EC4

GENERAL MARKING GUIDANCE

Positive Marking

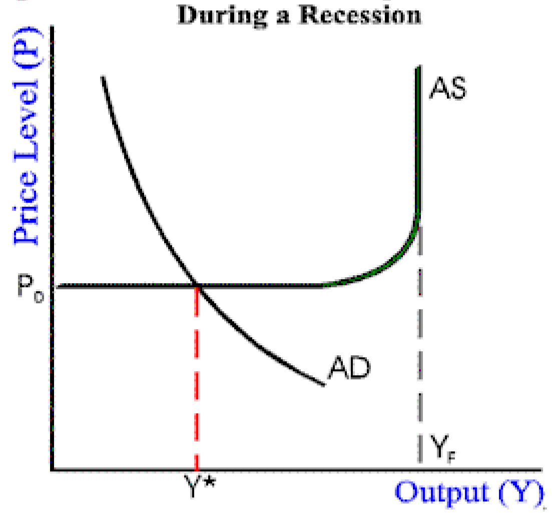
It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one 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.

Each question in Section B will be marked using a Levels of Response mark scheme.

For each question there is a list of indicative content which suggests the range of economic concepts, theory, issues and arguments which might be included in candidates' answers.

In addition, in Section B, candidates will be assessed on their Quality of Written Communication. Levels of response are used for QWC and these levels will help to determine where in a level a candidates' response lies.

