



# Mark Scheme (Results)

Summer 2025

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

Unit 4: Developments in the global economy

## **Edexcel and BTEC Qualifications**

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at [www.edexcel.com](http://www.edexcel.com) or [www.btec.co.uk](http://www.btec.co.uk). Alternatively, you can get in touch with us using the details on our contact us page at [www.edexcel.com/contactus](http://www.edexcel.com/contactus).

## **Pearson: helping people progress, everywhere**

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: [www.pearson.com/uk](http://www.pearson.com/uk)

Summer 2025

Question Paper Log Number P78811A

Publications Code WEC14\_01\_2506\_MS

All the material in this publication is copyright

© Pearson Education Ltd 2025

## General Marking Guidance

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

## Section A

| Question Number | Quantitative skills assessed   | Answer  | Mark |
|-----------------|--|---|------|
| 1               | <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.   | <p><b>The only correct answer is A</b></p> <p><i>B is not correct because this would reduce economic development in India</i></p> <p><i>C is not correct because this would reduce economic development in India</i></p> <p><i>D is not correct because this would reduce economic development in India</i></p>   | (1)  |
| 2               | <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.   | <p><b>The only correct answer is C</b></p> <p><i>A is not correct because this would most likely lead to a decrease in debt servicing costs</i></p> <p><i>B is not correct because the rate of inflation is likely to decrease</i></p> <p><i>D is not correct because there is no link between a country's national debt and absolute advantage</i></p>   | (1)  |
| 3               | <p><b>QS1:</b> Calculate, use and understand ratios and fractions.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>         | <p><b>The only correct answer is B</b></p> <p><i>A is not correct because export prices of Romania's goods and services would have fallen relative to the average export prices of its trading partners</i></p> <p><i>C is not correct because Romania's goods and services would have become more internationally competitive relative to its trading partners</i></p> <p><i>D is not correct because Romania would experience a worsening in its terms of trade</i></p> | (1)  |
| 4               | <p><b>QS4</b> Construct and interpret a range of standard graphical forms.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> | <p><b>The only correct answer is D</b></p> <p><i>A is incorrect because SRAS is likely to shift to the left as a result of the rising costs of imports</i></p> <p><i>B is incorrect because SRAS is likely to shift to the left as a result of the rising costs of imports/AD is likely to shift to the right as a result of rising net exports</i></p> <p><i>C is incorrect because AD is likely to shift to the right as a result of rising net exports</i></p>         | (1)  |

|   |  |   |     |
|---|--|---|-----|
| 5 | <p><b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes.</p> <p><b>QS5:</b> Calculate and interpret index numbers.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> | <p><b>The only correct answer is B</b></p> <p><i>A is not correct because this is 3.1%/4.8% and does not calculate the index of export prices or index of import prices</i></p> <p><i>C is not correct because this is (index of import prices/index of export prices)*100 = 96.9/95.2 * 100</i></p> <p><i>D is not correct because this is 4.8%/3.1% and does not calculate the index of export prices or index of import prices</i></p> | (1) |
| 6 | <p><b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p>   | <p><b>The only correct answer is C</b></p> <p><i>A is not correct because Uruguay's Lorenz curve shifted away from the line of perfect equality</i></p> <p><i>B is not correct because perfect income inequality in Uruguay would imply that the Gini coefficient will be 100%</i></p> <p><i>D is not correct because income inequality in Uruguay increased by 1.3 percentage points</i></p>   | (1) |

**Section B**

| Question  | Mark              |
|---|-------------------|
| <p>In 2020 the value of world exports was \$22.5 trillion.</p> <p>With reference to Figure 1, calculate the value of world GDP in 2020. You are advised to show your workings.</p> <p><b>Answer</b></p> <p><b>7(a)</b></p> <p><b>Application 2</b></p> <p>Quantitative skills assessed:</p> <p><b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Up to 2 marks for calculations:</p> <ul style="list-style-type: none"> <li>• \$22.5 trillion / 26.3 x 100 <b>(1)</b></li> <li>• \$85.55 trillion <b>(1)</b></li> </ul> <p><b>NB</b> Award 2 marks for correct answer (\$85.55 trillion / \$85.6 trillion / \$86 trillion)</p> <p><b>NB</b> Award only 1 mark for \$85.55 / \$85.6 / \$86</p> | <p><b>(2)</b></p> |

