of what is meant by economic growth. Candidates may focus on flexibility for one type of factor of production (probably labour) and may only consider either short-run or long-run growth but not both. The diagram is largely accurate with no significant errors or omissions.	**3 – 4 marks** Accurate, clear chains of analysis explaining how factor market flexibility, for more than one factor, leads to economic growth. At the top of this band, candidates are likely to link flexibility to both short-run and long-run growth. At the top of this band, candidates may analyse both a Keynesian and a Neoclassical view.
1	**1 – 2 marks** Limited understanding of what is meant by factor market flexibility. Limited understanding of what is meant by economic growth. The diagram will have significant errors or omissions, or fail to properly show how increased factor market flexibility can lead to growth.	**1 – 2 marks** Limited analysis of how increased factor market (possibly just labour market) flexibility may lead to economic growth; candidate is likely to make assertions rather than explanation. Limited analysis of the different types of flexibility.
0	**0 marks** No valid diagram and no valid understanding.	**0 marks** No valid analysis.

Indicative content:

- **Explanation of what is meant by economic growth** – an increase in real GDP; better candidates will distinguish between short-run growth (effectively an increase in AD) and long-run growth (an increase in the productive potential/capacity of an economy). Candidates may choose to draw a diagram illustrating the economic cycle i.e. GDP versus time, showing the long-run trend of potential GDP and the actual economic cycle showing fluctuating GDP.

- **Explanation of what is meant by a factor market** – the market for factors of production (land, labour, capital, enterprise). Candidates may focus on labour markets as they are the markets that are most frequently discussed in relation to flexibility, but the very best candidates will also consider the markets for other factors. Candidates may refer to the returns to factors e.g. wages for labour, interest for capital, rent for land and profit for enterprise.

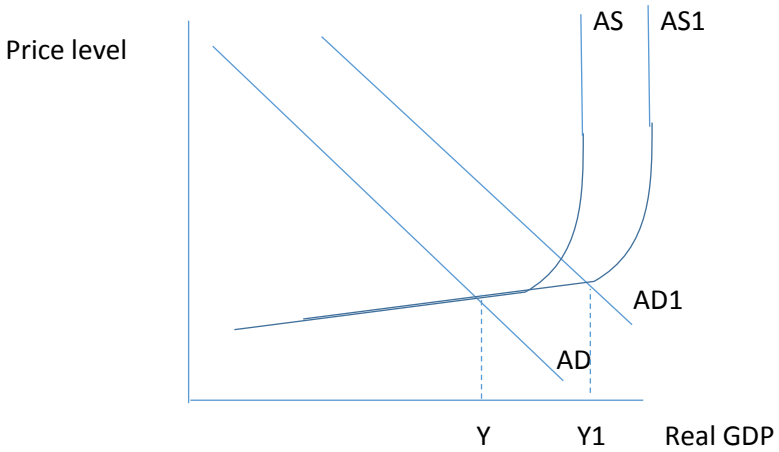
- **Explanation of what is meant by factor market flexibility** – the capacity of a particular factor to respond quickly and costlessly to changes in the market. Flexibility can refer to the ease and speed with which prices (such as wages or interest or rents) change, the ability for factors to be used for different purposes, the geographical mobility of factors, the flexibility of hours worked by different factors and so on.

- **Explanation of how factor market flexibility can be achieved** – the EU Common Market is meant to allow free movement of labour and capital, for example; candidates may focus on the labour market and consider reasons such as flexi-time, zero-hours contracts, different regional minimum wages, better education in terms of general skills (e.g. IT, literacy), better employer understanding of the worth and value of different qualifications. Better candidates might consider other factors e.g. land and renting rather than owning, or hot-desking, etc. or capital e.g. low-cost airlines renting rather than buying planes.

- **Explanation of how factor market flexibility can lead to economic growth (LRAS approach)** – flexibility policies are a type of supply-side policy, and should mean that the productive capacity of the economy is increased by improving the quantity/quality/availability of factors of production, thereby causing LRAS to increase/shift to the right. This should be illustrated using an AD/AS diagram (either Keynesian or Neo-Classical is acceptable). Better candidates may note that for a Neo-Classical economist, supply-side policies are one of the only effective ways of causing long-run economic growth.

- **Further explanation of how factor market flexibility can lead to economic growth (AD approach) -** Some candidates might also explain that factor market flexibility can lead to rising AD in addition to rising LRAS, because efficiency savings for firms may mean that they have more funds available for investment purposes, or that export orders might rise because of improved quality of products at a lower more competitive price, or that consumer spending might rise because increased flexibility increases labour force participation of women leading to higher income.

    - LIKELY DIAGRAM



3 (b)	**"Economic growth is always beneficial for an economy". Discuss.** **[20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5 – 6 marks** Excellent understanding of the benefits of growth from a number of different perspectives. There is broad and deep coverage of the factors that are relevant with no significant omissions.	**5 – 6 marks** An excellent, detailed analysis of the benefits of economic growth – the points made have breadth and depth. A well-developed argument is formed.	**6 – 8 marks** An excellent critical evaluation of whether economic growth is beneficial or not. Clear judgements are made with supporting statements to build an argument. Very top band response will consider the benefits and costs of economic growth from a range of perspectives, as well as responding to the discriminator word "always".
2	**3 – 4 marks** Good understanding of the benefits of economic growth for an economy. Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band.	**3 – 4 marks** A good analysis of the benefits of economic growth. Answers in this band show developed chains of argument with a sensible grasp of the nature of growth and its implications. Answers in this band may lack depth at times, and any diagrams that are used may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues. At least 2 points are evaluated with a clear discussion of why, or why not, economic growth is beneficial for an economy. A range of perspectives e.g. different countries or different stakeholders, is presented and discussed.
1	**1 – 2 marks** Identification of, and some limited understanding, of some benefits of economic growth. Some limited understanding of economic growth.	**1 – 2 marks** Limited analysis of the benefits of growth. Answer tends to lack key economic concepts and avoid technical analysis. Answer does not consider that the benefits of growth may be different in different economies.	**1 – 2 marks** Limited evaluation, with some weak direct evaluation of the benefits of growth, or some limited discussion of the costs of growth. A very one-sided answer.
0	**0 marks** No knowledge or understanding present.	**0 marks** No relevant analysis.	**0 marks** No relevant evaluation.

n.b. this is a reversible answer

Indicative content

Explanation of how we assess "beneficial"

The easiest way of assessing whether something is beneficial or not for an economy is to examine the impact on the major macro-economic objectives. So, for example, candidates could consider the impact on the inflation rate, the rate of unemployment, the trade balance, the environment, the degree of inequality, the government's fiscal position, and so on.

