

**Edexcel Economics A**

**New Examiner Training 2017**

**Correct Question Papers  
and Mark Schemes**



Write your name here

Surname

Other names

**Pearson Edexcel**  
**Level 3 GCE**

Centre Number

--	--	--	--	--

Candidate Number

--	--	--	--

# Economics A

**Advanced**

**Paper 1: Markets and business behaviour**

Specimen Paper

**Time: 2 hours**

Paper Reference

**9EC0/01**

**You do not need any other materials.**

Total Marks

## Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

## Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

## Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

S48716A

©2015 Pearson Education Ltd.

1/1/1/1



**PEARSON**

## SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 The following table shows gross weekly earnings and annual new car registrations between 2011 and 2013.

Year	Gross weekly earnings (£)	Annual new car registrations (millions)
2011	500.7	1.94
2012	506.1	2.04
2013	517.5	2.26

(Sources: <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2013-provisional-results/stb-ashe-statistical-bulletin-2013.html#tabEarnings-trends>)  
(<http://www.smmmt.co.uk/2014/11/new-car-registrations-october-2014/>)

*Copyright Pending*

- (a) Calculate the income elasticity of demand for new cars between 2011 and 2013. You are advised to show your working.

(2)

.....

.....

.....

.....

- (b) This data suggests that new cars are:

(1)

- A an inferior good with relatively income inelastic demand
- B an inferior good with relatively income elastic demand
- C a normal good with relatively income inelastic demand
- D a normal good with relatively income elastic demand

Answer



The IMF forecast that the average income in the UK will grow by 2.4% in 2014 and that the growth rate will slow to 2.2% in 2015.

(Source: <http://www.imf.org/external/pubs/ft/weo/2014/update/01/>)

(c) Explain the likely impact of this forecast change in average incomes on new car sales.

(2)

.....

.....

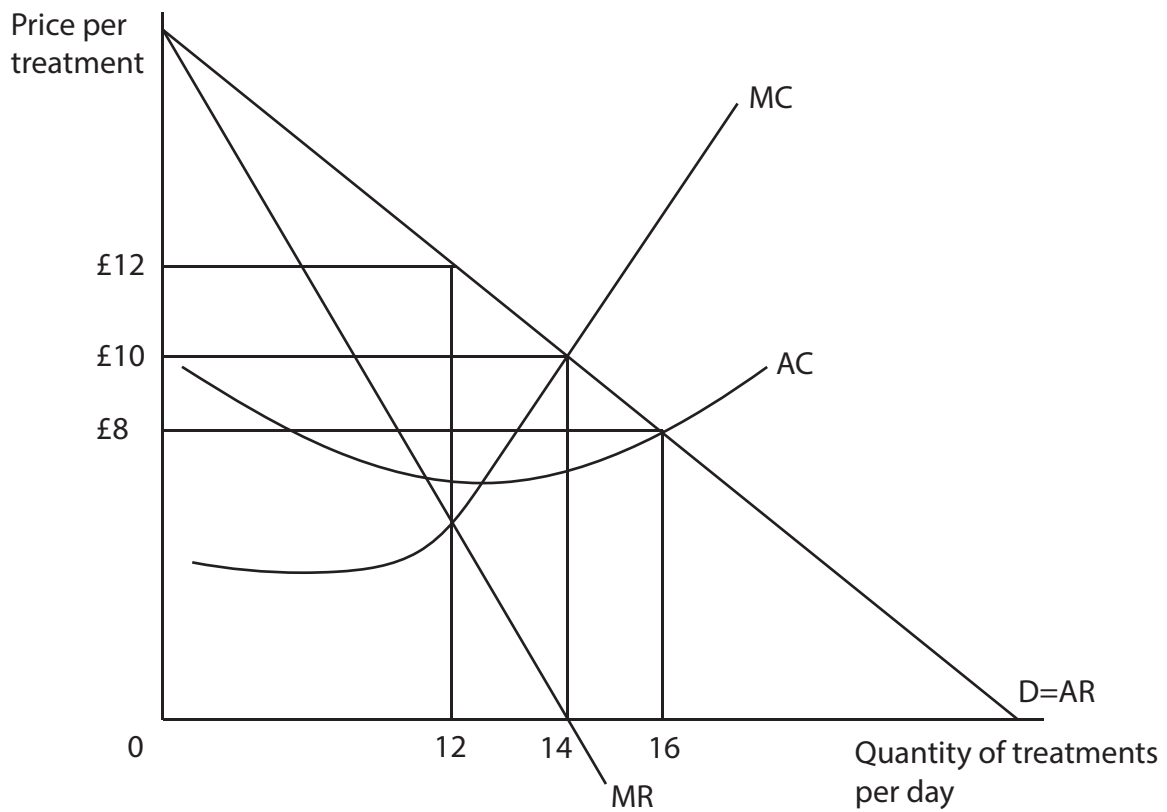
.....