GCE ECONOMICS - EC4

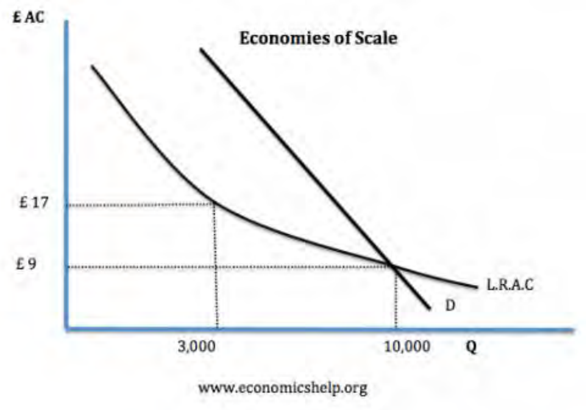
Question	Answer	Mark allocation	Assessment objective
1(a)	**With reference to figure 3 explain the costs of high unemployment to countries such as Greece and Spain.** **Level 1.** Identification of at least TWO factors to a maximum of FOUR: • Lost output of goods and services/lower GDP/lower long run growth. • Reduced profits of firms thus less investment/innovation/loss of dynamic efficiency. • Waste of scarce economic resources/links to PPF. • Fiscal costs to the government (higher government spending/lower tax revenues). • Deadweight loss of investment in human capital/de-skilling/hyseteris/increase in the natural rate of unemployment. • Links to social and economic deprivation/relative poverty/crime and income inequality. (1-4) **Level 2.** Up to 4 for each factor to maximum of 4 factors 2 marks for a relevant integrated diagram. PPF/link to Pareto inefficiency. Or an AD/AS diagram/ *Figure 7-7* **Macroeconomic Equilibrium During a Recession**  Two well explained factors 8 marks (4 marks each)	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
1(b)	**Explain why potential Eurozone members have to meet the convergence criteria described in figure 2.** **Level 1 (1-4)** Identification of TWO reasons linked to the criteria below: • an inflation rate no more than 1.5 percentage points above the average of the three countries with the lowest inflation rates • nominal long-term interest rates not exceeding by more than 2 percentage points those for the three countries with the lowest inflation rates • no exchange rate realignment for at least two years • a government budget deficit not in excess of 3 percent of each country's GDP • a gross debt to GDP ratio that does not exceed 60 percent of GDP Or A general explanation of convergence linked back to the Eurozone is also worth up to 4. **Level 2.** Explanation of reasons (5-8) At least one specific criterion must be developed for level 2. Price stability will help ensure that (a) New member states do not suffer from falling competitiveness relative to Germany (b) prevent the euro from being undermined. Also it makes it more likely that the single interest rate will be able to cover a wider range of member states; if inflation rates are wildly divergent, a single interest rate won't work. Sound public finances will also reduce the need for bail-outs, prevent contagion hence preventing increases in borrowing costs for other euro zone states. Long-term interest rates will also help to ensure that there is no shock on joining the zone when yields will converge as a result of the one size fits all policy. Exchange rate stability helps to ensure that countries are joining at an appropriate rate, ensuring that they do not lock into a currency that will be permanently over or under valued, hence preventing (for example) competitiveness issues if joining at an overvalued rate. Up to 4 for each criterion covered in detail (Deficit/debt is one criterion/stability and growth pact.)	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
1(c)	**'Countries such as Greece should leave the euro if they want to boost economic growth and reduce unemployment'. Discuss.** **Level 1** (1-2). Identification of two factors: • Independent monetary and fiscal policy. • Freedom to devalue foreign exchange rate. **Level 2** (3-6). Explanation of above factors – up to 3 per factor • Relaxed monetary policy, reflationary fiscal policy and a low exchange rate would increase AD boosting growth and employment. • Internal devaluation would take far too long/painful austerity could be abandoned. • Lower exchange rate would boost tourism and FDI. • Greece would still benefit from the single market of the EU. • Lack of competitiveness against Germany when using the same currency. **Level 3.** Evaluation (7-12): • Greece needs to tackle fundamental supply side problems to solve a lack of competitiveness. • Internal economic reform needed. • Costs of creating a new currency. Panic in the banking sector. • A devalued Greek currency would increase the price of imports causing inflation. • Many of the Greek economic problems are not related to the euro ie poor tax collection. (7-12) Two evaluation points required up to 3 per point. Levels 2 and 3 are reversible.	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
1 (d)	**The 'enlargement of the EU benefits both new and existing members' (line 9). Discuss.** **Level 1.** Identification of at least TWO factors. • Access to SEM new members/enlargement of SEM for existing members- trade creation. • Free movement of capital and labour-more efficient allocation of resources. Bigger pool of labour to recruit from. (new/existing) • Access to EU structural funds (new members) • Attracts FDI (new and existing members). • Benefit to individuals is the freedom to travel, live, work, study and retire anywhere in the EU. (new) • Common/higher standards for health/safety/environment. (new) • Deregulation/liberalisation of some markets (air travel/telecoms) • EU provides social protection for workers: working time; temporary work; and parental leave. (new) • New EU members have to join the euro which has significant advantages (transactions costs etc) (1-2) **Level 2** (3-6). Explanation of at least two factors. (up to 3 per factor). **Level 3.** Evaluation (7-12). • Structural change for new member economies have to adjust to new trade patterns as many industries in new member states will not be able to compete with lower costs in more advanced EU members. • Migration of labour can have negative effects on both new and existing members. • Existing members have to make bigger EU budget contributions to support new/poorer members. • Cheap imports damage domestic industry. • New members have to comply with EU directives they may not approve of/loss of sovereignty/over-regulation/bureaucracy. • New EU members are committed to Eurozone membership and have to meet tough pre-entry criteria. Trade diversion resulting from the common external tariff. (new) (7-12) A Level 3 answer requires mention of the effects of enlargement on existing and new members. Also answers should not merely become a case for and against becoming a member of the EU. Maximum 8 marks for existing members and 8 marks new members. Maximum 3 marks for each evaluated point explained. Levels 2 and 3 are reversible.	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
2(a)	**With reference to the data and figures 1 and 2 explain the changes to the Royal Mail's revenue and profit.** **Level 1** (1-4): • Recognition that overall revenue and profits have risen. • Change in balance between letters and parcels • Both letters and parcels have contributed to the rise in revenue. • For 4 marks in this level the data will have been directly used. (1-4) **Level 2** (5-8): • Revenue from letters has risen despite the fall in volumes, • Reference to price of stamps rising and price inelastic demand (1-2). • Profits could have risen due to lower costs because of efficiency gains (1-2) • Use of data on automated sorting (1-2). • Growth in parcels revenue/profits due to on line shopping (1-2). (5-8) • MC pricing leads to losses in natural monopoly (e.g. 2011) 6 max if only revenue or profits are covered.	8	AO1 4 AO2 4
2(b)	**With reference to the data explain why the Royal Mail's letter delivery service can be said to be a 'natural monopoly'?** **Level 1** (1-4): Understanding of a natural monopoly with reference to economies of scale as a result of high market share. Or Explanation of why Royal Mail is a pure monopoly with letter delivery (rather than a natural monopoly) i.e. barriers to entry etc. (1-4) **Level 2** (5-8): • Application of figure 3. • USO could not be met without a very high market share (60%) (2). • High fixed costs in distribution • Reference to cherry picking in a competitive market (2). • Data reference to duplication etc. when there is competition (e.g. Multiple post boxes would be inefficient)(2).	8	AO1 4 AO2 4