Advantages of economic growth

- Long-run growth (an increase in the productive potential of the economy) is likely to help **keep down inflationary pressure** by creating productive capacity, and so wages and capital prices are unlikely to be bid up due to labour/capital shortages (*BUT – growth may not be balanced, leading to inflationary pressure in pockets of the economy; long-run growth might lead to short-term inflationary pressure as building necessary infrastructure can lead to short-term construction booms, for example)*
- Short-run growth can **reduce cyclical unemployment** because demand for labour is derived from demand for goods and services (*BUT – this depends on whether there is underemployment, as business picks up firms may simply ask existing workers to work longer hours or raise their productivity)*
- If growth is non-inflationary then it could lead to an **increase in the value of exports** as they are more price-competitive (*BUT – international competitiveness also depends on the exchange rate and the quality/desirability of goods produced; furthermore, a decrease in the cost of production may still not be enough to compete with low-cost exporters elsewhere in the world; better candidates may also apply the underlying principle of the Marshall-Lerner condition, in that the PED for the exports determines whether the price fall will lead to an increase in revenue or not)*
- The trickle-down effect can lead to **a reduction in income and wealth inequality** (*BUT – some candidates may argue that inequality starts to rise once income rises past a certain point).* Higher tax revenue generated from growth through automatic stabilisers can be redistributed to the poor (*BUT – governments may simply use the tax windfall to pay off their debts and reduce the size of the budget deficit)*
- People with higher levels of income often tend to be able to afford to buy more **environmentally-friendly products**; as businesses earn more profit as a result of growth then greener technologies may be more affordable etc (*BUT – consumerism can lead to huge environmental damage)*
- Economic growth tends to lead to higher incomes – consumer spending might rise and so living standards might rise; **automatic stabilisers** / fiscal drag help to tackle fiscal deficits; households might be more likely to save and smooth their consumption providing a source of loanable funds etc *(BUT - the evidence from MEDCs is that higher incomes led to more borrowing and not more saving)*

Disadvantages of economic growth

- Short-run growth can **be inflationary**; the experience of many LEDCs that are growing rapidly is that they have double-digit inflation (or worse) (*BUT – whether growth is inflationary depends on the strength and credibility of the country's central bank – banks with an inflation target may be more successful at reining in inflation)*
- Economic growth can worsen unemployment especially if that growth is caused as a result of **capital-labour substitution**, or by making existing workers more productive. Alternatively, growth could **worsen working conditions**, particularly if labour legislation is weak e.g. Chinese factories. Economic growth often does little to help the long-term unemployed. (*BUT – the effect could be mitigated by ensuring that workers have transferable skills and that labour markets are flexible)*
- Economic growth can lead to a **rise in imports** worsening the trade balance as richer consumers want to buy a greater range of products – high MPM in the UK and other MEDCs (*BUT – this is not necessarily going to happen if there is balanced growth and consumers are willing to buy domestically produced products)*
- **Inequality might widen** – share owners become more wealthy, and the trickle-down effect may not occur because money may be invested overseas (outwards FDI or outflows of hot money etc). There may be asset-price bubbles
- There may be an increase in negative externalities associated with increased consumption and/or increased production (*BUT – effective government environmental policy and regulation can help to mitigate this)*

Overall

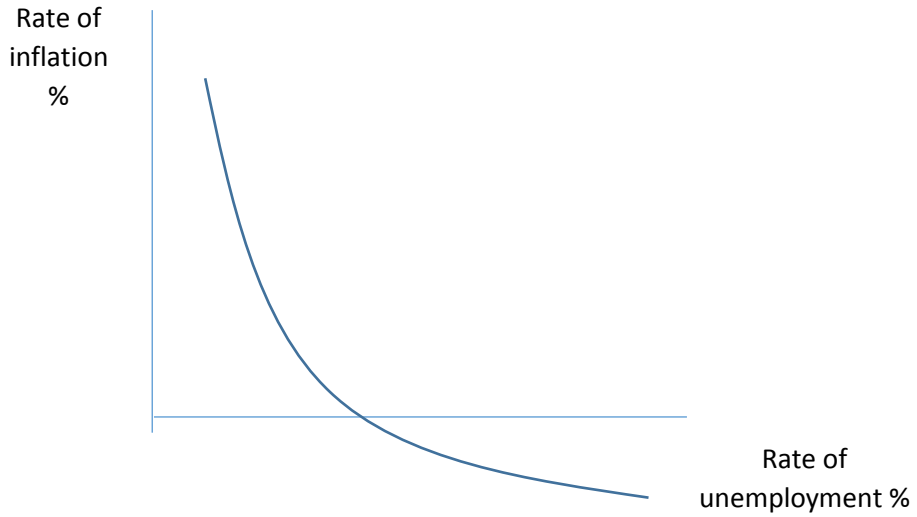
Economic growth has both costs and benefits. Economies that fare best usually find that growth is well spread around the economy rather than being concentrated in one area or region. The costs and benefits will differ for LEDCs and MEDCs. Effective government intervention can help to prolong the benefits and mitigate the costs.

