A-level
ECONOMICS
7136/2

PAPER 2 National and International Economy

Mark scheme

June 2020

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 aqa.org.uk

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

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 descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

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 is predominantly 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. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which 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 the same standard, better or worse than the example. 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.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

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

Below is the levels of response marking grid to be used when marking any 25 mark question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21–25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16–20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • 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 • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • 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.	**11–15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6–10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	**1–5 marks**

Section A

Context 1   **Total for this context: 40 marks**

| 0 | 1 | *Using the data in **Extract A** (Figure 1), calculate the mean unemployment rate for the UK from 2007–08 to 2017–18. Give your answer to **one** decimal place.*

[2 marks]

Response	Max 2 marks
For the correct answer (6.3%) with the % sign.	**2 marks**
For a correct answer (6.3) but without the % sign **and/or** to more than one decimal place. **OR** For the correct method but the wrong answer, to one decimal place and with the % sign.	**1 mark**

Calculation: (5.5 + 7.8 + 8.0 + 6.9 + 5.1 + 4.2) / 6 = 6.25%   = 6.3% to one decimal place.

MAXIMUM FOR QUESTION 01: 2 MARKS

| 0 | 2 | *Explain how the data in **Extract A** (Figure 2) show that the UK has had poor real wage growth since 2008.*

[4 marks]

Response:	Marks
• includes evidence that shows that the UK has had poor real wage growth since 2008 • clearly explains how this data is evidence that the UK has had poor real wage growth since 2008.	**4 marks**
• includes evidence that shows that the UK has had poor real wage growth since 2008 • explanation of how this data is evidence that the UK has had poor real wage growth since 2008.	**3 marks**
• includes some limited evidence that shows that the UK has had poor real wage growth since 2008 • limited explanation of how this data is evidence that the UK has had poor real wage growth since 2008.	**2 marks**
• includes evidence that does not clearly show that the UK has had poor real wage growth since 2008 • no explanation of how this data is evidence that the UK has had poor real wage growth since 2008.	**1 mark**

Relevant issues include:

- the meaning of the term 'real wage growth' or 'poor real wage growth'
- for the majority of years (2009–2014) and (2017–2018) the inflation rate is higher than the average earnings rate
- using evidence to explain that real wage growth was negative
- from 2009–2014 inflation was, on average, more than 1% above earnings rates
- when the inflation rate peaked, the increase in average earnings rate was much lower (in late 2011 the inflation rate reached 5% compared to average earnings growth of 2.9%)
- when the average earnings rate peaked, the inflation rate was only slightly lower (in 2008, the average earnings rate was at 4.3% compared to an inflation rate of 2.5%)
- the compound effects of price level rises, with inflation changes earlier in the chart
- linking all of the above to low real wage growth.

MAXIMUM FOR QUESTION 02: 4 MARKS

0 3 *Extract C (line 19) states: 'Improving workers' productivity is the key to increasing real GDP'.*

With the help of a diagram, explain how improving productivity should lead to rising real GDP.
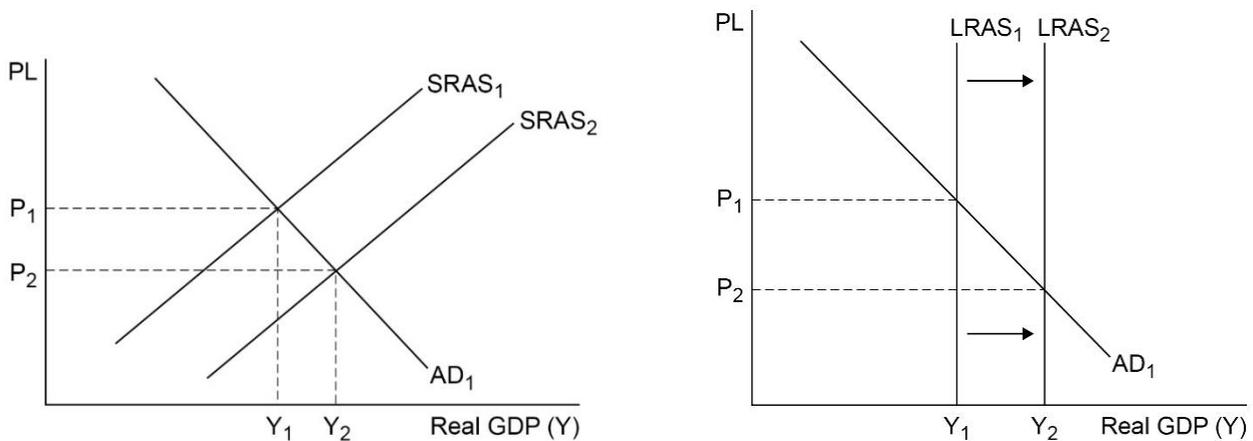
[9 marks]

Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	**7–9 marks**
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	**4–6 marks**
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1–3 marks**

An AD/AS diagram which shows AS shifting right (either LRAS or SRAS) is acceptable if analysed correctly.

Relevant issues include:

- definitions/explanations: productivity, GDP, real figures, real GDP
- explaining reasons for productivity rising, such as investment by firms (either in human or physical capital)
- explaining rising productivity in terms of the output per unit of input or output per worker
- linking productivity to average costs/costs per unit or short-run costs and SRAS
- linking productivity to effects on the general price level and thus real values
- linking productivity to rising long-run productive capacity and LRAS
- linking productivity to components of AD, such as exports and hence real GDP
- linking productivity to rising output or GDP
- explaining the overall impact on real GDP.

Expected diagrams are:

Note: other X axis labels such as Real National Income (RNY) or Real National Output (RNO) are perfectly acceptable.

A PPF may also be used for this question.

MAXIMUM FOR QUESTION 03: 9 MARKS

0 4   *Extract B (lines 13–14) states: 'It can be argued that supply-side reforms have gone too far in creating a highly flexible workforce and the government needs to do more in terms of protecting the nation's workers'.*

Using the data in the extracts and your knowledge of economics, evaluate the view that free market supply-side reforms to labour markets are beneficial to the UK economy.

[25 marks]

Areas for discussion include:

- definitions/explanations: free market, supply-side, supply-side reforms, labour markets, macroeconomic performance
- explaining different free market supply-side reforms to labour markets such as:
  - flexible working practices
  - trade union reforms
  - changes to income tax
  - changes to benefits
  - legislation changes and deregulation
- explaining the benefits of supply-side labour market reforms such as:
  - lower inflation rates due to lower costs of production
  - lower unemployment rates due to flexible working
  - improved export performance due to improved competitiveness
  - increased economic growth due to rising productivity
  - attracting FDI and both short-run and long-run growth
- explaining the problems of supply-side labour market reforms such as:
  - rising costs to firms due to retraining costs
  - insecurity leading to a lack of investment in human capital and growth
  - welfare benefit cuts leading to a lack of consumption, AD and growth
  - instability for individuals and low real wages
  - possible damages to economic growth through low wages, low skill and low productivity
- considering other factors other than the macroeconomic performance such as effects on standards of living, government finances or inequality
- considering or contrasting with interventionist supply-side approaches
- considering the long-term or short-term effects
- considering impacts on various markets, such as the impact of zero-hours contracts on the housing market.

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.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

Context 2   **Total for this context: 40 marks**

0 5   *Using the data in **Extract D** (Figure 4), calculate how much was spent by the US on imports from China for every $1 it received from exports to China in 2018. Give your answer to **two** decimal places.*

[2 marks]

Response	Max 2 marks
For the correct answer $4.48 with the $ sign.	**2 marks**
For a correct answer but not to two decimal places. (Do not accept an answer rounded to the nearest whole number such as $4). **OR** For the correct method but the wrong answer, to two decimal places.	**1 mark**

Calculation:
539.5 / 120.4 = 4.4808   = 4.48 to two decimal places   Therefore $4.48