Question	Answer	Mark allocation	Assessment objective
	2 marks for a relevant integrated diagram. 		
2 (c)	**Evaluate the case for and against the privatisation of the Royal Mail.** **Level 1** (1-2): Identification of reasons for privatisation, easier for the Royal Mail to raise finance, reduce the fiscal deficit, make postal services more efficient (more pressure to reduce costs), changes in the way people communicate make it unnecessary to operate a state owned monopoly, privatisation is a supply side policy (use of AD/AS analysis). Reduce the power of trade unions. Postal workers given shares (motivational benefits) (1-2) **Level 2** (3-6): Explanation of at least two reasons. (up to 3 per point) **Level 3** (7-12): • Deterioration in quality of service/possible end of USO. • Royal Mail is a profitable business (use of data) so why sell it off? • Rise in stamp prices-the price regulation of • stamps has been scrapped to increase the attractiveness of Royal Mail to investors. • The Royal Mail is a strategic industry and should owned by the state to be run in the national interest. • Job security of postal workers will deteriorate. • Royal Mail was sold too cheaply. Max 3 marks for each evaluated point explained. Level 2 and 3 are reversible.	12	AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
2 (d)	**'Once the Royal Mail is privatised and the UK market for letters and parcels is completely open to competition there will be no need for Ofcom to regulate the market'. Discuss this statement.** Max 3 mark for each developed argument on either side of the debate. **Level 1** (1-2): Identification of at least two factors which suggest that increased competition will benefit consumers. (1-2) **Level 2** (3-6): Explanation of the benefits of increased competition: increased quality and choice, lower costs, more innovation etc. Role of regulator explained and thus its role is diminished ie no price caps. (up to 3 per point) Excessive regulation may depress profits reducing investment. Regulation may be ineffective, danger of regulatory capture. **Level 3** (7-12): Evaluation: despite a competitive market there may still be tacit collusion/price leadership, complex pricing, asymmetry of information issues and insufficient contestability. Royal Mail is so large that it will always be dominant, hence regulation needed to ensure that competition does in fact continue. Privatisation doesn't guarantee competition. Evidence from sectors that are theoretically competitive, but still need regulating (such as rail and energy). Levels 2 and 3 are reversible. Max 3 marks for each evaluated point explained.	12	AO3 6 AO4 6

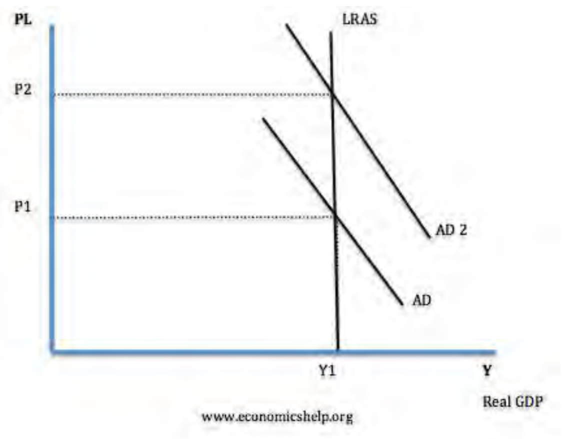
SECTION B

Answer **one** *question*

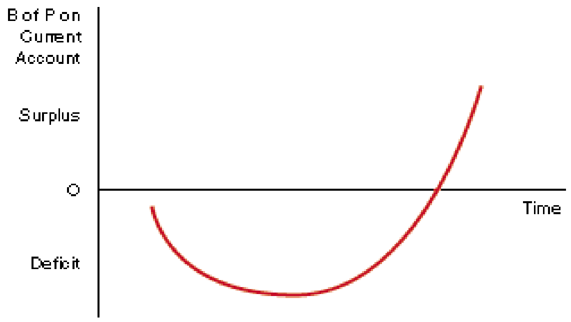
The following levels should be applied to each question.