4 (a)	**Explain, using diagrams, the shape of the short-run and long-run Phillips curves.** **[10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5 – 6 marks** Candidates draw accurate SPRC and LRPC diagrams, with no significant errors or omissions. The very best diagrams will indicate the dynamic process by which the NRU/NAIRU is determined. Candidates demonstrate excellent knowledge and understanding of the both the SRPC and LRPC diagrams, using excellent appropriate terminology. At the top of this band, candidates are likely to demonstrate a sound historical understanding of the context of the SRPC and LRPC, as well as demonstrating understanding of the different schools of thought.	
2	**3 – 4 marks** Candidates draw both the SRPC and LRPC diagrams, with few significant errors or omissions. Candidates use appropriate terminology, and show good understanding of the SRPC and the LRPC.	**3 – 4 marks** A detailed and dynamic analysis of the shapes of both the SRPC and LRPC, that is likely to cover both demand-pull and cost-push reasons. At the top of this band, the analysis is closely integrated with the diagrams.
1	**1 – 2 marks** Candidates may attempt either the SRPC or LRPC diagram, or both, but with significant errors or omissions. Candidates show a limited knowledge and understanding of the relationship between the inflation rate and the unemployment rate in an economy.	**1 – 2 marks** Analysis of either the SRPC or LRPC, or, limited analysis of both SPRC and LRPC.
0	**0 marks** No valid SRPC or LRPC diagram.	**0 marks** No valid analysis of either the SRPC or LRPC.

Indicative content:

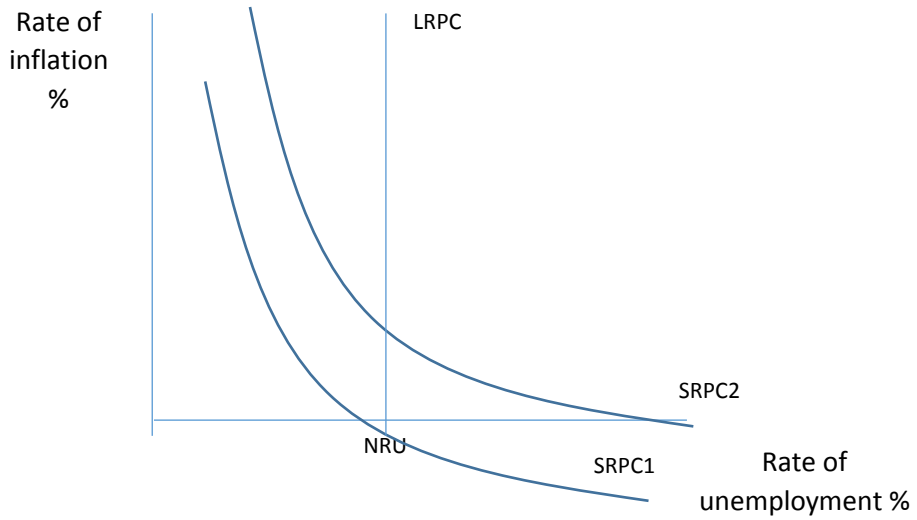
The Phillips Curve shows the relationship between the unemployment rate and inflation rate in an economy. The short-run relationship was “discovered” by Professor Phillips in 1958, after he analysed data on the unemployment rate and the rate of wage inflation – better candidates will be aware that his work led to questioning of the use of the Keynesian demand-management approach, because it implied that there were conflicts between major macro objectives. Phillips’ explanation said that as the pool of available labour became smaller (i.e. when unemployment levels were low, in times of economic boom) then the labour force had more bargaining power than employers with regards to wages and that this led to an increase in the rate of wage inflation. In turn, this would lead to rising inflation as rising production costs would be passed on to the consumer. Conversely, in times when the labour pool was large, there was little employee bargaining power since any pressure to raise wages would result in a worker being undercut by someone from the pool of unemployed labour. Candidates may also use AD/AS analysis to show that an increase in AD taking the economy closer to full employment can lead to rising inflation as the level of spare capacity is reduced and AS becomes more inelastic. Better candidates will be aware that governments tried to apply the principle of the SRPC in the 1960s and 1970s by selecting a rate of inflation to target and then using policies to meet that target, leading to stop-go policies.

The short-run Phillips Curve



By the 1970s, however, the apparent inverse relationship between the inflation rate and the unemployment rate had broken down, and stagflation was observed. Economists, led by Milton Friedman, argued that there was, in fact, a long-run relationship between inflation and unemployment – the *natural rate* – and a series of SRPCs that depended on inflationary expectations. In this case, suppose the government tries to stimulate the economy and reduce unemployment by using relevant fiscal or monetary policy – there is a short-run reduction in the unemployment rate and a short-run increase in the rate of inflation. In the next round of wage negotiations, workers factor in the increase in the inflation rate and adjust their wage expectations/demands accordingly, and inflation erodes any gain in AD. If workers understand the concept of *money illusion* (which they do, according to Neo-Classical economists) then the economy moves to a new expectations-augmented/adjusted SRPC with equilibrium at the level of unemployment *before* the stimulus but a higher rate of inflation. If workers do not understand the concept of *money illusion*, then they move back along the same SRPC.

The long-run Phillips Curve



At the very top end, a number of candidates may write about the New Keynesian Phillips Curve approach – effectively the same diagram is reached as the one above (the Neo-Classical Expectations Augmented approach) – but the explanation centres on the role of sticky prices and sticky wages, and the fact that prices can take some time to adjust, therefore there may be some deviation away from the NAIRU in the short run.