| Question | With reference to Figure 1 and the first paragraph of Extract A, examine <b>two</b> factors that contributed to 'increased globalisation'.<br><br><b>Answer</b>   | Mark       |
|----------|---|------------|
| 7(b)     | <p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p>Quantitative skills assessed:<br/> <b>QS2:</b> Calculate, use and understand percentages, percentage changes and percentage point changes.<br/> <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge and analysis</b><br/> Up to 2 marks for identifying two factors and 1 mark for each linked development, e.g.:</p> <ul style="list-style-type: none"> <li>• Reduced cost of transport <b>(1K)</b>: through containerisation/fuel efficient modes of transport/better infrastructure <b>(1AN)</b></li> <li>• Reduced cost of communications <b>(1K)</b>: through internet, mobile technology and other technological advances have made it easier to communicate/make payments/share information <b>(1AN)</b></li> <li>• Increased significance of TNCs <b>(1K)</b>: they entered new markets and invested significantly in expanding abroad to increase sales /revenues/profits (via offshoring and outsourcing) <b>(1AN)</b></li> <li>• Political change/breakdown of the Soviet system and opening up of China <b>(1K)</b>: opened up previously closed economies to the world market/greater access to resources <b>(1AN)</b></li> </ul> <p><b>Application</b><br/> Up to 2 marks for application to Figure 1, e.g.:</p> <ul style="list-style-type: none"> <li>• Between 1980 and 2020, world exports, as a % of GDP, rose from 20% <b>(1)</b> to 26.3% <b>(1)</b> / 6.3 percentage points <b>(1+1)</b></li> </ul> <p><b>Evaluation</b><br/> Up to 2 marks for evaluative comments (2+0 or 1+1):</p> <ul style="list-style-type: none"> <li>• Prioritisation/significance of factors discussed e.g. reduced cost of transport is the most important <b>(1)</b> as there has been a large increase in container volumes in the last 50 years <b>(1)</b></li> <li>• Different impact on different countries <b>(1)</b> e.g. most landlocked countries have not benefited as much from containerisation as compared with those countries with access to seaports <b>(1)</b></li> <li>• Many people in developing countries are excluded from benefits of the internet or mobile technology as they live in poverty <b>(1)</b>, are illiterate or have no access to computer systems <b>(1)</b></li> <li>• Delays/uncertainty in global shipping <b>(1)</b> are encouraging some TNCs to reshore production/simplify their supply chains <b>(1)</b></li> <li>• Difficult to identify one main factor that contributed to increased globalisation <b>(1)</b> likely to be combination of/multiple factors <b>(1)</b></li> <li>• Time: globalisation has slowed <b>(1)</b> between 2011 and 2020 <b>(1)</b></li> <li>• Other factors may be significant <b>(1)</b> e.g. fall in protectionism <b>(1)</b></li> </ul> | <b>(8)</b> |

| <b>Question</b> | Explain what is meant by 'protectionist policies' (Extract A, line 14).<br><br><b>Answer</b>   | <b>Mark</b> |
|-----------------|--|-------------|
| <b>7(c)</b>     | <p><b>Knowledge 2, Application 2</b></p> <p>Quantitative skills assessed:<br/> <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b><br/> Up to 2 marks for understanding protectionist policies, e.g.:</p> <ul style="list-style-type: none"> <li>• Barriers to/restrictions on <b>(1)</b> (free) trade <b>(1)</b></li> <li>• Tariffs/quotas/non-tariff barriers/subsidies <b>(1)</b></li> <li>• Protect domestic industries/employment / prevent dumping / reduce trade deficit/imports <b>(1)</b></li> </ul> <p><b>Application</b><br/> Up to 2 marks for application to Extract A (1+1):</p> <ul style="list-style-type: none"> <li>• Growth in trade and investment increased at a slower rate <b>(1)</b></li> <li>• Use of protectionist policies by the USA and the EU on China / to protect national security <b>(1)</b></li> </ul> | <b>(4)</b>  |

