



GCE

Economics

Advanced GCE

Unit **F585**: The Global Economy

Mark Scheme for January 2011

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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

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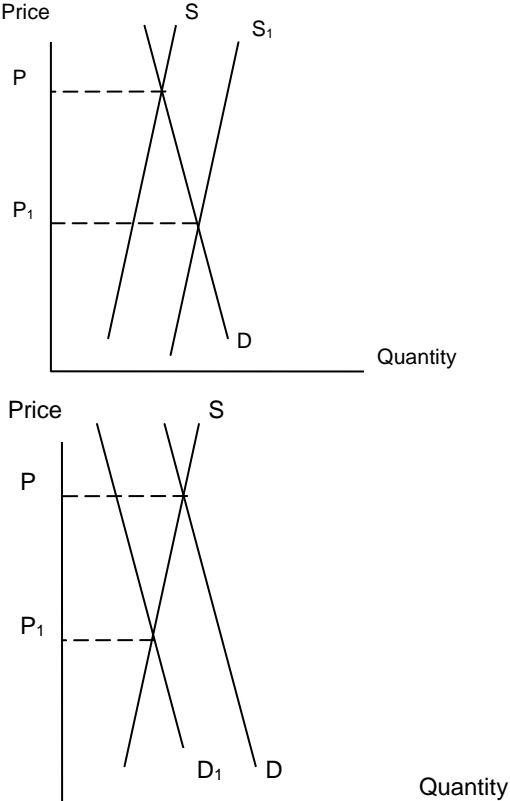
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Question	Answer	Marks	Guidance
<p>1 (a) (i)</p>	<p>The average price of a country's exports relative to the average price of its imports</p> <p>2 marks for an accurate definition</p>	<p>2</p>	<p>Annotate using  (1 tick for each mark)</p> <p>Also accept for 2 marks the terms of trade formula: = (index of average price of exports/index of average price of imports) x 100</p> <p>Award 1 mark for:</p> <ul style="list-style-type: none"> • missing out 'average' or n 'index' from the formula • formula is correct but wrong way around • X 100 is missing from formula • amount of imports a country can buy for a set amount of exports or the rate of exchange between two countries. • the price at which goods and services can be exchanged • understanding of the basic idea of the price of exports relative to the price of imports <p>Award 0 marks for:</p> <ul style="list-style-type: none"> • price of exports or price of imports ONLY • no reference at all to price
<p>1 (a) (ii)</p>	<p>Award 1 mark for what is likely to have happened to the terms and trade and 1 mark for the reason</p> <ul style="list-style-type: none"> • Terms of trade are likely to have improved/strengthened/increased/ better (1) • This is because banana exports are a significant % of St Lucia's total export earnings AND world banana prices have risen (1) 	<p>2</p>	<p>For the second mark to be awarded there must be reference (this can be a simple statement) to banana exports as a % of total export earnings as the question explicitly requires candidates to make use of Fig. 2.1</p> <p>Award only 1 mark where a candidate says terms of trade have improved because banana prices have risen.</p> <p>0 marks for 'value' (P x Q) rather than 'price' (P)</p>

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Question	Answer	Marks	Guidance
<p>1 (b)</p>	<p>Primary commodities tend to have both price inelastic demand and supply and are subject to demand and/or supply shocks. The result is that price changes tend to be large. The causes of these shifts depends on the commodity but may include reference to derived demand for commodities (such as bauxite, alumina), rising/falling global income/GDP, good/poor harvests (crop disease, weather), new suppliers.</p> <ul style="list-style-type: none"> • 1 mark for correctly drawn and labelled demand and supply curves (must be D and S and not AD and AS) • 1 mark for a shift in demand/shift in supply (shift can be either leftward or rightward) • 1 mark for old equilibrium price (must be labelled) • 1 mark for new equilibrium price (must be labelled) • 1 mark for explicit recognition that demand or supply of primary commodities are price inelastic. • 1 mark for the cause of the shift in demand/supply or the reason why PED or PES is inelastic. 	<p>6</p>	<p>To access the four diagram marks the axes must be correctly labelled. Wrongly labelled axes no marks for diagram (must be price and quantity or quantity traded or quantity demanded and supplied) No marks for labelling equilibrium POINTS not PRICES.</p> <p>NOTE: there should only be 4 diagram marks (check the number of ticks awarded)</p> <p>Two acceptable diagrams are shown below.</p>  <p>The first diagram shows a downward-sloping demand curve (D) and two upward-sloping supply curves (S and S₁). S₁ is shifted to the right of S. The initial equilibrium price is P₁ and the new equilibrium price is P. The second diagram shows a downward-sloping demand curve (D) and two downward-sloping demand curves (D and D₁). D₁ is shifted to the left of D. The initial equilibrium price is P₁ and the new equilibrium price is P.</p>