4 (b)	**To what extent are supply side policies effective in reducing unemployment in an economy?** **[20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5 – 6 marks** Excellent understanding of a range of supply-side policies that may be used to tackle a range of unemployment types. There is broad and deep coverage of the factors that are relevant with no significant omissions. Answers at the top of this band are characterised by an excellent use of appropriate and accurate economic terminology.	**5 – 6 marks** An excellent analysis of how a number of different supply-side policies can be used to tackle a range of unemployment types. Answers at the top of this band are specific rather than overgeneralised.	**6 – 8 marks** An excellent critical evaluation with supporting statements to build an argument. Evaluation is specific rather than general. Very top band response will fully address the question and will reach a clear judgment on the extent to which supply-side policies are *effective* in reducing unemployment in an economy.
2	**3 – 4 marks** Good understanding of possible supply-side policies that may be used to reduce unemployment. The knowledge and understanding will be mostly specific, but at times may be over generalised. Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band.	**3 – 4 marks** A good analysis of how supply-side policies may be used to tackle unemployment. Answers in this band show developed chains of argument with a sensible grasp of appropriate economic theory such as AD/AS analysis or the LRPC. Answers in this band may lack depth, diagrams may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes a number of key evaluative points. In this band, at least 2 points are evaluated with a clear discussion of why supply-side policies may not work well in reducing unemployment.
1	**1 – 2 marks** Limited understanding of the nature of unemployment and its possible types/causes. Limited, or overly-general, understanding of supply-side policies that may reduce unemployment. Relevant supply-side policies may be identified but no real understanding is shown.	**1 – 2 marks** Limited analysis of how supply-side policies can be designed to reduce unemployment. The analysis is likely to be in general terms, with no specific analysis of detailed supply-side policies. Answer tends to lack key economic concepts and avoids technical analysis such as AD/AS or the LRPC.	**1 – 2 marks** Limited evaluation of how supply-side policies may be used to tackle unemployment. Answers in this band are likely to provide overly generalised evaluation such as referring to time lags and cost without any development of those points.
0	**0 marks** No knowledge or understanding present of supply-side policies or unemployment.	**0 marks** No relevant analysis of how supply-side policies may reduce unemployment in an economy.	**0 marks** No relevant evaluation of whether supply-side policies are the best way of reducing unemployment.

Indicative content

Understanding of supply-side policies and unemployment:

Supply-side policies refer to the set of policies that increase the productive potential of an economy (i.e. shift a PPF outwards/increase LRAS) by increasing the quantity and/or quality of an economy's factors of production. Some fiscal and monetary policies can also act as supply-side policies. Supply-side policies are generally regarded as beneficial for an economy because by increasing the productive potential, it allows an economy to achieve growth in the long-term but without inflationary pressure. Unemployment refers to people who are out of work but who are willing and able to work – there are a number of different types/causes of unemployment, such as cyclical/Keynesian, structural, frictional, regional and so on. Unemployment can be measured in a number of ways, such as the Claimant Count and the LFS. The best candidates may use the hook of the part a question about Phillips Curves and analyse the impact of SSPs on the LRPC i.e. they can reduce the NRU/NAIRU.

How can supply-side policies reduce unemployment?

Candidates are likely to analyse a number of different ways in which supply-side policies might reduce unemployment.

Some examples include:

- Some supply-side policies can improve the skills of the labour force e.g. ensuring that school-leavers have stronger generic/transferable skills such as literacy, numeracy and IT, or subsidising adult education courses, or offering tax breaks to firms that spend on training programmes for their workers. Having a stronger set of transferable skills means that structural unemployment might be less likely as labour is more occupationally mobile, or by investing in the skills/human capital of their labour force a firm might be less willing to make them redundant (perhaps being more creative in their approach to employment over the course of the economic cycle by using zero-hours contracts, flexible working and so on).
- Some supply-side policies might make it easier for the unemployed to become self-employed e.g. the spread of fast broadband across the UK has made it possible for more people to set up their own sole trader business from home, or tax relief on NI contributions for the first few employees in a small or new business. Business Hubs/Regional Enterprise bases might reduce unemployment in a similar way.
- Some supply-side policies are also associated with an increase in AD e.g. lower interest rates can encourage investment, as can lower corporation tax rates, or an increase in government spending on transport infrastructure such as Crossrail or HS2, or a reduction in red-tape/bureaucracy for businesses (e.g. a reduction in paperwork for applying for an export licence) – an increase in both AD and LRAS leads to an increase in real GDP, and since demand for labour is derived from the demand for goods and services, employment should rise – with a labour force that is fairly stable in size, this should correspond to a decrease in unemployment.

Why are supply-side policies an *effective* way of reducing unemployment?

The best answers will be those that respond explicitly to the *discriminator* word "effective" in the question. Supply-side policies may be regarded as the most effective way of reducing unemployment because:

- Their use can also allow other macroeconomic objectives to be achieved simultaneously e.g. growth, low inflation, possibly a better fiscal balance if the SSP is achieved in a non-interventionist way etc – there is likely to be minimal conflict with other objectives. Candidates may use an AD/AS diagram to illustrate their analysis.
- They can be specifically targeted to tackle the root cause of the unemployment e.g. regional SSPs, improved transport to facilitate improved geographical labour mobility, a focus on skills training for structural unemployment.
- Some candidates may examine the impact of SSPs on the LRPC and the NRU/NAIRU i.e. lower unemployment alongside lower inflation and lower inflationary expectations.

Why might supply-side policies not be the best way to reduce unemployment?

Candidates are likely to discuss some of the broader issues with using supply-side policies, but these *must* be specifically targeted at the question and issue in hand. For example, some SSPs such as improving the literacy, numeracy and IT skills of school-leavers might need an overhaul of the entire National Curriculum and exams system, which could easily take a decade to impact on the skills of school-leavers, therefore failing to tackle the issue of those who are currently unemployed. Some types of unemployment are notoriously difficult to tackle e.g. long-term unemployment or youth unemployment – many SSPs will simply not reach those people because of the circumstances in which they live. Some SSPs might be too expensive to implement given the continuing need to retain fiscal control – SSPs such as increased deregulation and labour market flexibility will be cheaper for the government to implement, but could make it easier for firms to exploit low-skilled labour so that they have more bouts of unemployment. Some candidates may approach the evaluation by considering the different perspectives of Neoclassical and Keynesian economists with regards to unemployment i.e. Neoclassical economists may be likely to argue that there is no need for any intervention to reduce unemployment because the economy will always automatically adjust back to full employment, whereas Keynesians might argued for active demand management to stimulate the economy and therefore stimulate demand for labour.