| <b>Question</b> | With reference to the third paragraph of Extract A, analyse <b>two</b> roles of the World Trade Organization (WTO).<br><br><b>Answer</b>  | <b>Mark</b> |
|-----------------|---|-------------|
| <b>7(d)</b>     | <p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>Quantitative skills assessed:<br/> <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge and analysis</b><br/> Up to 2 marks for identifying two roles and one mark for each linked explanation, e.g.:</p> <ul style="list-style-type: none"> <li>• To promote free trade/trade liberalisation <b>(1K)</b> by reducing trade barriers/tariff and non-tariff barriers/use of protectionist policies <b>(1AN)</b></li> <li>• To set the rules of trade <b>(1K)</b> because greater trade flows could increase economic growth/employment/living standards <b>(1AN)</b></li> <li>• To resolve trade disputes <b>(1K)</b> by providing a forum for members to negotiate trade agreements <b>(1AN)</b></li> </ul> <p><b>Application</b><br/> Up to 2 marks for application to Extract A (1+1):</p> <ul style="list-style-type: none"> <li>• Was ineffective in preventing the USA and the EU from using protectionist policies <b>(1)</b></li> <li>• Promoting trade with developing countries in Asia, Africa and South America <b>(1)</b></li> <li>• China had established free-trade areas with 28 countries <b>(1)</b></li> </ul> | <b>(6)</b>  |

|                 |  |   |
|-----------------|--|---|
| <b>Question</b> | <p>With reference to the information provided and your own knowledge, discuss the likely economic benefits to China of signing free-trade agreements with other countries.</p> <p><b>Indicative content</b></p>  |   |
| <b>7(e)</b>     | <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application and Analysis (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• “By 2022 China had signed free-trade agreements with 28 countries. These agreements allow the free movement of goods and services and remove restrictions on foreign direct investment.”</li> <li>• China also became a member of RCEP, a free-trade area</li> <li>• Trade creation: an analysis based on the law of comparative advantage; greater specialisation and more trade; increases domestic output and thus living standards - “could increase the country’s rate of economic growth and improve its economic development”</li> <li>• Less dependence on developed countries such as the USA and the EU (use of Figure 2) who are “China’s largest export markets”: diversifying trade to reduce risks – “by promoting trade with developing countries in Asia, Africa and South America”; increase in GDP/rising incomes/falling unemployment</li> <li>• Improvement in current account of BOP: due to an increase in exports - “China’s exports to these 28 countries in 2023 contributed to nearly 38% of its global exports”</li> <li>• Benefits to domestic businesses: increased production so that they can benefit from economies of scale; businesses have access to larger and potentially more lucrative markets so they can increase sales</li> <li>• Removal of “restrictions on FDI”: greater injections into the circular flow</li> <li>• Increase in innovation and transfer of ideas: could lead to an increase in dynamic efficiency for businesses in China</li> <li>• Increase in competition between businesses: this could lead to a reduction in x-inefficiency; and to an increase in allocative efficiency</li> <li>• Benefits to consumers: lower prices and therefore increase in consumer surplus; more choice and variety of goods and services</li> <li>• Reduction in transaction costs involved in trade e.g. less bureaucracy</li> </ul> |   |
| <b>Level</b>    | <b>Mark</b>  | <b>Descriptor</b>   |
|                 | 0  | No rewardable material.   |
| <b>Level 1</b>  | 1–3  | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. |

|  |             |   |
|--|-------------|---|
|  |             | Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.  |
| <b>Level 2</b>   | 4–6         | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.   |
| <b>Level 3</b>   | 7–8         | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using relevant examples that are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |
| <p><b>Evaluation (6 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Could lead to trade diversion and distortion of comparative advantage</li> <li>• Imports may increase more than exports causing a deterioration in the current account of the balance of payments of China</li> <li>• There may be an increased interdependence on the economic performance of the other countries in the RCEP; greater impact of external shocks</li> <li>• Domestic businesses may be unable to compete with businesses based in other member countries and exit the market, causing unemployment</li> <li>• Small domestic businesses may face unrestricted competition from powerful TNCs and could exit the market</li> <li>• China is likely to gain more benefits from countries in close geographic proximity than those that are distant (may refer to transport costs)</li> <li>• Economic benefits from RCEP are likely to be greater than the economic benefits from forming 28 free-trade agreements with other countries – “a free-trade area, that contributes to one-third of the world’s GDP”</li> <li>• The agreements have been formed with 28 countries, so the economic benefits to China are likely to be sizable – 38% of China’s global exports</li> <li>• SR vs LR arguments: benefits may not last because the USA and the EU are large export markets to be isolated from – “China cannot easily replace its loss of trade with the USA and the EU by trading with other countries and regions” (use of Figure 2)</li> </ul> |             |   |
| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>   |
|  | 0           | No rewardable material.   |
| <b>Level 1</b>   | 1–2         | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.  |
| <b>Level 2</b>   | 3–4         | Evidence of evaluation of alternative approaches<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.  |
| <b>Level 3</b>   | 5–6         | Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning.   |