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			Content	Levels of Response
<p>1 (c)</p>	<p>Case for preferential access to EU markets for bananas from ACP states</p> <ul style="list-style-type: none"> • without preferential access ACP bananas would struggle to compete because producers lack economies of scale and/or yields are low; • low yields may be the result of a lack of capital for investment or inappropriate resource endowment; • access to EU markets generates higher export revenue, higher employment and incomes contributing to higher levels of development. <p>Case against is limited and there is a strong case against preferential access</p> <ul style="list-style-type: none"> • it raises prices for EU consumers, reducing consumer surplus; • ACP states' gain is Latin America's loss eg income, employment and GDP; • preferential access promotes inefficient production and runs contrary to free trade/comparative advantage; • it may trap ACP states in a low level of development by creating a dependency on the EU market and on primary production so it is difficult to diversify the economic structure. 	<p>10</p>	<p>Answers in Level 4 should be underpinned by relevant economic analysis and marks should be awarded as follows:</p> <ul style="list-style-type: none"> • one stated comment 7 marks maximum • several stated comments 8 marks • one comment with brief elaboration 8 marks • one comment with brief elaboration + one stated comment 9 marks • one comment well developed or two comments with brief elaboration 10 marks <p>RESPONSES WHICH USE A TRADE CREATION/DIVERSION DIAGRAM TO ANALYSE AND COMMENT ARE CAPPED TO BOTTOM OF L4</p> <p>Level 3 responses are characterised by the use of the economist's toolkit of concepts, theories and models. This could include: a tariff diagram; AD/AS analysis</p> <p>Level 2 responses will be descriptive and lack analytical reasoning.</p>	<p>Level 4 [7 – 10 marks] For a commentary on the case for preferential access to EU market. This is most likely to be an analysis of the arguments for and against.</p> <p>Level 3 [4 – 6 marks] For analysis of the case for or case against but not both. Candidates in this level will make use of some economic concepts show an ability to explain cause and consequence.</p> <p>Level 2 [3 marks] For an application of knowledge and understanding of arguments for and against preferential access. Answers in this level will contain NO economic analysis/concepts eg they will make NO use of the economic concepts and not make clear cause and consequence.</p> <p>Level 1 [1 – 2 marks] For knowledge and understanding of preferential access only.</p>