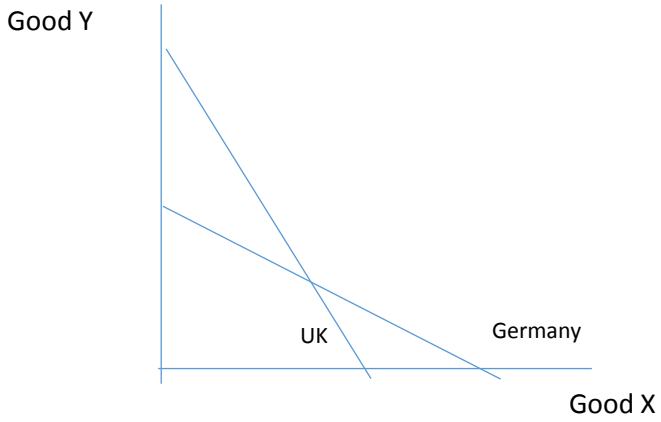
Overall: Clearly this is a reversible answer in that it does not matter whether candidates conclude that SSPs are or are not the best way to reduce unemployment in an economy, but they will make a convincing case either way. Whether SSPs work depends on a number of factors, including the timeframe under consideration, the extent to whether the SSP is targeted at the root causes of unemployment, their credibility and cost etc.

n.b. be aware of candidates who choose to answer a slightly different question i.e. "the extent to which SSPs are the most effective policy in tackling unemployment" – this is NOT the question

5 (a)	**With reference to the principle of comparative advantage, explain the circumstances under which free international trade will be beneficial. [10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5 – 6 marks** A thorough understanding of comparative advantage is demonstrated. At the top of this band, candidates are likely to use a variety of techniques to demonstrate their understanding, for example diagrams, examples and numerical examples that are complete and accurate. Candidates will also demonstrate excellent knowledge and understanding of the circumstances under which trade is beneficial. An excellent use of appropriate technical vocabulary.	
2	**3 – 4 marks** A good knowledge and understanding of comparative advantage, with few significant errors or omissions. Candidates may include diagrams and/or examples which are mostly correct. Candidates are also likely to demonstrate good understanding of the circumstances under which trade is beneficial.	**3 – 4 marks** A detailed and comprehensive analysis of comparative advantage, making good reference to diagrams, examples, numerical examples etc, and analysis of the circumstances under which trade is beneficial.
1	**1 – 2 marks** Limited knowledge and understanding of comparative advantage, or any wider reasons why free trade is beneficial. In this band, there are unlikely to be any diagrams, examples or numerical examples.	**1 – 2 marks** Limited analysis with errors and omissions of comparative advantage. Limited analysis of the circumstances in which free trade is beneficial to an economy. If examples are provided, then they may be inaccurate, or not fully developed and integrated into the analysis.
0	**0 marks** No valid knowledge or understanding of the concepts of comparative advantage.	**0 marks** No valid analysis of comparative advantage.

Indicative content

Comparative advantage is the theory that is used to explain why countries trade with each other, even when they do not have an absolute advantage – the theory was popularised by David Ricardo – and was in contrast to Adam Smith's theory of absolute advantage (the ability of a country to produce more goods and services than another, using the same amount of resources; alternatively, this can be expressed as one country being able to produce particular goods or services at a lower cost-per-unit / average cost than another country). A comparative advantage exists when a country can produce a good or service at a lower *opportunity cost* than another country i.e. it must give up the production of less of another good. The result is that countries should specialise in producing the good in which they have a comparative advantage and then trade, because this **increases the total world output** and increases productive efficiency / productivity. In the diagram below, the UK has a comparative advantage in the production of Good Y and Germany in the production of Good X.



Candidates should consider some of the assumptions than underpin the theory of comparative advantage i.e. the ability to measure accurately the value of goods and services produced, costless transport, perfect factor mobility, lack of externalities, overly simplistic, and so on – the closer the circumstances are to matching these assumptions, the greater the chances that free trade will be beneficial.

Factors to be considered when thinking about the circumstances in which free trade is beneficial:

- countries located close to each other
- reasonable terms of trade / exchange rates
- minimal negative externalities
- achievement of economies of scale through specialisation / division of labour and access to larger markets
- ability to import technology / capital more cheaply than domestic production, which can lead to economic growth
- lower prices for consumers
- trade is better if it's not in relation to "strategic" industries
- cooperation between countries leading to improved global peace/security/international relations
- Better candidates may also be able to give specific example, Ricardo's England/Portugal wine and cloth, or the production of tropical fruit in tropical countries, or may give numerical examples to illustrate the concepts either in addition to or instead of a graph.

n.b. be aware of candidates who mis-read the question and instead write about the benefits of free trade, this is NOT the question and should not be over-rewarded