LEVEL	MARK BAND	DESCRIPTOR
Level 1	1-5	Candidate makes few, if any, relevant points. There may be some attempt to draw conclusions, but understanding of connections between different areas of subject content is limited or not demonstrated. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in spelling, punctuation and grammar.
Level 2	6-10	Candidate makes some valid points using relevant economic concepts and theories. There may be some application with valid conclusions drawn. Some ability to make connections between different parts of the subject content is demonstrated. Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in spelling, punctuation and grammar, but these are not intrusive.
Level 3	11-15	Candidate shows good knowledge and understanding of economic concepts and theories. There is good application and analysis with solid logical conclusions drawn. The ability to make connections between different parts of the subject content is demonstrated on several occasions. Information is very well organised and argument is expressed clearly and coherently. There is good use of specialist terms/vocabulary and spelling, punctuation and grammar are generally accurate.
Level 4	16-20	Candidate demonstrates excellent knowledge, understanding, analysis and evaluation using economic concepts and theories. The ability to synthesise and make connections between different parts of the subject content is fully demonstrated throughout the answer. Information is very well organised and the form and style of communication is highly appropriate, using specialist terms/vocabulary with facility. There is very good use of specialist terms/vocabulary with few, if any, errors in spelling, punctuation and grammar.

Question	Answer	Mark allocation	Assessment objective
3	**How far do you agree with the view that the only cause of inflation is an excessive growth of the money supply?** • Explanation of the quantity theory of money (MV=PT). • In normal economic circumstances, if the money supply grows faster than real output it will cause inflation. • Inflation is always a monetary phenomenon/cost push and demand pull are symptoms of excessive monetary growth. • Former governor of the Bank of England, Mervyn King said that M4 was an important variable for influencing monetary policy. Negative M4 growth was a key factor in the justification for more quantitative easing, and recent attempts to bolster bank lending. Evaluation: • In a depressed economy (liquidity trap) the money supply/inflation correlation breaks down because of a fall in the velocity of circulation. This is why in a depressed economy Central Banks can increase the money supply without causing inflation. This occurred in the US between 2008 and 2011. There was a large increase in money supply but no inflation. • However, when the economy recovers and velocity of circulation rises, increased money supply is likely to cause inflation. • Quantity theory of money is a tautology. QE link to money supply and inflation not proven from evidence. • V and T are not stable thus a rise in M may not directly affect P. • Very weak link between money supply and inflation. The relationship between money supply and inflation has always been weak. Money supply can vary due to changes in the way of managing bank accounts and money. • Difficult to define exactly what is the money supply (MO, M3 M4 etc)	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	• Explanation of why inflation can be caused by cost push and demand pull factors: especially cost push in recent years (commodities and government policies such as rises in indirect taxes/tuition fees) Max 14 without evaluation. Max 4 marks for each evaluated point explained. 2 marks for a relevant integrated diagram.  Reversible answer. L4 requires an evaluated answer which shows understanding whether of the quantity theory or a robust understanding of the QE process. L2 only (max) if no explanation at all of the links between money and inflation.		
4	**'A current account deficit on the balance of payments should be a major concern to the government.' Evaluate this statement.** Identification and explanation of factors: • Current account in balance is a macroeconomic objective. • A current account a/c deficit leads to a fall in AD causing lower growth and rising unemployment. • A deficit is a sign of a lack of competitiveness/linked to low economic growth and high unemployment. • Deficit could lead to a depreciation of the currency and cause a rise in import prices and inflation. • A large current account deficit usually implies some kind of imbalance in the economy.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	• Financing a deficit on the current account means a surplus on the financial account and this means that a higher proportion of assets are owned by foreigners. • Higher interest rates needed to attract inflows of 'hot money' to make balance of payments balance. • Country with severe deficits could run out of foreign exchange reserves and need IMF help. Evaluation. • Deficit on the current account can be financed a surplus on the capital/financial account. This depends on the nature of the financial/capital account surplus. (a) Central Bank purchases. (b) Short term inflows - cash, bond purchases, share purchases, property purchases, each of which may have different effects. (c) Long term inflows of FDI which may be far more favourable. • In a floating exchange rate system the current account is self-correcting but this depends on the price elasticity of demand for exports and imports. (Marshall –Lerner condition). • Depends how big the deficit is as a % of GDP/how persistent/is it related to the trade cycle i.e. cyclical and not structural? • How much of the deficit is down to an underlying competitiveness issue or an over-valued exchange rate problem? • Depends on what is being imported-capital goods/raw materials help economic growth. • Other objectives may mean that the current a/c deficit is not the major concern. Maximum 14 without evaluation. Max 4 marks for each evaluated point explained. 2 marks for a relevant integrated diagram.		

Question	Answer	Mark allocation	Assessment objective
			
5	**Evaluate the different policies which less developed countries can use to achieve economic development.** Economic development means an improvement in economic welfare through higher real GDP, but also through an improvement in other economic indicators, such as improved literacy, better infrastructure, reduced poverty and improved health care standards. Identification, explanation and evaluation of factors: Government interventionist supply side policies - increased spending on 'public goods' such as education, public transport, infrastructure and health care. But problems with low tax revenues and 'bad' government. Export Oriented Development – Reduction in tariff barriers and promoting free trade as a way to improve economic development. But tariff barriers from trade blocs such as the EU and NAFTA remain a barrier to free trade for LDCs. Better to promote import substitution. Diversification away from agriculture to manufacturing as a way to promote economic development. Primary products have volatile prices with unpredictable incomes for producers. But countries with a poor basic level of infrastructure struggle to make effective use of capital investment in manufacturing. Some argue government attempts to encourage manufacturing industry are often ineffective as they have poor information about best kinds of industries to promote as well as corruption by some governments. Assistance from international institutions: e.g. the World Bank is committed to the reduction of poverty in developing countries. It offers long term loans for capital programs. But their policies have been criticised ie structural adjustment policies.	20	AO1 4 AO2 4 AO3 6 AO4 6

Question	Answer	Mark allocation	Assessment objective
	Foreign Aid can help boost capital investment in schemes which improve economic development. But it depends on the type of foreign aid Foreign Direct Investment (FDI) LDCs can benefit from improved knowledge and expertise of foreign multinational higher wages and improved working conditions, also employment and balance of payments benefits. But FDI may be a convenient way to bypass local environmental laws. Developing countries may be tempted to reduce environmental regulation to attract the necessary FDI. FDI does not always benefit recipient countries as it enables foreign multinationals to gain from ownership of raw materials, with little evidence of wealth being distributed throughout society. Import substitution industrialisation (ISI): active industrial policy to subsidize and orchestrate production of strategic substitutes, protective barriers to trade (such as tariffs), an overvalued currency to help manufacturers import capital goods (heavy machinery), and discouragement of foreign direct investment But often these policies lead to inefficiency within domestic markets and growth slowed when the size of the domestic market was reached meaning that they were most successful in countries where domestic economies were biggest (e.g. Brazil). Non-interventionist supply-side - liberalisation: The use of free market policies to stimulate competition and growth. Internal - privatisation, deregulation and cuts in public spending to promote enterprise and stimulate growth. Externally, reductions of protectionism and floating the currency (generally devaluing) to increase growth. Hence classic supply-side policies. In theory efficiency increases, hence growth is created. But cuts in government spending may hit health and education, one sided/unilateral free trade can lead to dumping by MEDCs and other LEDCs, devaluation drives up the costs of essential imported goods, privatisation may prove difficult to implement effectively unless there is strong institutional strength. Maximum 14 without evaluation. At least THREE well evaluated policies for maximum marks 2 marks for a relevant integrated diagram. L4 requires relevant use of a country-specific example. L4 requires relation back to living standards.		