MAXIMUM FOR QUESTION 05: 2 MARKS

| 0 | 6 | *Explain how the data in **Extract D** (Figure 3) **and** (Figure 4) show why the US may have decided to implement protectionist policies.* |

[4 marks]

Response:	Max 4 marks
• includes evidence that show why the US may have decided to implement protectionist policies • clearly explains how this data is evidence as to why the US have decided to implement protectionist policies.	**4 marks**
• includes evidence that show why the US may have decided to implement protectionist policies • explanation of how this data is evidence as to why the US have decided to implement protectionist policies.	**3 marks**
• includes some limited evidence that show why the US may have decided to implement protectionist policies • limited explanation of how this data is evidence as to why the US have decided to implement protectionist policies.	**2 marks**
• includes evidence that does not clearly show why the US may have decided to implement protectionist policies • no explanation of how this data is evidence as to show why the US have decided to implement protectionist policies.	**1 mark**

Relevant issues include:

- the meaning of 'protectionist policies'
- the value of US imports from China have risen over the period from $440.4bn in 2013, to $505.5bn in 2017 (an increase of 14.8%) or $539.5bn in 2018 (an increase of 22.5%)
- the value of US exports to China have risen, but at a slower rate. Exports have risen from $121.7bn in 2013, to $129.9bn in 2017 (an increase of 6.7%) or have actually fallen in 2018 to $120.4bn in 2018 (a fall of 1.1%)
- the trade deficit increased over the whole period from $318.7bn in 2013 to $375.6bn in 2017 or $419.2bn in 2018
- US trade with China was always in deficit throughout the period despite a reduction from $367.3bn in 2015 to $347bn in 2016
- the ratio of US imports to exports widened over the period from 3.62:1 in 2013 to 3.89:1 in 2017 and 4.48:1 in 2018
- explaining the large widening deficit to the decision to implement protectionist policies
- linking each of these issues to the possible effects of protectionist policies on the value of imports and exports.

Note: Candidates may combine discussion of figure 3 and figure 4 in their answers or discuss each figure separately.

MAXIMUM FOR QUESTION 06: 4 MARKS

0 7 **Extract E** *(lines 10–11) states: 'US tariffs on $200bn of Chinese imports came into effect in September.'*

*With the help of a diagram, explain how the imposition of a tariff may affect the volume of imports.*

[9 marks]

Level of response	Response:	Max 9 marks
3	- is well organised and develops one or more of the key issues that are relevant to the question - shows sound knowledge and understanding of relevant economic terminology, concepts and principles - includes good application of relevant economic principles and/or good use of data to support the response - includes well-focused analysis with a clear, logical chain of reasoning - includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	**7–9 marks**
2	- includes one or more issues that are relevant to the question - shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present - includes reasonable application of relevant economic principles and/or data to the question - includes some reasonable analysis but it might not be adequately developed and may be confused in places - may include a relevant diagram.	**4–6 marks**
1	- is very brief and/or lacks coherence - shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely - demonstrates very limited ability to apply relevant economic principles and/or data to the question - may include some very limited analysis but the analysis lacks focus and/or becomes confused - may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1–3 marks**

A tariff diagram is expected which shows the imposition of a tariff. In its simplest form, a candidate may use simple supply and demand analysis with a supply curve shifting to the left.

Relevant issues include:

- definitions/explanations: tariff, protectionism, imports, value of imports, volume of imports
- explaining why a country may choose to place a tariff on imports such as for:
  - correcting a current account deficit
  - retaliatory reasons
  - political reasons
- linking the imposition of a tariff to making imports less competitive
- linking the tariff to individuals switching to domestic producers instead
- linking the tariff to a falling volume of imports
- relating the volume of imports to the price elasticities of supply and demand of the good the tariff is placed upon
- explaining that the change in the value of imports is determined by what happens to the price and the quantity
- use of the diagram to support the analysis.