(b)	**Evaluate the likely economic impact of continuous expansion of the European Union for both existing and prospective member states. [20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5 – 6 marks** Excellent understanding of the key impacts of EU expansion for both existing and prospective member states. There is broad and deep coverage of the factors that are relevant with no significant omissions. Answers at the top of this band make specific reference to countries and/or stakeholders and specific EU policies or examples. Excellent and appropriate economic vocabulary is used throughout the answer.	**5 – 6 marks** An excellent analysis of the impact of EU expansion on both existing and prospective member states. A well-developed argument is made that integrates real-world data and examples with the analysis. The answer is likely to contain appropriate diagrams that are accurate and comprehensive and relevant, and which are fully integrated into the written analysis.	**6 – 8 marks** An excellent critical evaluation of the impact of EU expansion for both existing and prospective member states. Answers will evaluate the impact for *both* existing and prospective members. Clear judgements are made with supporting statements to build an argument. A very top band response will respond appropriately to the discriminator word in the question and consider the impact of *continuous* expansion for both existing and prospective member states.
2	**3 – 4 marks** Good understanding of the impact of EU expansion on existing and prospective member states. Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band. Appropriate economic vocabulary is used throughout.	**3 – 4 marks** A good analysis of the impact of EU expansion on both existing and prospective member states. A range of impacts/objectives are considered. Answers in this band show developed chains of argument. Answers in this band may lack depth, diagrams may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues, but which may focus more heavily on either existing or prospective member states leading to an unbalanced judgement. At least 2 points are fully evaluated.
1	**1 – 2 marks** Limited understanding of the nature of EU expansion or the impact of EU expansion. Some relevant consequences of expansion may be identified but no real understanding is shown. Limited use of appropriate economic vocabulary in relation to EU expansion.	**1 – 2 marks** Limited analysis of the impact of EU expansion. In this band, answers are likely to only consider either the impact on existing members or prospective members. Answer tends to lack key economic concepts and avoid technical analysis.	**1 – 2 marks** Limited evaluation of the impact of EU expansion. Answer is one-sided, and evaluation is not developed and overly general.
0	**0 marks** No knowledge or understanding of the EU or EU expansion.	**0 marks** No relevant analysis of the impact of EU expansion.	**0 marks** No relevant evaluation of the impact of EU expansion.

Indicative content

Contextual knowledge of EU expansion: expansion could be interpreted as enlargement and/or closer union.

- **Enlargement:** Excellent candidates may demonstrate knowledge of the underpinning values of the EU (e.g. membership of the EU is open to "*any European State which respects the values referred to in Article 2 and is committed to promoting them".* These Article 2 values are "*respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights").* Candidates may offer a brief history of the growth of the EU (perhaps starting with the establishment of the EEC following the Treaty of Rome in 1958 – Italy, West Germany, France, Belgium, Netherlands, Luxembourg – and then identifying that the EEC grew slowly e.g. the UK joining in 1973 – before the Maastricht Treaty establishing the EU in 1993). Candidates are likely to show knowledge of the expansion in the 2000s, incorporating much of Central and Eastern Europe. 8 such countries, plus Malta and Cyprus, joined in 2004, followed by Romania and Bulgaria in 2007. Candidates may also demonstrate understanding of the accession process, in which prospective member states must convince the EU that it is able to fully implement EU law, and that once this has been demonstrated, their accession treaty must be signed by all member states. Candidates for membership currently include Turkey, Ukraine, Georgia, Albania, Macedonia, and Serbia etc.
- **Closer union:** One of the key aims of the EU is "*ever closer union"* and this aim has appeared in every EU treaty since the 1957 Treaty of Rome. This can include closer economic union i.e. the use of the Euro and a single monetary policy across the Eurozone, or perhaps at some point closer fiscal union to allow fiscal transfers across the EU, or greater political union.
- **Brexit debate/referendum result**

How can we measure the 'impact' of EU expansion?
Candidates are likely to discuss the impact of expansion on key macroeconomic indicators, such as the economic growth rate, the rate of unemployment, the rate of inflation, the degree of inequality, the rate of investment, trade balances, fiscal balances. Some candidates may also consider the impact of expansion in broader terms, such as political security, international relations, respect for human rights etc – but the focus should be predominantly economic. Candidates may also consider the impact on different stakeholders e.g. consumers, businesses, governments.

What is the impact of EU expansion on existing member states? Candidates could consider a range of factors including:

- Larger market therefore increasing export volumes (BUT "richer" countries may be undercut by cheaper manufacturing in new member states e.g. car manufacturers moving to the Czech Republic or Poland when they acceded to the EU)
- Large market may lead to increased investment and increased employment in order to meet increased demand (BUT is the impact any different to simply negotiating free trade deals with countries such as the US?)
- More competition therefore lower prices for consumers (BUT despite the Common Market, most people still tend to 'buy local' and there is plenty of evidence of price discrimination across Europe with different prices in different countries – transport/shipping costs need considering)
- Plug skills shortages by allowing more EU migrant workers in, who will pay tax and help reduce the fiscal deficit / national debt (BUT in many countries there are more parties such as UKIP that portray EU migrants as undercutting national workers and causing unemployment)
- Lower value transfers from the EU as the Regional Funds get deployed away from poorer areas such as Wales and Cornwall towards new poor member states such as Bulgaria and Romania

What is the impact of EU expansion on prospective member states? Candidates could consider a range of factors including:

- Greater injections from EU Regional Funds to support economic growth and investment, and reduce inequality (BUT this money may not be used in the most appropriate way or could be used fraudulently; the Kuznets curve suggests that rising growth may ultimately worsen inequality)
- Reduce high levels of domestic unemployment by allowing those who cannot find appropriate work domestically to emigrate to other EU countries in search of employment (BUT many of the unemployed may be poorly skilled or not have the language/culture/education/money to travel abroad for work; furthermore, the possibility of "brain drain" could reduce economic growth and development domestically)
- Create more trading opportunities with existing EU states therefore increasing AD and growth/employment (BUT very poor accession countries may not be able to produce quality goods/services because of poor infrastructure e.g. intermittent electricity supplies, or may have poor transport infrastructure for reaching other EU countries, or may not be able to meet the EU's high safety standards or labour regulations – meeting the EU's standards may be very costly and may mean that their exports are not price competitive)
- More credible economic policy because, for example, all accession countries now have to commit to eventually joining the Euro (BUT joining the Euro may be less than desirable given the turmoil over recent years with Greece, Italy, Spain, plus using the Euro removes the ability of a country to respond to economic shocks e.g. Latvia and Estonia have had to use a policy of internal devaluation to make their exports more competitive rather than devaluing the currency)

Overall: Candidates may reach any judgement on whether the impact of EU expansion is 'good' or 'bad' so long as their arguments are well justified. The very best answers will consider the impact of expansion in the light of contemporary developments e.g. the UK's in-out referendum, progress in talks with potential members, restrictions on migration / Schengen etc.

6 (a)	**Explain the possible ways in which a government may implement protectionist policies.** **[10]**	
Band	**AO1**	**AO3**
	6 marks	**4 marks**
3	**5 – 6 marks** A thorough and comprehensive understanding of at least two types of protectionist measures is demonstrated. At the top of this band, candidates are likely to use a variety of techniques to demonstrate their understanding, for example diagrams and examples. Candidates are also likely to demonstrate excellent understanding of the reasons why a government may implement protectionist measures. An excellent use of appropriate technical vocabulary.	
2	**3 – 4 marks** A good knowledge and understanding of at least two types of protectionist measures, with few significant errors or omissions. Candidates may include diagrams, especially the tariff diagram, and/or examples which are mostly correct. Candidates are also likely to demonstrate good understanding of the reasons why a government may choose to implement protectionist measures.	**3 – 4 marks** A detailed and comprehensive analysis of at least two protectionist measures, making good reference to diagrams and examples etc.
1	**1 – 2 marks** Limited knowledge and understanding of protectionist measures, or any reasons why governments may wish to use such measures. In this band there are unlikely to be any diagrams or examples. Candidates are likely to only look at one measure, or adopt a list-like approach to protectionist measures.	**1 – 2 marks** Some analysis of one protectionist measure, or limited analysis of a number of measures. There may be errors and omissions. If examples are provided, then they may be inaccurate, or not fully developed and integrated into the analysis.
0	**0 marks** No valid knowledge of protectionism or protectionist policies.	**0 marks** No valid analysis of protectionism or protectionist policies.

Indicative content

The meaning of protectionism: any measure that reduces, limits, or prevents free international trade

Methods of protectionism

It is most likely that candidates will focus on tariffs, although candidates must write about more than one measure in their answer.

- **Tariffs** – these are taxes on imports that raise the price of imported goods relative to domestically produced goods, encouraging greater demand for domestically-produced goods. Candidates may draw the standard "tariff diagram", and use it to illustrate the fall in import volumes, gain in tax revenue, fall in consumer surplus, increase in domestic producer surplus etc. Better candidates will be able to give examples of tariffs e.g. steel tariffs (China/US).
- **Quotas** – these are physical limits on the quantity of imports that can be brought into a country; some candidates may be able to illustrate quotas using a similar diagram to the tariff diagram, but this is not expected. Better candidates will be able to give examples of quotas e.g. visa restrictions in the UK for high-skilled workers, the EU's former textile quotas on textiles from China (leading to the well documented "bra wars") etc.
- **Subsidies (**either for domestic producers in industries threatened by international competition or for exporting industries**) –** subsidies are grants provided by the government to producers to help them lower their costs of production thereby raising the level of output and lowering prices, making goods/services more competitively priced. Better candidates will be able to give examples of the use of subsidies e.g. US subsidising steel and car manufacturers, UK government support for space technology etc.
- **Exchange rate policies –** countries that have a fixed exchange rate (or managed/dirty float) can keep their exchange rate below the free market exchange rate by keeping domestic interest rates very low, or by buying foreign currency reserves. This causes exports to appear relatively cheap and competitive (assuming that the exchange rate advantage is not offset by higher domestic inflation), and protects domestic exporters. The classic example would be the US accusation that China's exchange rate has been too low for many years.
- **Alternative policies –** these could include non-tariff barriers (e.g. "kite marks", non-wonky fruit and vegetables in the EU), general bureaucratic burdens (e.g. long waits for import licences, delays at customs and borders), "internal devaluation" (e.g. countries waiting to join the Euro – as Latvia did a few years ago – having to reduce domestic prices sharply in order to remain competitive).

There is no requirement in the question for candidates to explain possible costs and benefits of these protectionist approaches, although some candidates may do so.
For each policy discussed, candidates should make it clear precisely *how* that policy protects the domestic economy/markets.

(b)	**Using examples to support your answer, discuss the reasons why the governments of LEDCs may find it difficult to raise the level of economic development in their country. [20]**		
Band	**AO1**	**AO3**	**AO4**
	6 marks	**6 marks**	**8 marks**
3	**5 – 6 marks** Excellent understanding of the key reasons why LEDC governments might find it difficult to raise the level of economic development in their country, incorporating excellent and appropriate economic terminology, and relevant knowledge of examples. There is broad and deep coverage of the reasons that are relevant with no significant omissions or errors. At the top of this band, answers demonstrate an excellent knowledge and understanding of the meaning of economic development and how it is assessed/measured.	**5 – 6 marks** An excellent analysis of the reasons why governments of LEDCs may find it difficult to raise the level of economic development in their country. A well-developed argument is made that supports (or negates) the view in the question. At the top of this band, it is likely that candidates will fully analyse 3 or 4 reasons why governments of LEDCs may find it difficult to raise the level of economic development in their country.	**6 – 8 marks** An excellent critical evaluation of the reasons why governments of LEDCs might find it difficult to raise the level of economic development in their country. Clear judgements are made with supporting statements to build an argument. Very top band response will likely refer to LEDCs whose governments have successfully overcome obstacles to development e.g. China, and consider the difference between market-based and interventionist approaches to development in LEDCs. Very top band responses are also likely to be characterised by evaluation which explores whether it is possible to accurately measure or assess levels of development.
2	**3 – 4 marks** Good understanding of the reasons why governments in LEDCs might find it difficult to raise the level of economic development in their country. Answers in this band may omit significant content or the breadth of coverage is good but the depth of understanding is not sufficient to reach the highest band. Answers in this band are likely to include a small number of relevant examples.	**3 – 4 marks** A good analysis of the reasons why governments in LEDCs might find it difficult to raise the level of economic development in an economy. Answers in this band show developed chains of argument with a sensible grasp of the issues facing LEDCs. Answers in this band may lack depth, diagrams may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues, including an awareness that each LEDC is different and therefore each government faces different obstacles to development. At least 2 points are evaluated with a clear discussion.
1	**1 – 2 marks** Limited understanding of the factors that might prevent economic development in an LEDC; limited understanding of what is meant by economic development. Limited understanding of the role of governments in LEDCs. Factors may be identified but no real understanding is shown; there is unlikely to be any reference to specific countries or regions. Minimal use of relevant economic vocabulary.	**1 – 2 marks** Limited analysis of the reasons why governments find it difficult to overcome the barriers to economic development in an LEDC. Answer tends to lack key economic concepts and avoid technical analysis.	**1 – 2 marks** Limited evaluation.
0	**0 marks** No knowledge or understanding present of the obstacles to development in an LEDC. No knowledge or understanding of what is meant by development.	**0 marks** No relevant analysis of why governments of LEDCs might find it difficult to overcome the obstacles to development and raise the level of development.	**0 marks** No relevant evaluation of whether governments of LEDCs can overcome the obstacles to development in their country.

Indicative content:

The meaning of economic development in LEDCs: In general terms, economic development refers to an increase in the living standards in a country. One measure is the HDI, which is a combined measure of GNI per head, life expectancy, and adult literacy rates – a higher HDI value equates to a higher level of development. Other factors affect living standards and development in LEDCs, such as access to clean water and sanitation levels, degree of political oppression, availability of mobile phones and internet coverage, the number of doctors and midwives per 10,000 people, and so on.

Reasons why governments of LEDCs find it difficult to raise the level of development in their country: Candidates are likely to discuss a number of obstacles to development, and then explain how a government in an LEDC may struggle to tackle that obstacle. These could include (but are not limited to):

- **A lack of savings / the savings gap/a low savings ratio**: a lack of savings indicates that households need to spend anything that they earn. If households do not save, then there is no "safety net" or means of smoothing consumption to fund periods of ill-health or old-age or emergencies. A lack of savings is also likely to be indicative of a failing or patchy financial sector – either there are no banks in which to save, or households do not have enough trust to save in banks. Without savings, there are no funds available for firms to borrow, thereby limiting investment and preventing long-term growth, which can in turn lead to development – some candidates may refer to specific models of development e.g. Harrod-Domar or Lewis, although this is obviously not required by the specification. Governments may struggle to encourage saving if they do not have enough expertise to help establish a sound banking system. Corruption in government may also be difficult to tackle – households may be reluctant to save if they fear that their savings may be frozen or that their savings are not protected (as in the UK's FSCS). The most underdeveloped countries may have a subsistence-farming population that generates no income to save. *However - Governments could encourage overseas banks to enter the country by adopting FDI-friendly policies, or could provide better financial/numeracy education in schools and communities, or could make it easier for tech-friendly approaches such as mobile banking (mPesa) to be adopted*, *or support microfinance initiatives such as the Bangladeshi Grameen Bank*.
- **High levels of government debt**: high government debt is associated with high levels of debt repayment and interest payments, usually to MEDCs or multilateral international organisations such as the IMF. Such repayments incur a high opportunity cost, in that the money cannot be spent on projects that could raise the level of development such as infrastructure building (e.g. improving roads to reduce terrible congestion such as in Nairobi) or training teachers or supporting entrepreneurs. Many governments found themselves with overly high debt as a result of poor understanding and application of SAPs. Others borrowed to fund projects that did not lead to development e.g. spending on the military or armaments. *However, governments could simply default on their debt e.g. Argentina, or negotiate better terms, or lobby MEDCs to provide debt relief/change the loans to soft loans etc.*
- **Existence of the "resource curse"/overspecialisation in export of certain commodities:** a number of countries in sub-Saharan Africa have suffered from Dutch Disease, whereby the rising demand for oil (Nigeria) or the rare-earth metals used in touchscreen technology (DRC) has led to a significant increase in the exchange rate, therefore making other export industries uncompetitive, and concentrating wealth in the hands of the few who have the property rights to the mines / oilfields. LEDC governments have not been able to counteract the appreciation by, for example, lowering interest rates or increasing their foreign exchange reserves or encouraging imports. In addition, very few governments appear to have taxed the profits earned from the commodity boom. In some countries, the commodity boom has led to civil war, worsening the level of development, because of poor governance, rent-seeking politicians and so on. *However, some governments have tried to counteract these issues e.g. Ghana has passed a law to ensure that 30% of commodity activity directly benefits the country; the World Bank will provide technical assistance and advice in establishing contracts and property rights if governments ask for the help, some governments have required commodity mining / drilling to be done in conjunction with infrastructure development (e.g. China's FDI in Africa).*
- Answers may also refer to other obstacles to development, such as the impact of MEDC policies (colonialist / neo-colonialist views**),** the **trade policies of MEDCs** (e.g. the EU's CAP, the rise of trading blocs causing trade diversion away from LEDCs), **poor infrastructure /capital/human capital**, the role of **geography and climate** e.g. landlocked countries struggling to trade, and so on.

General evaluation points:

Governments *can* makes a difference to levels of development – many LEDC governments have seen success in "green" projects, e.g. introduction of feed-in tariffs in Kenya for geothermal, solar and biomass energy production; Ugandan farmers getting subsidies to grow organic produce which commands a higher price in MEDCs; the Indian government working alongside NGOs as part of their National Rural Employment Guarantee Act to reduce water usage in agriculture whilst increasing yields, leading to a 25% increase in wages in some Indian states.

- There are a range of factors that affect development – governments cannot easily influence all of them (e.g. cannot easily change the geography) but can stimulate development in a number of ways, not all of which are financially costly e.g. deregulation, establishing trust through improved rule of law, allowing democratic elections and a free press, allocating property rights through auctions rather than backhanders/corruption. **Overall:** A range of examples to illustrate why governments may or may not find it difficult to overcome obstacles to development – each LEDC is different and faces different constraints/obstacles, so governments must be responsive to those differences.