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Question	Answer	Marks	Guidance
<p>2 (a)</p>	<p>Up to 2 marks for knowledge of the composition of the HDI:</p> <ul style="list-style-type: none"> • GDP per capita (PPP US\$) (1) or GNI per capita (PPP US\$) (1); • life expectancy at birth (1); • adult literacy (1); • primary, secondary or tertiary education enrolment (1); • mean years of schooling (1); • expected years of schooling (1). <p>Up to 2 application marks for explanation of why Dominican Republic has a lower rate of growth in its HDI than Guatemala. Since Dominican Republic has a higher growth rate in GDP per capita than Guatemala, relevant explanations include:</p> <ul style="list-style-type: none"> • lower growth/fall in life expectancy (1); • lower growth/fall in adult literacy rates (1); • lower growth/fall in primary, secondary or tertiary education enrolment (1); • lower growth in government expenditure on health care (1) or lower priority given to government expenditure on health care (1); • lower growth in government expenditure on education (1) or lower priority given to government expenditure on education (1) ; • greater priority given to government expenditure on area not related to components of HDI eg defence (1); • lower growth in foreign aid directed to these areas (1). 	<p>4</p>	<p>Composition of HDI was changed in 2010 – some candidates may be aware of this. New components of HDI are referred to in acceptable answers opposite.</p> <p>Watch out for explanations, therefore, that refer to differences in mean years of schooling, expected years of schooling or net property income from abroad (given that reference is made to GDP per capita in the question).</p> <p>Reference to ‘other components increasing less rapidly’ is only worth 1 mark for application</p> <p>Do not accept ‘lower level of HDI therefore easier to achieve higher growth rate in HDI’ for application marks</p> <p>1 mark only for reference to spending on ‘measures which improve HDI’ without specific mention of education or health care</p> <p>Use  to indicate knowledge marks (max 2)</p> <p>Use  to indicate application marks (max 2)</p>

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<p>2 (b)</p>	<p>Application marks Up to 2 marks for an application of knowledge and understanding of the structure of Caribbean economies:</p> <ul style="list-style-type: none"> • heavy dependence on exports (1) • dependence on exports of primary commodities (1) OR specific mention of one commodity (1) eg bananas, bauxite, gas, oil, food; • dependence on tourism (1), offshore banking (1), remittances (1). <p>Analysis marks Up to 2 marks only for a basic analysis of the impact on Caribbean economies such as:</p> <ul style="list-style-type: none"> • fall in demand for tourism because it is income elastic (1); • fall in exports earnings (1); • worsening of current account position (1); • lower employment/higher unemployment (1); • fiscal deficit (1); • increased debt (1); • fall in remittances (1); • reduction in FDI/construction projects (1); • capital outflows (1). <p>Up to 4 marks where the impact is analysed using the AD/AS framework or multiplier or multiplier/accelerator relationship</p>	<p>6</p>	<p>Use the following annotations in Scoris to distinguish between application and analysis marks</p> <p> for application marks (max 2 marks)</p> <p> for analysis marks (max 4 marks)</p> <p>Analysis may be shown through the use of an AD/AS diagram. Only reward as analysis if the diagram is incorporated into the textual explanation ie no marks for unexplained diagrams</p>

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2 (c)	<p>Government debt is the total amount of money owed by central and local government. Such debt can be internal (owed to lenders within the country) or <u>external</u> (owed to lenders from abroad).</p> <p>High levels of government debt may act as a constraint on economic development because:</p> <ul style="list-style-type: none"> • it limits government expenditure on health and education or capital investment reducing life expectancy literacy causing fall in HDI ; • it limits government expenditure on capital investment which may impact negatively on AS and on economic growth in the long run; • results in high levels of debt interest payments = opportunity cost; <p>The extent to which depends on:</p> <ul style="list-style-type: none"> • scale of the debt in relation to GDP; • interest rate on the debt; • what debt has been used for; • how the debt is managed; • whether debt is internal or external; • whether there are other more significant constraints on development. 	10	<p>The most common route into Level 4 is going to be via an analysis of the ways in which government debt constrains economic development followed by an explanation of why it might not.</p> <p>In Level 4 award marks as follows:</p> <ul style="list-style-type: none"> • one stated comment 7 marks maximum • several stated comments 8 marks • one comment with brief elaboration 8 marks • one comment with brief elaboration + one stated comment 9 marks • one comment well developed or two comments with brief elaboration 10 marks 	<p>Level 4 [7 – 10 marks] For a commentary on the extent to which high levels of government debt, such as those experienced by St. Kitts and Jamaica, act as a constraint on economic development. Must be supported by economic analysis</p> <p>Level 3 [4 – 6 marks] For an analysis of how economic development is constrained by high levels of government debt. Candidates in this level will make use of economic concepts and explain cause and consequence.</p> <p>Level 2 [3 marks] For an application of knowledge and understanding of how high levels of government debt may impact on economic development. Answers in this level will contain NO economic analysis/concepts and not make clear cause and consequence.</p> <p>Level 1 [1 – 2 marks] For knowledge and understanding of government debt and/or economic development</p>