Expected diagrams are:
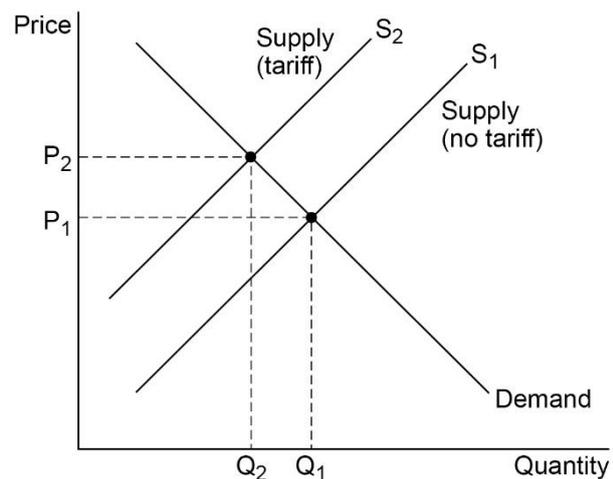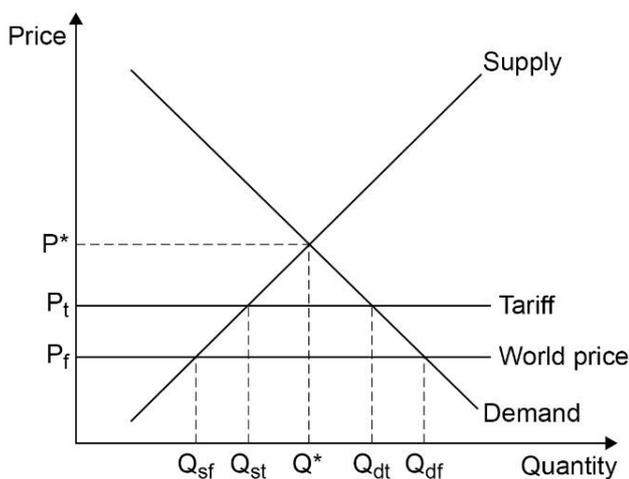
MAXIMUM FOR QUESTION 07: 9 MARKS

| 0 | 8 | *Extract F* (lines 17–19) states: 'Some argue that many developed countries that now champion free trade, only achieved economic prosperity through protectionist policies.'

Using the data in the extracts and your knowledge of economics, assess the view that developing economies, such as Brazil and China, should pursue protectionist policies to achieve greater economic development.

[25 marks]

Areas for discussion include:

- definitions/explanations: protectionism, economic development, emerging economies
- explaining different forms of protectionism such as tariffs, quotas, non-tariff barriers or export subsidies
- explaining the benefits of protectionist policies such as:
  - infant industry arguments
  - sunset industry arguments
  - helping to diversify domestic industry
  - raising of government revenue
  - safeguarding jobs
  - insulating against economic shocks
  - prevent dumping
  - correcting a current account deficit
- explaining the costs or problems of protectionism such as:
  - retaliation
  - higher prices on the cost of living
  - potential job losses in other industries not protected
  - encouraging inefficient business to stay in the market
  - firms don't benefit from economies of scale
  - the benefits of comparative advantage are not achieved
  - reduced competition and other efficiency arguments
- linking arguments to economic development in terms of growth or wider issues such as social development of a nation
- considering short-term gains of protectionism against long-run development
- considering the experiences of nations such as Brazil or China in terms of development over the past few decades
- considering other ways to achieve development other than protectionism such as supply-side policies, aid, or free-trade
- considering the nature of the goods traded by different nations.

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.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 08: 25 MARKS

Section B

Below is the levels of response marking grid which should be used to mark the 15 mark questions.

Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • Is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11–15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	**6–10 marks**
1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1–5 marks**

Section B

Essay 1   **Total for this essay: 40 marks**

| 0 | 9 | *Explain the possible causes of a falling budget deficit.*

                                                                              [15 marks]

Relevant issues include:

- definitions/explanations: budget, budget deficit, fiscal policy
- explaining the meaning of a falling budget deficit
- explaining different types of government spending such as capital, current or transfer spending
- explaining different types of taxation such as direct/indirect or regressive, progressive and proportional
- explaining the difference between nominal and real reductions in the budget deficit or nominal and as a percentage of GDP
- explaining the difference between a cyclical and structural deficit
- explain why cyclical or structural deficits may fall
- explaining causes of a falling budget deficit such as:
  - economic growth generating more tax revenue
  - economic growth leading to a falling need for government spending
  - discretionary tax rises generating more tax revenue
  - discretionary tax cuts which creates a fall in tax avoidance/evasion
  - austerity measures such as reductions in spending on merit and public goods
  - gains from privatisation or the sale of public assets.

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.

Use the levels mark scheme on page 15 to award students marks for this question.

                                                        MAXIMUM FOR QUESTION 09: 15 MARKS

| 1 | 0 | *To what extent do you agree that reducing the budget deficit is more important to the UK's macroeconomic performance than reducing the current account deficit on its balance of payments? Justify your answer.* |

[25 marks]

Areas for discussion include:

- definitions/explanations: budget deficit, current account deficit, balance of payments, macroeconomic performance
- arguments why a budget deficit may need to be reduced:
  - it adds to national debt
  - it could cause crowding out
  - possible loss of credit status leading to increased costs of government borrowing
  - future generations facing rising tax rates
  - possibility of future cuts in spending on merit/public goods
  - it could be inflationary
- arguments why a current account deficit may need to be reduced:
  - it could indicate lack of productivity
  - it could cause depreciation of currency
  - possible risk of capital flight
  - it could cause problems for a country's reserves
  - a surplus on the financial section of the balance of payments increasing international indebtedness
  - deflationary pressure
  - it could indicate structural weaknesses
  - effects on jobs such as structural unemployment
- considering that both issues are not mutually exclusive, an improved supply-side performance could help both
- considering whether the budget deficit is cyclical or structural
- considering the components of the current account of the balance of payments
- considering the UK's ability to attract FDI will help finance the capital account and may off-set any problems on the trade deficit. However, this may also benefit the UK's budget deficit in terms of job creation and generating tax revenue
- deficits on both may be necessary and advantageous, they may both benefit living standards in terms of more goods being consumed or boosting AD
- considering that trade-offs may take place with the other macroeconomic goals

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.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

Essay 2   **Total for this essay: 40 marks**

| 1 | 1 | *Explain how demand-side **and** supply-side shocks might increase unemployment in an economy.*

                                                                    [15 marks]

Relevant issues include:

- definitions/explanations: demand-side shocks, supply-side shocks, unemployment
- explaining how unemployment is measured
- explaining the nature of shocks in terms of them being unexpected, unanticipated, exogenous or sudden
- explaining that an unfavourable demand-side shock reduces aggregate demand
- explaining how this affects the derived demand for labour
- examples of how demand-side shocks and explaining why they may cause unemployment such as:
  o an unexpected rise in interest rates causing a fall in borrowing and investment
  o a recession in a major trading partner causing falling export demand
  o a sudden decrease in the money supply, caused by a fall in bank lending damaging consumption and/or investment
- explaining how supply-side shocks may lead to falling real GDP hence a fall in the demand for labour such as:
  o a sudden rise in oil price reducing real national output increasing unemployment
- explaining how supply-side shocks may cause structural unemployment such as:
  o the invention of new technology where capital-intensive production replaces labour-intensive production
  o a country 'opening up' it's markets to trade leading to cheaper imports causing deindustrialisation
- explaining how other supply-side shocks may cause unemployment such as:
  o unexpected increases to benefit payments reducing the incentive to work
  o unanticipated increases in income tax rates creating disincentives to quickly move into a new job
- explaining how supply-side shocks may cause real-wage unemployment such as:
  o rising trade union power, driving up wage expectations, and creating a mismatch between supply and demand

The use of relevant diagrams, such as AD or SRAS shifting to the left, to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the levels mark scheme on page 15 to award students marks for this question.

