ADVANCED GCE ECONOMICS (9121)
JUNE 2002

UNIT 6 MARK SCHEME – 6356

Examiners should bear in mind that all the questions in this unit are synoptic in nature and offer candidates the opportunity to demonstrate knowledge and understanding:

1. **across a range of economic subject matter**
2. **of connections between the different aspects of economics in the specification.**

Synoptic content, i.e. that which refers to topics covered in previous units, is incorporated into the indicative content set out below.

Question **Scheme** **Mark**

Qu.1
(a) Examine the factors which have led to an increase in interdependence between countries in the world economy.

LEVEL 5 **(28-40 marks)**

Factors include:

- *Growth of world trade*
- *Reduction in trade barriers*
- *Growth of multinational companies*
- *Increased access to and use of the internet*
- *Capital mobility*
- *Growth of trading blocs*
- *Single currencies e.g. euro*
- *Communication improvements*
- *Role of WTO*

For a L5 mark: *3 factors and evaluation of their significance.*
(Evaluation points might include point that globalisation is not a recent phenomenon or comments on the relative importance of each of the factors.)
Max 28 marks *if no evaluation.*
Award a L4 mark (24-27 marks) *if only 2 factors + evaluation*
Award a ***L2 mark (16-19 marks)*** *for identification of points only or for narrow response focussing on one point.*

40

Question	Scheme	Mark

(b) *Assess the impact on the global economy of the continued use by trading blocs of measures which restrict free trade.*

LEVEL 5 **(42-60 marks)**

Consideration of

- *protectionist measures e.g. common external tariffs; export subsidies*
- *how such measures distort market forces and comparative costs*
  but much depends on the level and range of trade restrictions
- *impact on economic growth and living standards*
  However, if trading blocs make up a significant part of the global economy, the impact on growth might be small. Impact might be uneven i.e. more damaging to developing countries than to developed economies.
- *impact on inflation and unemployment rates*
  However, the impact on these depends on the level and range of trade restrictions
- *implications for allocation of resources - inefficiency*

For an L5 mark: *Discussion of 4 points and evaluation.*
For an L4 mark: *Discussion of 3 points and evaluation*
Max 42 marks *if no evaluation*
Award a ***L2 mark (24-29 marks)*** *for identification of points only or for narrow response focussing on one or two points.*

60

Question **Scheme** **Mark**

Qu.2

(a) *Examine the impact of falling oil prices on the economies of* the European Union.

LEVEL 5 **(28-40 marks)**

Points include:

- *Lower import costs: improvements in Balance of Payments on current account (with possible exception of UK)*
- *Also, increased exports to oil importing countries*
- *Lower rate of inflation because lower costs e.g. transport*
- *Positive effect on GDP*
- *Reduction in unemployment rates*
- *Might cause value of euro to rise if European economies become stronger*
- *Impact on AS*
- *Impact on AD*
- *Increased external costs*

Evaluation points could include: consideration of magnitude of effects; difference between short run and long run effects; the differing impact of different countries within the EU

For a L5 mark: *3 factors and evaluation of their significance.*
Max 28 marks *if no evaluation.*
Award a L4 mark (24-27 marks) *if only 2 factors + evaluation*
Award a ***L2 mark (16-19 marks)*** *for identification of points only or for narrow response focussing on one or two points.*

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Question	Scheme	Mark
(b)	Evaluate the potential costs and benefits to the UK economy of *a decision by its government to adopt the euro.*	

LEVEL 5 **(42-60 marks)**

Costs include:

- *Loss of independent monetary policy*
- *No possibility of exchange rate adjustment if UK's goods are uncompetitive*
- *Transition costs*

Benefits include:

- *Elimination of transactions costs*
- *Price transparency*
- *Absence of exchange rate fluctuations*

Evaluation: must include both costs and benefits. Should consider magnitude of effects e.g. comment on relative insignificance of transactions costs for most firms; and relative significance of each point.

For a L5 mark: *should consider at least 2 costs and 2 benefits + evaluation.*
Max 42 marks *if no evaluation.*
Max
Award a ***L2 mark (24-29 marks)*** *for identification of points only or for narrow response focussing on one or two points.*

60

Question	Scheme	Mark

Qu.3

(a) Examine the factors which might explain how a surplus of £18bn was achieved on public sector finances in 2000/01.

LEVEL 5 **(28-40 marks)**

Factors include:

- *Higher GDP*
- *Increased employment*
- *Lower unemployment*
- *Increased consumer spending, leading to higher revenues from VAT and excise duties*
- *'Stealth' taxes*
- *Controls on public expenditure in previous years*
- *Under-spending by some government departments*
- *Increased company profits and, therefore, higher revenues from corporation tax*
- *Higher incomes leading to higher revenues from income tax*
- *Sale of mobile phone licences*

For a L5 mark: *3 factors, one of which should refer to growth/ employment, and evaluation of their significance.*

Max 28 marks *if no evaluation.*

*Award a **L4 mark (24-27 marks)** if only 2 factors + evaluation*

*Award a **L2 mark (16-19 marks)** for identification of points only or for narrow response focussing on one or two points.*

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Question	Scheme	Mark
(b)	Evaluate the likely effects of decisions by multinational companies to relocate production to the UK on the UK's public finances and on the rest of the UK economy.	

LEVEL 5 **(42-60 marks)**

Effects include:

- *Improvement in public finances because increased employment.*
- *Increase in GDP via the multiplier effect. Therefore, higher incomes and living standards. Expect AD/AS analysis.*
- *Short run improvement in the capital account of the Balance of Payments. In long run deterioration in current account by repatriation of profits but this could be offset by exports of goods and/or reduced imports of goods*
- *New technology*
- *More efficient management techniques*

***For a L5 mark:** should consider impact on public finances and 3 other effects on the rest of the economy + evaluation.*
***Evaluation Points**: Size of impact, value of multiplier, short and long term effects, regional effects*
***Max 42 marks** if no evaluation.*

*Award a **L2 mark (24-29 marks)** for identification of points only or for narrow response focussing on one or two points.*

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