## Section C

|                        |  |
|------------------------|--|
| <p><b>Question</b></p> | <p>In 2022 Türkiye’s deficit on the current account of the balance of payments was \$48.75 billion. In the same year, Canada’s deficit on the current account of the balance of payments was \$6.65 billion.</p> <p>Evaluate measures that could be taken to reduce a current account deficit on the balance of payments. Refer to a country of your choice in your answer.</p> <p><b>Indicative content</b></p>   |
| <p><b>8</b></p>        | <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application, Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Understanding of current account deficit</li> </ul> <p>Measures to reduce a current account deficit include:</p> <ul style="list-style-type: none"> <li>• Increase income tax rates/decrease government spending (deflationary fiscal policy) to reduce disposable incomes: lowers marginal propensity to import, reducing the value of imports</li> <li>• Increase in interest rates (deflationary monetary policy) to reduce the average price level/consumer spending: increases cost of borrowing and reward for saving, thus reducing marginal propensity to import</li> <li>• Improvements in education and training (supply-side policy): increases human capital and productivity, increasing competitiveness, thereby reducing the cost per unit and increasing the value of exports</li> <li>• Improvements in infrastructure (supply-side policy): increases efficiency and productivity, increasing competitiveness, hence increasing the value of exports</li> <li>• Reduce the rate of corporation tax/offer tax relief to businesses who make investments into technological advancements/R&amp;D (supply-side policy): increases dynamic efficiency, increasing competitiveness, thereby reducing the cost per unit and increasing the value of exports</li> <li>• Policies to reduce the external value of the currency: exports become more price competitive thus increasing in value/imports become less price competitive thus decreasing in value</li> <li>• Protectionist policies: e.g. tariffs increase the price of imports/quotas restrict the number of imports into the country</li> <li>• Diversification/industrialisation to produce exports with more value-added</li> </ul> <p><b>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a country of their choice in their answer</b></p> |

| Level   | Mark  | Descriptor   |
|---|-------|--|
|   | 0     | No rewardable material.  |
| <b>Level 1</b>  | 1-3   | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.   |
| <b>Level 2</b>  | 4-6   | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.  |
| <b>Level 3</b>  | 7-9   | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident, but they may not be developed fully or some stages are omitted.              |
| <b>Level 4</b>  | 10-12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |
| <p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Significance of measures change over time: SR v LR considerations</li> <li>• Combination of measures is likely to have a more significant impact</li> <li>• Discussion of the effectiveness of the measures, e.g. <ul style="list-style-type: none"> <li>○ Effectiveness depends on the PES/YED/PED of imports and exports</li> <li>○ Depends if the Marshall-Lerner condition is met (may refer to J-curve)</li> <li>○ Increase in income tax/interest rates may result in a reduction in real output and increased unemployment, may inhibit long-term growth</li> <li>○ Effect on the price level depends on the level of spare capacity in the economy/depends on the elasticity of the LRAS</li> <li>○ Increase in interest rates may also cause the exchange rate to appreciate, thereby reducing price competitiveness of exports</li> <li>○ Time lags and implementation lags associated with the measures</li> <li>○ Supply-side measures may increase budget deficit and national debt</li> <li>○ Protectionism may result in retaliation; distortion of comparative advantage; not possible given membership of the WTO/trade blocs</li> <li>○ Issues with how time, cost, skill levels etc. relate to diversification/industrialisation/deindustrialisation</li> </ul> </li> </ul> |       |  |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>  |
|----------------|-------------|--|
|                | 0           | No rewardable material.  |
| <b>Level 1</b> | 1-3         | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.   |
| <b>Level 2</b> | 4-6         | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.  |
| <b>Level 3</b> | 7-8         | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