                                       MAXIMUM FOR QUESTION 11: 15 MARKS

| 1 | 2 | *Evaluate the view that the main objectives of UK government macroeconomic policy can be achieved without conflicting with each other.*

[25 marks]

Areas for discussion include:

- definitions/explanations: macroeconomic objectives, trade-offs, macroeconomic policies
- explaining each of the macroeconomic objectives, sustainable economic growth, low stable inflation, low unemployment and a strong current account on the balance of payments
- explaining why economic objectives may conflict with each other such as:
  - rising aggregate demand and disposable incomes leading to a worsening deficit on the current account of the balance of payments
  - contractionary monetary policy designed to reduce inflationary pressure causing rising unemployment rates
  - expansionary fiscal policy causing short-run economic growth but leading to demand-pull inflation
  - protectionist policies designed to reduce the deficit on the balance of payments could lead to retaliation and rising unemployment
- explaining supply-side policies and how they can achieve the macroeconomic objectives simultaneously
- considering long-run economic growth as opposed to short-run economic growth and how this may impact on each of the objectives
- considering the Phillips curve and distinguishing between the short-run and long-run
- considering external factors and the difficulties of external shocks
- considering globalisation and the impact of other nations on the UK
- considering possible 'secondary' objectives such as issues regarding the government's fiscal position, inequality, poverty or the environment
- considering the experience of the UK in periods such as the 'NICE' decade.

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.

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

Essay 3   **Total for this essay: 40 marks**

| 1 | 3 | *Explain how an appreciation of its currency is likely to affect a country's rate of economic growth.*

[15 marks]

Relevant issues include:

- definitions/explanations: appreciation, exchange rates, floating exchange rates, economic growth
- explaining the possible causes of an appreciation affecting the supply and demand of a currency, such as:
  - speculation of a rise
  - inward investment
  - tourism
  - increased export demand
- explaining how an appreciation makes imports relatively more affordable and linking it to:
  - rising imports values and effects on aggregate demand (either slowing it down or reducing it ceteris paribus) and short-run economic growth
  - how this may affect decisions by companies over foreign direct investment and the effects on long-run economic growth
  - reduced cost of raw materials and effects on increasing the short-run aggregate supply curve and short-run growth
- explaining how an appreciation makes exports less competitive and linking it to:
  - falling export values and effects on aggregate demand (either slowing it down or reducing it ceteris paribus) and short-run economic growth
  - how this may affect domestic companies decisions to invest abroad or remain in the domestic economy
- considering possible multiplier effects
- considering elasticities of demands for exports and imports and linking this to growth
- considering exchange rate 'uncertainty' and potential impacts upon investment.

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.

Use the levels mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

| 1 | 4 | *Evaluate the costs and benefits for a country of joining a currency union, such as the eurozone.*

[25 marks]

Areas for discussion include:

- definitions/explanations: currency union, the eurozone, exchange rate systems
- explaining the benefits of joining a currency union such as:
  - stability of currency allowing for business planning
  - trade creation due to reduced transaction costs
  - possible benefits from increased specialisation and gains from comparative advantage
  - price transparency between fellow members
  - possible reduced inflation due to reduced import costs
  - attracting inward investment
  - protection for smaller countries from financial crisis or speculation
- explaining the costs of joining a currency union, such as:
  - changeover costs or menu costs to firms
  - the inability to have control over the instruments of monetary policy
  - 'one size fits all' interest rates
  - possibly not an optimal currency area due to cultural/language barriers
  - possibly limits to fiscal policy such as the EU growth and stability pact
  - no scope for a competitive devaluation
- considering political factors
- considering short-run costs and benefits against long-run costs and benefits
- considering from different countries' perspectives, such as the potential stability of currency union outweighing the negative effects
- considering the actual experiences of some European countries (such as Greece)
- considering the difficulties of exiting a currency union, once one is established.

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

Use the levels mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS