# OXFORDAQA
## INTERNATIONAL QUALIFICATIONS

# INTERNATIONAL A-LEVEL

# ECONOMICS

# EC04

Unit 4  Economic Development and the Global Economy

Mark scheme

January 2024

Version: 1.0 Final

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from www.oxfordaqa.com

# International A-level Economics mark scheme

**How to mark**

**Aims**

When you are marking your allocation of scripts your main aims should be to:
- recognise and identify the achievements of students
- place students in the appropriate mark band and in the appropriate part of that mark band (high, low, middle)
- record your judgements with brief notes, annotations and comments that are relevant to the mark scheme and make it clear to other examiners how you have arrived at the numerical mark awarded
- put into a rank order the achievements of students (not to grade them – that is done later using the rank order that your marking has produced)
- ensure comparability of assessment for all students, regardless of question or examiner.

**Approach**

It is important to be **open minded** and **positive** when marking scripts.

The specification recognises the variety of experiences and knowledge that students will have. It encourages them to study Economics in a way that is relevant to them. The questions have been designed to give them opportunities to discuss what they have found out about Economics. It is important to assess the quality of **what the student offers**.

**Assessment Objectives**

This component requires students 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. |

**The marking grids**

The marking grids cover all the Assessment Objectives indicated as being assessed in each question, followed by indicative content for individual tasks. These have been designed to allow assessment of the range of knowledge, understanding and skills that the specification demands.

The indicative content gives examples of the kind of things students might cover in their responses. They are neither exhaustive nor required – they are simply indicative of what could appear. Other valid content presented in student responses should always be credited.

**Using the grids**

These levels of response mark schemes are broken down into levels, each of which has descriptors. The descriptors for the level show the performance characteristics of the level. There is the same number of marks in each level. The number of marks per level varies depending upon the total number of marks allocated to the question.

Having familiarised yourself with the descriptors and indicative content, read through the answer and annotate it to identify the qualities that are being looked for and that it shows. You can now check the levels and award a mark.

**Step 1 Determine a level**

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptors for that level. The descriptors for the level indicate the different qualities that might be seen in the student's answer for that level.

When assigning a level, you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best-fit approach for defining the level and then use the variability of the response to help decide the mark within the level; ie if the response fulfils most but not all of level 3 with a small amount of level 4 material, it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

**Step 2 Determine a mark**

Once you have assigned a level you need to decide on the mark.

It is often best to start in the middle of the level's mark range and then check and adjust.

The exemplar materials used during standardisation should be referred to. There will be an answer in the standardising materials that will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is of the same standard, better or worse. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

An answer that contains nothing of relevance to the question must be awarded no marks.

Examiners are required to assign each of the students' responses to the most appropriate level according to its overall quality, then allocate a single mark within the level. When deciding upon a mark in a level, examiners should bear in mind the relative weightings of the Assessment Objectives and be careful not to over/under credit a particular skill. For example, in question 13 more weight should be given to AO3 than to AO1 and AO2. This will be exemplified and reinforced as part of examiner training.
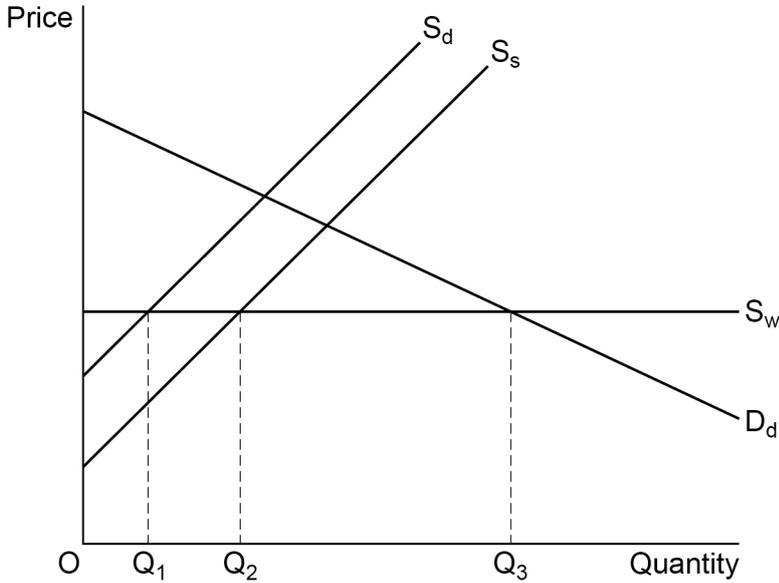
**Annotating scripts**

Annotating scripts will help you with making accurate judgements and it will help any subsequent markers to identify how you are thinking. Please do not write negative comments about students' work; this is unprofessional and it impedes a positive marking approach.

**Section A**                                                     **Total for this section:  10 marks**

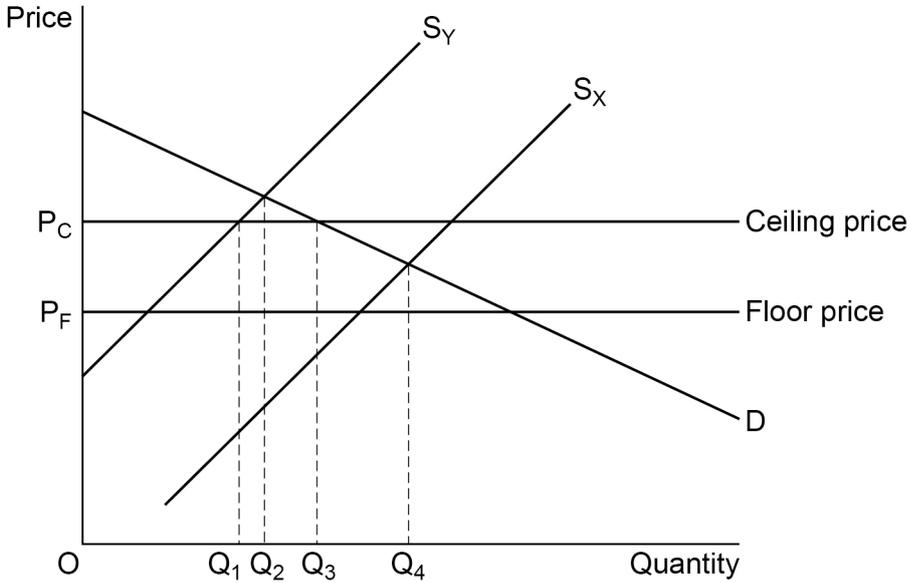| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 01 | | Which one of the following options identifies **two** characteristics of globalisation?<br><br>Answer:  **A**  (Free trade and transnational corporations) | 1<br><br>AO1 = 1 |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 02 | | <br><br>The subsidy reduces imports from<br><br>Answer:  **D**  $((OQ_3 - OQ_1)$ to $(OQ_3 - OQ_2))$ | 1<br><br>AO2 = 1 |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 03 | | Which one of the following is a role of the International Monetary Fund (IMF)?<br><br>Answer:  **B**  (To help a country with a balance of payments problem) | 1<br><br>AO1 = 1 |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 04 | | | 1<br><br>AO2 = 1 |

| | HDI | | Gini coefficient | |
|---|---|---|---|---|
| | Year 1 | Year 2 | Year 1 | Year 2 |
| Country W | 0.732 | 0.698 | 0.343 | 0.358 |
| Country X | 0.569 | 0.597 | 0.402 | 0.372 |
| Country Y | 0.848 | 0.856 | 0.321 | 0.305 |
| Country Z | 0.782 | 0.801 | 0.403 | 0.451 |

Which country is most likely to have had the greatest improvement in its economic development between Year 1 and Year 2?

Answer: **B** (Country X)

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 05 | | Which one of the following is an expenditure-switching policy that a government might use to reduce a deficit on the current account of the balance of payments?<br><br>Answer: **C** (A tariff on imports) | 1<br><br>AO1 = 1 |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 06 | | | 1<br><br>AO2 = 1 |

| Year | GDP ($bn) | Price index |
|---|---|---|
| 2022 | 250 | 140 |
| 2023 | 280 | 150 |

The country's rate of economic growth in 2023, to one decimal place, was

Answer: **A** (4.5%)

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| **07** | | <br><br>Bad weather causes the supply curve of the commodity to shift from $S_X$ to $S_Y$.<br><br>Which one of the following actions by the buffer stock agency will keep the price between $P_C$ and $P_F$?<br><br>Answer: **D** (Selling $OQ_3 – OQ_1$ of the commodity) | **1**<br><br>**AO3 = 1** |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 08 | | The value of goods imported by a country equals $240 billion.  The country's income elasticity of demand for imports is –0.2.<br><br>All other things being equal, what will happen to the value of goods imported if the country's national income rises by 5%?<br><br>Answer:  **A**  (Decrease by $2.4 billion) | **1**<br><br>**AO2 = 1** |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 09 | | Which one of the following is an example of asymmetric information in a financial market?<br><br>Answer:  **D**  (A person applying for a loan without revealing they will soon lose their job) | **1**<br><br>**AO1 = 1** |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 10 | | | **1**<br><br>**AO2 = 1** |

|  | MCOR | Savings ratio |
|---|---|---|
| **Country W** | 2:1 | 0.25 |
| **Country X** | 3:1 | 0.22 |
| **Country Y** | 4:1 | 0.24 |
| **Country Z** | 5:1 | 0.15 |

According to the Harrod-Domar model, which country is likely to have the highest rate of economic growth?

Answer:  **A**  (Country W)

**Section B**                                                   **Total for this section:  10 marks**

| Question | Part | Marking guidance | Total marks |
|----------|------|------------------|-------------|
| **11** | **1** | Define 'balance of payments'.<br><br>**A full and precise definition is given (2 marks)**<br><br>Examples of acceptable definitions worth 2 marks:<br><br>• a record of a country's financial transactions with the rest of the world<br>• a country's exports and imports of goods and services and international capital flows<br>• a record of a country's visible and invisible exports and imports and international capital flows<br>• a record of the money coming into a country from the rest of the world and the money leaving the country<br>• A record showing four components of a country's transactions, the current account, the capital account, the financial account and errors & omissions.<br><br>**The substantive content of the definition is correct, but there may be some imprecision or inaccuracy (1 mark)**<br><br>Examples of definitions worth 1 mark:<br><br>• a record of a country's exports and imports<br>• shows the value (allow 'amount') of exports and imports<br>• the flow of money into (or leaving) a country. | **2**<br><br>**AO1 = 2** |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| **11** | **2** | | **4**<br><br>**AO1 = 1**<br>**AO2 = 3** |

| Date | Index of export prices | Index of import prices |
|---|---|---|
| January 2021 | 98 | 104 |
| January 2023 | 117 | 113 |

Calculate the change in the country's terms of trade between January 2021 and January 2023.

Give your answer to **one** decimal place.

Calculation:

Terms of trade (January 2021) $= \dfrac{98}{104} \times 100 = 94.23$

Terms of trade (January 2023) $= \dfrac{117}{113} \times 100 = 103.54$

Change in the terms of trade $= 103.54 - 94.23 = 9.31$
$= \mathbf{9.3}$ (1dp)

The country's terms of trade improved by 9.3 (accept 9.3 index points)

Allow: the terms of trade improved by 9.9% [(9.31 ÷ 94.23 × 100) = 9.88008]

| Response | Max 4 marks |
|---|---|
| For the correct answer (with or without working): 9.3 | **4 marks** |
| For the correct answer but not rounded to one decimal place: eg 9.31 or 9<br><br>**OR**<br><br>For the correct answer but rounded the wrong way: 9.4<br><br>**OR**<br><br>For the correct answer but with added/incorrect units: eg $9.3<br><br>**OR**<br><br>For the correct answer as a percentage but not rounded to one decimal place: eg 10%<br><br>**OR**<br><br>For the correct answer rounded to one decimal place but with a minus sign: –9.3 | **3 marks** |

| | | | | |
|---|---|---|---|---|
| | | For the correct calculation of the terms of trade in January 2021 **and** the correct calculation of the terms of trade in January 2023 but the wrong answer<br><br>**OR**<br><br>For the correct answer not rounded to one decimal place and with a minus sign: eg –9.31<br><br>**OR**<br><br>For the correct answer with added/incorrect units **and** not correctly rounded to one decimal place: eg $9.4 | **2 marks** | |
| | | For the correct calculation of the terms of trade in January 2021 **or** the correct calculation of the terms of trade in January 2023<br><br>**OR**<br><br>For the correct method throughout but the wrong final answer | **1 mark** | |

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| **11** | **3** | The price elasticity of demand for a country's exports of goods and services is inelastic. The price elasticity of demand for its imports of goods and services is also inelastic.<br><br>The price of the country's exports rises and the price of its imports falls.<br><br>Explain the effect of these changes in the price of the country's exports and imports on its balance of trade in goods and services. | **4**<br><br>**AO1 = 1**<br>**AO2 = 3** |

| Level | Marks | Descriptor |
|---|---|---|
| **2** | 3–4 | • Shows good knowledge and understanding of relevant terminology, concepts and principles.<br>• Shows the ability to apply relevant economic principles to clearly explain the effect of the changes in the price of the country's exports and imports on its balance of trade in goods and services. |
| **1** | 1–2 | • Shows some limited knowledge and understanding of relevant terminology, concepts and principles.<br>• Shows some limited ability to apply relevant economic principles to partially explain the effect of the changes in the price of the country's exports and imports on its balance of trade in goods and services. |
| | 0 | No creditworthy material |

**An example of an acceptable explanation:**

The balance of trade is the value of exports minus the value of imports. If demand is inelastic, a given percentage change in price will lead to a smaller percentage change in the quantity demanded. Since the demand for exports is price inelastic, the value of exports will rise since the fall in quantity sold will be less than the rise in price. The fall in the price of imports will lead to a fall in the amount spent on imports since the fall in price will be greater than the increase in quantity bought. Consequently, the balance of trade in goods and services will improve because the value of exports will increase and the value of imports will fall.

Credit valid alternative content.

**MAXIMUM FOR QUESTION 11: 10 MARKS**

**Section C**                                                                    **Total for this section:  45 marks**

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| **12** | **1** | **Extract A** shows the US Federal Reserve's base rate of interest and the US dollar exchange rate index.<br><br>Explain why the US Federal Reserve's base rate of interest is likely to affect the US dollar exchange rate index. | **4**<br><br>**AO1 = 1**<br>**AO2 = 1**<br>**AO3 = 2** |

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent.  When deciding on a mark all should be considered together using the best-fit approach.  In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.

| Level | Marks | Descriptor |
|---|---|---|
| **2** | 3–4 | • Shows sound knowledge and understanding of relevant economic terminology, concepts and principles.<br>• Includes reasonable application of relevant economic principles to support the response.<br>• Includes well-focused analysis with a clear, logical chain of reasoning. |
| **1** | 1–2 | • Shows some limited knowledge and understanding of relevant economic terminology, concepts and principles.<br>• May include some application of relevant economic principles to the question.<br>• May include some attempted analysis but the analysis is not adequately developed and/or may be confused. |
| | 0 | No creditworthy material |

**Indicative content:**

- definition of base rate of interest
- statement that a rise in the Federal Reserve's base rate of interest is likely to lead to an increase in the US dollar exchange rate index and vice versa
- explanation of why an increase in the Federal Reserve's base rate of interest is likely to lead to an increase in other US interest rates
- explanation of why an increase/decrease in US interest rates is likely to increase/decrease the demand for the US dollar on the Foreign Exchange Market (FOREX)
- explanation of why an increase/decrease in US interest rates is likely to decrease/increase the supply of US dollars on the FOREX
- explanation of why an increase in the demand for US dollars and/or decrease in the supply of US dollars is likely to lead to an appreciation in the US dollar exchange rate
- explanation of why a decrease in the demand for US dollars and/or an increase in the supply of US dollars is likely to lead to a depreciation in the US dollar exchange rate
- answers may focus on the impact of changes in rate of interest on AD which feed through to changes in the exchange rate, i.e.
    - a reduction in AD due to a rise in interest rate may reduce import spending reducing the supply of US $ on the FOREX which in turn may raise the exchange rate
    - reduced domestic demand due to a rise in interest rate may result in US producers switching to the export market. A rise in exports may increase the demand for US $ on the FOREX thus raising the exchange rate.

**Note**: Some students may support their answer with a diagram, but this is not required for full marks.

Credit valid alternative content.