|                        |   |
|------------------------|---|
| <p><b>Question</b></p> | <p>In 2022 Mozambique had a Human Development Index (HDI) score of 0.46 whereas Guatemala had a HDI score of 0.63.</p> <p>Evaluate economic factors that constrain the growth <b>and</b> development of a developing country. Refer to a developing country of your choice in your answer.</p> <p><b>Indicative content</b></p>   |
| <p><b>9</b></p>        | <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application and Analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Understanding/definition of economic growth</li> <li>• Understanding/definition of economic development</li> </ul> <p>Economic factors include:</p> <ul style="list-style-type: none"> <li>• Volatility of commodity prices: due to price fluctuations, the producers do not have stable incomes and hence cannot plan future output and investment</li> <li>• Primary product dependency (the Prebisch-Singer hypothesis): a country that exports commodities would be able to import less for a given volume of exports. Terms of trade between primary products and manufactured products worsen over time due to the relatively low-income elasticity of demand for primary products</li> <li>• Savings gap (the Harrod-Domar model): low savings, low investment, low capital accumulation, low growth/income; can be caused by factors such as lower GDP per capita, debt repayments, capital flight, absence of FDI</li> <li>• Foreign currency gap: a developing country may face a shortage of foreign exchange because of its dependence on export earnings from primary products. This is lower than its expenditure on imports of manufactured goods/capital</li> <li>• Capital flight: individuals/businesses in a developing country decide to remove their deposits in domestic banks and place them in foreign banks, or buy shares or assets in foreign countries – contributes to the savings gap and the foreign currency gap, restricting growth and development</li> <li>• Demographic factors (size and age distribution of population; migration): e.g. population growth leads to a greater supply of labour and hence lower wages. GDP per capita will fall if GDP does not rise as fast as the population. Ageing population will raise the dependency ratio, puts an upward pressure on public goods/services. Emigration of skilled labour will lead to a less productive workforce available</li> </ul> |

|                | <ul style="list-style-type: none"> <li>• Debt: developing countries borrowed funds when interest rates were low and consequently face higher debt servicing costs when interest rate increase. Hence less funds are available for capital investment.</li> <li>• Access to credit and banking: there is an absence of credit markets in many developing countries, which deters lenders and borrowers. Markets do not form as a result of the high risks associated with lending in developing countries</li> <li>• Infrastructure: poor network of utilities/structures may make it difficult for a developing country to attract both domestic and foreign investment</li> <li>• Education and skills: education standards in a developing country may not be very high with a low school enrolment. This is likely to reduce the human capital and productivity of the workforce – HDI falls - will deter FDI</li> </ul> <p><b>N.B. Non-economic factors e.g. corruption/poor governance should only be rewarded if they are linked to economic growth and development</b></p> <p><b>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country in their answer</b></p> <p><b>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to both growth and development in their answer</b></p> |  |
|----------------|--|--|
| Level          | Mark   | Descriptor   |
|                | 0  | No rewardable material.  |
| <b>Level 1</b> | 1-3  | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach which has no chains of reasoning.  |
| <b>Level 2</b> | 4-6  | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.  |
| <b>Level 3</b> | 7-9  | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.               |
| <b>Level 4</b> | 10-12  | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

**Evaluation (8 marks) – indicative content**

- Volatility of commodity prices: when prices rise, the producers will earn high incomes and increase their foreign exchange earnings as demand for, and the supply of, primary goods is price inelastic
- Primary product dependency: some developing countries have grown on the basis of their primary products. If a developing country has a comparative advantage in their primary products, then its resources will be used more efficiently in specialising in the production of those products
- Savings gap (the Harrod-Domar model): could be filled by aid, FDI, debt relief, microfinance, borrowing from IMF/World Bank. Other factors apart from savings also affect investment such as confidence, interest rate, etc
- Capital flight: may not be an issue if a developing country establishes good governance to ensure political stability
- Demographic factors: population growth may increase technical progress and thus increasing AS/rightward shift in the PPF. More workers are available to produce goods/services, so output may rise faster than population, therefore increasing per capita incomes
- Debt: if household debt and overseas debt are accumulated as a result of investment in human capital/capital goods, then it will improve long-term growth and development prospects. Not an issue if external debt is a small percentage of GDP and if it can be paid off at low interest rates
- Access to credit and banking: microfinance schemes are available to help low-income families grow their businesses or engage in productive activities.
- Infrastructure: less of a constraint for the resource-rich developing countries who are benefiting from foreign investment in return for commodities. TNCs may build infrastructure benefitting local businesses
- Education and skills: TNCs may improve the quality of the workforce by investing in training in a developing country
- Significance of factors in short-run and long-run/changes over time, e.g. primary product dependency may be the most significant constraint on growth and development as a result of falling commodity prices
- Non-economic factors may be more significant than economic factors in limiting growth and development e.g. civil wars/terrorism
- Different factors affect different countries at different time periods