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<p>3</p>	<p>Economic integration brings benefits in terms of:</p> <ul style="list-style-type: none"> • trade creation; • greater competition; • more innovation and R&D; • a larger market and economies of scale. <p>In addition, there are benefits from a monetary union which include:</p> <ul style="list-style-type: none"> • reduced transaction costs; • elimination of exchange rate risk; • increased price transparency; <p>Discussion is likely to include a consideration of the costs of economic integration, which might include issues such as:</p> <ul style="list-style-type: none"> • trade diversion; • core-periphery in the region; • regional and structural unemployment; • the need for common regional policy to ensure the benefits are spread equally; • the need for competition policy to prevent the abuse of monopoly power; • the loss of monetary policy sovereignty; • constraints on fiscal policy; • the degree of economic convergence and optimal currency area issues. 	<p>20</p>	<p>Candidates are expected to introduce some analysis of the benefits opposite (Level 3) in their responses rather than just list the benefits (Level 2).</p> <p>Watch out for candidates who confuse a single market with a single currency. Give BOD for a single error but not where there is consistent confusion.</p> <p>Candidates who recognise any of the discussion points opposite are likely to be awarded marks in Level 4 of the mark scheme assuming this builds upon analysis of the benefits of integration.</p> <p>Where the issues have not been expressed clearly and fluently and where sentences and paragraphs have not been well structured marks at the bottom of Level 4 Band 1 should be awarded.</p> <p>Candidates need to base their discussion on the context of a small economy (this can be a European economy such as Ireland or Belgium) OR a typical Caribbean economy (such as St Lucia) in order to access marks in Band 2 and above. Please highlight relevant context.</p>	<p>Level 4, Band 3 [18 – 20 marks] For a discussion that includes a judgement on the benefits of regional economic integration for a small economy, such as St. Lucia. At least one judgement must be developed for 20 marks to be awarded.</p> <p>Level 4, Band 2 [15 – 17 marks] For a discussion of the benefits of regional economic integration for a small economy, such as St. Lucia. There will be some development of the benefits and costs and a recognition that the question focuses specifically on a small/Caribbean economy.</p> <p>Level 4, Band 1 [11 – 14 marks] For a basic discussion of the benefits of regional economic integration without reference to a small economy. This is likely to be an analysis of the benefits of integration plus a list of some of the costs of integration without reference to a small OR a Caribbean economy.</p>

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	<p>Judgement is likely to include a consideration of:</p> <ul style="list-style-type: none"> • the significance of the benefits and/or costs to a small economy such as St. Lucia; • the degree to which the benefits of economic integration shield a small economy from the negative aspects of globalisation; • the extent to which regional integration allows a small economy to maximise the gains from globalisation; • the factors that determine the extent of the benefits and/or costs. 		<p>Candidates offering judgements such as those opposite will be awarded marks in Level 4, Band 3 of the mark scheme. Annotate judgements using</p> 	<p>Level 3 [5 – 10 marks] For an analysis of the benefits of regional economic integration for a small economy, such as St. Lucia.</p> <p>Level 2 [3 – 4 marks] For an application of knowledge and understanding of the benefits and/or costs of regional economic integration for a small economy, such as St. Lucia.</p> <p>Responses must NOT be placed in this Level where candidates have included relevant, if limited, economic analysis of either benefits or costs of economic integration</p> <p>Level 1 [1 – 2 marks] For knowledge and understanding of regional economic integration only.</p>

F585**Mark Scheme****January 2011****APPENDIX 1: QUALITY OF WRITTEN COMMUNICATION**

Quality of written communication is embedded into Levels of Response mark schemes as follows:

Level 4

Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.

Level 3

Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.

Level 2

Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar.

Level 1

There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.

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