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 12 | 2 | To what extent do the data suggest that the US Federal Reserve's base rate of interest affected the US dollar exchange rate index between January 2022 and September 2022.<br><br>Use the data in **Extract A** to support your answer. | 4<br><br>**AO1 = 1**<br>**AO2 = 1**<br>**AO4 = 2** |

Examiners are reminded that AO1, AO2 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.

| Level | Marks | Descriptor |
|---|---|---|
| 2 | 3–4 | • Includes sound evidence that indicates the extent to which the US Federal Reserve's base rate of interest affected the US dollar exchange rate index.<br>• Includes a supported judgement concerning the extent to which the US Federal Reserve's base rate of interest affected the US dollar exchange rate index. |
| 1 | 1–2 | • Includes some limited evidence that indicates the extent to which the US Federal Reserve's base rate of interest affected the US dollar exchange rate index.<br>• May attempt a judgement concerning the extent to which the US Federal Reserve's base rate of interest affected the US dollar exchange rate index. |
| | 0 | No creditworthy material |

**Indicative content:**

- between January and February, the base rate of interest was unchanged at 0.25% and the US dollar exchange rate index hardly changed, it fell from an index of 115.1 to 115.0
- in March, the base rate of interest increased to 0.5% and between February and April the US dollar exchange rate index increased by 2.3 index points from 115.0 to 117.3
- from early in May until near the end of September the base rate of interest increased from 1.0% to 3.25% and the US dollar exchange rate index increased by 5.9 index points from an index of 119.8 to 125.7
- the above support the view that the Federal Reserve's base rate of interest affects the US dollar exchange rate and are consistent with a direct relationship between the two
- however, at the end of July, the base rate of interest increased from 1.75% to 2.5% but the US dollar exchange rate index fell from an index of 122.8 in July to 122.4 in August which is not consistent with a direct relationship between the Federal Reserve's base rate of interest and the US dollar exchange rate
- nevertheless, over the whole period, the base rate of interest increased from 0.25% to 3.25% and the US dollar exchange rate index increased from an index of 115.1 to 125.7, showing a strong positive correlation between the two
- recognition that the US dollar exchange rate is likely to be affected by expectations of future changes in the Federal Reserve's base rate of interest as well as the current rate and factors that might affect these expectations

- consideration of other factors that might influence the US dollar exchange rate index, such as interest rates in other countries and the US balance of payments
- students are likely to conclude that there is strong evidence to support the view that the US Federal Reserve's base rate of interest affected the US dollar exchange rate index between January 2022 and September 2022.

Credit valid alternative content.

**MAXIMUM FOR QUESTION 12:  8 MARKS**

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 13 | | **Extract B** (lines 6–8) states: 'the US central bank (the Federal Reserve) became determined to reduce inflation.  It increased its base rate of interest, in stages, from 0.25% in January to 3.25% in September.'<br><br>Explain how the rise in the Federal Reserve's base rate of interest is likely to affect the rate of inflation in the US. | **12**<br><br>**AO1 = 3**<br>**AO2 = 3**<br>**AO3 = 6** |

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent.  When deciding on a mark all should be considered together using the best-fit approach.  In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.  More weight should therefore be given to AO3 than AO1 and AO2.

| Level | Marks | Descriptor |
|---|---|---|
| 3 | 9–12 | • Is well organised and develops one or more of the key issues that are relevant to the question.<br>• Shows sound knowledge and understanding of relevant economic terminology, concepts and principles.<br>• Includes good application of relevant economic principles and/or good use of data to support the response.<br>• Includes well-focused analysis with a clear, logical chain of reasoning.<br>• May include a relevant diagram that is accurate and used appropriately to support their explanation. |
| 2 | 5–8 | • Includes one or more issues that are relevant to the question.<br>• Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present.<br>• Includes reasonable application of relevant economic principles and/or data to the question.<br>• Includes some reasonable analysis but it might not be adequately developed and may be confused in places.<br>• May include a relevant diagram to support their explanation. |
| 1 | 1–4 | • Is very brief and/or lacks coherence.<br>• Shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely.<br>• Demonstrates very limited ability to apply relevant economic principles and/or data to the question.<br>• May include some very limited analysis but the analysis lacks focus and/or becomes confused.<br>• May include a diagram but the diagram is likely to be inaccurate in some respects or is inappropriate. |
| | 0 | No creditworthy material |

**Indicative content:**

- definitions of inflation and interest rates
- explanation of possible causes of inflation, including demand-pull and cost-push factors
- explanation of how a rise in the Federal Reserve's base rate of interest is likely to affect other interest rates in the US
- explanation of why rising interest rates are likely to affect firms' and households' willingness to borrow
- explanation of why rising interest rates are likely to affect households' willingness to save
- explanation of how rising interest rates affect aggregate demand and demand-pull inflationary pressures
- explanation of how a reduction in aggregate demand affects factor markets and firms' costs of production
- explanation of how a rise in interest rates affects inflationary expectations and hence future rates of inflation
- explanation of how an appreciation in the exchange rate, caused by higher interest rates, affects the cost of imports and cost-push inflationary pressures
- explanation of why a rise in interest rates is likely to reduce the rate of growth in the money supply
- explanation of how a fall in the rate of growth in the money supply is likely to affect inflation.

Credit valid alternative content.

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| **14** | | **Extract C** (lines 6–7) states: 'Financial institutions provide a variety of services to individuals, businesses and governments'.<br><br>Discuss how financial markets may affect the economic development of a country and the economic well-being of its people. | **25**<br><br>**AO1 = 4**<br>**AO2 = 3**<br>**AO3 = 9**<br>**AO4 = 9** |

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent.  When deciding on a mark all should be considered together using the best-fit approach.  In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.  More weight should therefore be given to AO4 and AO3 than AO1 and AO2.

| Level | Marks | Descriptor |
|---|---|---|
| 5 | 21–25 | **Sound, focused analysis and well-supported evaluation that:**<br>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors<br>• includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response<br>• includes well-focused analysis with clear, logical chains of reasoning<br>• includes supported evaluation throughout the response and in a final conclusion. |
| 4 | 16–20 | **Sound, focused analysis and some supported evaluation that:**<br>• is organised, showing sound knowledge and understanding of economic terminology, concepts and principles but some minor errors may be present<br>• includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response<br>• includes some well-focused analysis with clear, logical chains of reasoning<br>• includes some reasonable, supported evaluation. |
| 3 | 11–15 | **Some reasonable analysis but generally unsupported evaluation that:**<br>• focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present<br>• includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response<br>• includes some reasonable analysis but which might not be adequately developed or becomes confused in places<br>• includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data. |
| 2 | 6–10 | **A fairly weak response with some understanding that:**<br>• includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely<br>• includes some limited application of relevant economic principles to the given context and/or data to the question<br>• includes some limited analysis but it may lack focus and/or become confused<br>• includes some evaluation which is weak and unsupported. |
| 1 | 1–5 | **A very weak response that:**<br>• includes little relevant knowledge and understanding of economic terminology, concepts and principles<br>• includes application to the given context which is, at best, very weak<br>• includes attempted analysis which is weak and unsupported. |
| | 0 | No creditworthy material |

**Indicative content:**

- explanation of financial markets, economic development and economic well-being
- explanation of the services financial markets provide to individuals, firms and governments
- analysis of the role of financial institutions in providing an efficient means of payment, stimulating trade and economic activity
- discussion of the importance of trade within an economy for economic development and people's economic well-being
- explanation of the role of financial institutions in channelling funds from savers to investors
- discussion of the importance of investment for economic development
- explanation of the role of financial institutions in providing foreign exchange, stimulating foreign trade and international investment flows
- analysis of the importance of international trade and investment for economic development
- discussion of the importance of the insurance services provided by financial institutions for individuals and firms
- explanation of the importance of financial institutions for governments wishing to raise finance to pay for public expenditure
- evaluation of the importance of public expenditure for economic development and economic well-being
- explanation of how financial institutions, including credit unions and microfinance, can help individuals set up, run and develop businesses
- analysis and evaluation of how access to financial services can contribute to reducing poverty and inequality
- discussion of how access to financial services can support families and the independence of women
- explanation of reasons why financial institutions can fail
- assessment of the consequences of problems in financial markets and how they can affect economic development and people's economic well-being
- analysis and evaluation of how speculation and instability in financial markets can affect economic development and economic well-being, eg fluctuating exchange rates and interest rates and their impact on heavily indebted poor countries (HIPCs)
- an overall assessment of how financial markets may affect the economic development of a country and the economic well-being of its people.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Credit valid alternative content.

**Section D**  **Total for this section:  25 marks**

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| **15** | | The damaging impact of climate change is being felt around the world.  In recent years, some countries have experienced droughts and extreme heat whereas in other parts of the world there have been floods and severe storms.<br><br>Discuss whether governments' attempts to improve living standards conflict with policies to preserve the natural environment. | **25**<br><br>**AO1 = 4**<br>**AO2 = 3**<br>**AO3 = 9**<br>**AO4 = 9** |

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent.  When deciding on a mark all should be considered together using the best-fit approach.  In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question.  More weight should therefore be given to AO4 and AO3 than AO1 and AO2.

| Level | Marks | Descriptor |
|---|---|---|
| **5** | 21–25 | **Sound, focused analysis and well-supported evaluation that:**<br>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors<br>• includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response<br>• includes well-focused analysis with clear, logical chains of reasoning<br>• includes supported evaluation throughout the response and in a final conclusion. |
| **4** | 16–20 | **Sound, focused analysis and some supported evaluation that:**<br>• is organised, showing sound knowledge and understanding of economic terminology, concepts and principles but some minor errors may be present<br>• includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response<br>• includes some well-focused analysis with clear, logical chains of reasoning<br>• includes some reasonable, supported evaluation. |
| **3** | 11–15 | **Some reasonable analysis but generally unsupported evaluation that:**<br>• focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present<br>• includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response<br>• includes some reasonable analysis but which might not be adequately developed or becomes confused in places<br>• includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data. |
| **2** | 6–10 | **A fairly weak response with some understanding that:**<br>• includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely<br>• includes some limited application of relevant economic principles to the given context and/or data to the question<br>• includes some limited analysis but it may lack focus and/or become confused<br>• includes some evaluation which is weak and unsupported. |

| 1 | 1–5 | **A very weak response that:**<br>• includes little relevant knowledge and understanding of economic terminology, concepts and principles<br>• includes application to the given context which is, at best, very weak<br>• includes attempted analysis which is weak and unsupported. |
|---|---|---|
| | 0 | No creditworthy material |

**Indicative content:**

- definitions of living standards and the natural environment
- explanation of the factors that affect living standards, eg ability to consume goods and services, access to education and health care
- discussion of inequality and living standards
- discussion of the importance of economic growth as a means of improving living standards
- explanation of why economic growth can lead to the depletion of natural resources and affect the natural environment
- discussion of the significance of renewable and non-renewable resources
- explanation of how economic growth and improvements in living standards are likely to produce negative externalities, including waste and pollution
- analysis of why economic growth and improvements in living standards lead to increased energy consumption, travel and global warming
- assessment of whether measures adopted by some countries to achieve economic growth and improvements in living standards may conflict with policies adopted by other countries that are designed to preserve the natural environment
- discussion of whether economic growth and improvements in living standards give people the incentive to care more for the natural environment and the means to invest in protecting it
- evaluation of the possible significance of technological change in helping to avoid the potential conflict between improvements in living standards and preserving the natural environment
- explanation and evaluation of the environmental Kuznets curve, its significance and validity
- identification of policies governments might adopt to try to preserve the natural environment, eg subsidising renewables, pollution taxes, pollution permits, extension of property rights, restricting the use of fossil fuels, banning petrol and diesel vehicles
- evaluation of the extent to which policies to protect the natural environment might conflict with governments' attempts to improve living standards, eg pollution taxes may be regressive and increase inequality
- an overall assessment of the extent to which governments' attempts to improve living standards are likely to conflict with policies to preserve the natural environment.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Credit valid alternative content.

| Question | Part | Marking guidance | Total marks |
|---|---|---|---|
| 16 | | The Bretton Woods system, that collapsed in 1973, was a fixed exchange rate system. Since then, many countries have adopted managed floating exchange rates.<br><br>Assess the arguments for and against a managed floating exchange rate system. | 25<br><br>AO1 = 4<br>AO2 = 3<br>AO3 = 9<br>AO4 = 9 |

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best-fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives in this question. More weight should therefore be given to AO4 and AO3 than AO1 and AO2.

| Level | Marks | Descriptor |
|---|---|---|
| 5 | 21–25 | **Sound, focused analysis and well-supported evaluation that:**<br>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors<br>• includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response<br>• includes well-focused analysis with clear, logical chains of reasoning<br>• includes supported evaluation throughout the response and in a final conclusion. |
| 4 | 16–20 | **Sound, focused analysis and some supported evaluation that:**<br>• is organised, showing sound knowledge and understanding of economic terminology, concepts and principles but some minor errors may be present<br>• includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response<br>• includes some well-focused analysis with clear, logical chains of reasoning<br>• includes some reasonable, supported evaluation. |
| 3 | 11–15 | **Some reasonable analysis but generally unsupported evaluation that:**<br>• focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present<br>• includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response<br>• includes some reasonable analysis but which might not be adequately developed or becomes confused in places<br>• includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data. |
| 2 | 6–10 | **A fairly weak response with some understanding that:**<br>• includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely<br>• includes some limited application of relevant economic principles to the given context and/or data to the question<br>• includes some limited analysis but it may lack focus and/or become confused<br>• includes some evaluation which is weak and unsupported. |

| 1 | 1–5 | **A very weak response that:**<br>• includes little relevant knowledge and understanding of economic terminology, concepts and principles<br>• includes application to the given context which is, at best, very weak<br>• includes attempted analysis which is weak and unsupported. |
|---|---|---|
| | 0 | No creditworthy material |

**Indicative content:**

- definition of an exchange rate
- the distinction between managed floating, free floating and fixed exchange rates
- explanation of how a country's exchange rate is determined when it adopts a managed floating exchange rate
- explanation of why, under a managed floating system, exchange rates are likely to fluctuate but may be more stable than under a free-floating exchange rate system
- analysis and evaluation of the arguments in favour of a managed floating exchange rate system:
  - changes in the exchange rate can be used to help resolve balance of payments problems
  - provides governments with the ability to manage their economies by giving them a degree of independence with regard to their use of monetary and fiscal policy
  - exchange rate flexibility helps to protect the domestic economy from external shocks
  - easier for the governments to respond to economic shocks and support the domestic economy
  - governments can intervene in the Foreign Exchange Market (FOREX) to influence the exchange rate when there is destabilising speculation
  - as the economy changes, the exchange rate can adjust gradually to reallocate resources, unlike under a fixed rate system
-  analysis and evaluation of the arguments against a managed floating exchange rate system:
  - the fluctuations in exchange rates that inevitably occur can inhibit international trade and make it less likely that countries will gain the full benefits that can result from specialisation and trade
  - fluctuating exchange rates may inhibit international capital flows
  - compared to a fixed exchange rate system, it removes some of the discipline from governments in their use of monetary and fiscal policy
  - may have an inflationary bias
  - destabilising speculation is much more prevalent than under a fixed exchange rate system and this can damage the domestic economy
  - governments may need large foreign exchange reserves to manage their currencies and deter speculation
  - governments may intervene in the FOREX to try to force a depreciation in the exchange rate to make their products more competitive, harming other countries and distorting trade flows
- discussion of how the various arguments for and against managed floating exchange rates depend on the extent to which governments and central banks intervene in the FOREX and their ability to influence the exchange rate
- evaluation of how the various arguments for and against a system of managed floating exchange rates depend on 'the rules' agreed by the international community, maybe through the auspices of the IMF, and the extent to which they are followed
- an overall assessment of the arguments for and against managed floating exchange rates.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Credit valid alternative content.

**Assessment Objectives Grid**

| | AO1 | AO2 | AO3 | AO4 | Total |
|---|---|---|---|---|---|
| **Section A** | | | | | |
| 01 | 1 | | | | **1** |
| 02 | | 1 | | | **1** |
| 03 | 1 | | | | **1** |
| 04 | | 1 | | | **1** |
| 05 | 1 | | | | **1** |
| 06 | | 1 | | | **1** |
| 07 | | | 1 | | **1** |
| 08 | | 1 | | | **1** |
| 09 | 1 | | | | **1** |
| 10 | | 1 | | | **1** |
| **Section B** | | | | | |
| 11.1 | 2 | | | | **2** |
| 11.2 | 1 | 3 | | | **4** |
| 11.3 | 1 | 3 | | | **4** |
| **Section C** | | | | | |
| 12.1 | 1 | 1 | 2 | | **4** |
| 12.2 | 1 | 1 | | 2 | **4** |
| 13 | 3 | 3 | 6 | | **12** |
| 14 | 4 | 3 | 9 | 9 | **25** |
| **Section D** | | | | | |
| 15 and 16 | 4 | 3 | 9 | 9 | **25** |
| **Unit total** | **21** | **22** | **27** | **20** | **90** |