| Level          | Mark | Descriptor   |
|----------------|------|--|
|                | 0    | No rewardable material.  |
| <b>Level 1</b> | 1-3  | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.   |
| <b>Level 2</b> | 4-6  | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.  |
| <b>Level 3</b> | 7-8  | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

|                 |   |                         |
|-----------------|---|-------------------------|
| <b>Question</b> | <p>Between 2002 and 2022 Italy's public expenditure as a proportion of GDP increased from 47.1% to 56.7%.</p> <p>Evaluate the likely economic effects of an increase in public expenditure as a proportion of GDP. Refer to a developed country of your choice in your answer.</p> <p><b>Indicative content</b></p>   |                         |
| <b>10</b>       | <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application, Analysis (12 marks) – indicative content</b></p> <p>Definition or understanding of public expenditure as a proportion of GDP</p> <ul style="list-style-type: none"> <li>• If public expenditure on infrastructure/education/healthcare is increased, then the productive potential of the economy will increase and aggregate supply may increase</li> <li>• Government spending is a component of aggregate demand and is also an injection into the circular flow of income. An increase in public expenditure may lead to a positive multiplier effect leading to greater economic growth</li> <li>• Unemployment is likely to fall as there will be greater demand for labour (derived demand), thus increasing average incomes</li> <li>• There is likely to be greater inflationary pressure in the economy as the level of aggregate demand increases</li> <li>• Income inequality may decrease if the government increases transfer payments, thereby meeting the objective of greater income equality</li> <li>• Greater quality/quantity of public services implies more access to these services and hence the standard of living is likely to rise</li> <li>• Government budget balance may worsen requiring more borrowing and hence resulting in an increase in the national debt</li> <li>• More financial and resource crowding out as the government will have to finance its spending through borrowing (higher interest rates), and there will be fewer factors of production available to the private sector</li> <li>• Reduction in economic efficiency because there would be a smaller role for the private sector</li> </ul> <p><b>N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer</b></p> <p><b>N.B. Award positive effects as KAA and negative as evaluation (or vice versa)</b></p> |                         |
| <b>Level</b>    | <b>Mark</b>   | <b>Descriptor</b>       |
|                 | 0   | No rewardable material. |

|   |       |   |
|---|-------|---|
| <b>Level 1</b>  | 1-3   | <p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach which has no chains of reasoning.</p>  |
| <b>Level 2</b>  | 4-6   | <p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>  |
| <b>Level 3</b>  | 7-9   | <p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>               |
| <b>Level 4</b>  | 10-12 | <p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p> |
| <p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Significance depends on how much public expenditure increases, and how big a component of aggregate demand it was to start with</li> <li>• The impact on real output depends on the size of the multiplier effect as the effects might be negligible if the value of the multiplier is low</li> <li>• Public expenditure may still be falling, it may be that GDP is decreasing at a faster rate</li> <li>• Effects on the real output, employment and inflation depend on the level of spare capacity in the economy/elasticity of the LRAS</li> <li>• Budget position also depends on the tax revenues; if tax revenue also increases, government objective of budget balance may not worsen</li> <li>• More crowding out could mean aggregate demand may fall in the long-run; private investment and consumption may potentially decrease</li> <li>• It depends on which areas of spending are increased e.g. if spending on benefits/transfer payments is increased, individuals may have less incentive to work, leading to an increase in unemployment</li> <li>• Discussion of the magnitude of the increase in public expenditure – in the case of Italy (from 47.1% to 56.7% over 20 years)</li> </ul> |       |   |

| <b>Level</b>   | <b>Mark</b> | <b>Descriptor</b>  |
|----------------|-------------|--|
|                | 0           | No rewardable material.  |
| <b>Level 1</b> | 1-3         | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.   |
| <b>Level 2</b> | 4-6         | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.  |
| <b>Level 3</b> | 7-8         | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