.....

**(Total for Question 1 = 5 marks)**



- 2 Francesca owns and runs a beauty salon. The diagram shows the cost and revenue curves for treatments at her beauty salon. Francesca sets her prices using profit maximisation.



- (a) Calculate the change in total revenue if Francesca changes her objective from profit maximisation to sales maximisation.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....



(b) As demand for beauty treatments increased Francesca decided to take on additional staff. A likely advantage of applying the division of labour is a reduction in

(1)

- A levels of production
- B boredom within the workforce
- C costs of production per treatment
- D output per worker

Answer

**(Total for Question 2 = 5 marks)**

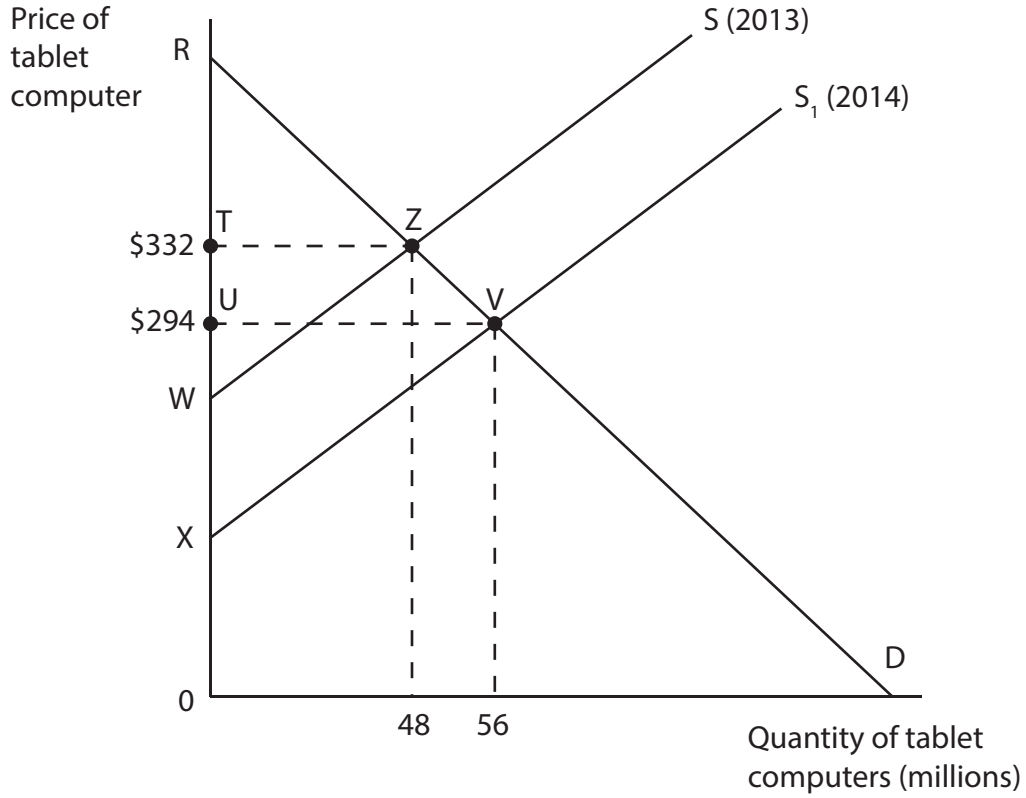
---



3 In the third quarter of 2014, the average global price of a tablet computer fell from \$332 to \$294. This fall in price was caused by falling costs for manufacturers.

(Source: <http://appleinsider.com/articles/14/11/14/current-tablet-sales-growth-being-driven-by-sub-250-devices-idc-says>)

Copyright Pending



(a) The change in costs and price will lead to a change in consumer surplus shown by the area

(1)

- A RUV
- B ZTUV
- C ZVXW
- D UVX

Answer





(b) Draw a supply and demand diagram to show the impact of the price fall in the tablet computer market on the equilibrium price and quantity in the market for laptop computers.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**(Total for Question 3 = 5 marks)**



4 The following table shows the price and annual production of bags of Arabica coffee beans.

Year	Price per bag on 31 October	Quantity of coffee bean bags (millions)
2013	\$2.84	145
2014	\$4.98	145.2

(Sources: [http://ycharts.com/indicators/world\\_coffee\\_arabica\\_price](http://ycharts.com/indicators/world_coffee_arabica_price)  
<http://icocoffeeorg.tumblr.com/post/99916537525/coffee-season-2013-14-finishes-in-balance-but-deficit>)  
Copyright Pending

(a) Calculate the price elasticity of supply of Arabica coffee bean bags between 2013 and 2014.

(2)

.....

.....

.....

.....

(b) Explain what is likely to happen to the price elasticity of supply for coffee in the long run.

(2)

.....

.....

.....

.....

(c) The price increase between 2013 and 2014 will:

(1)

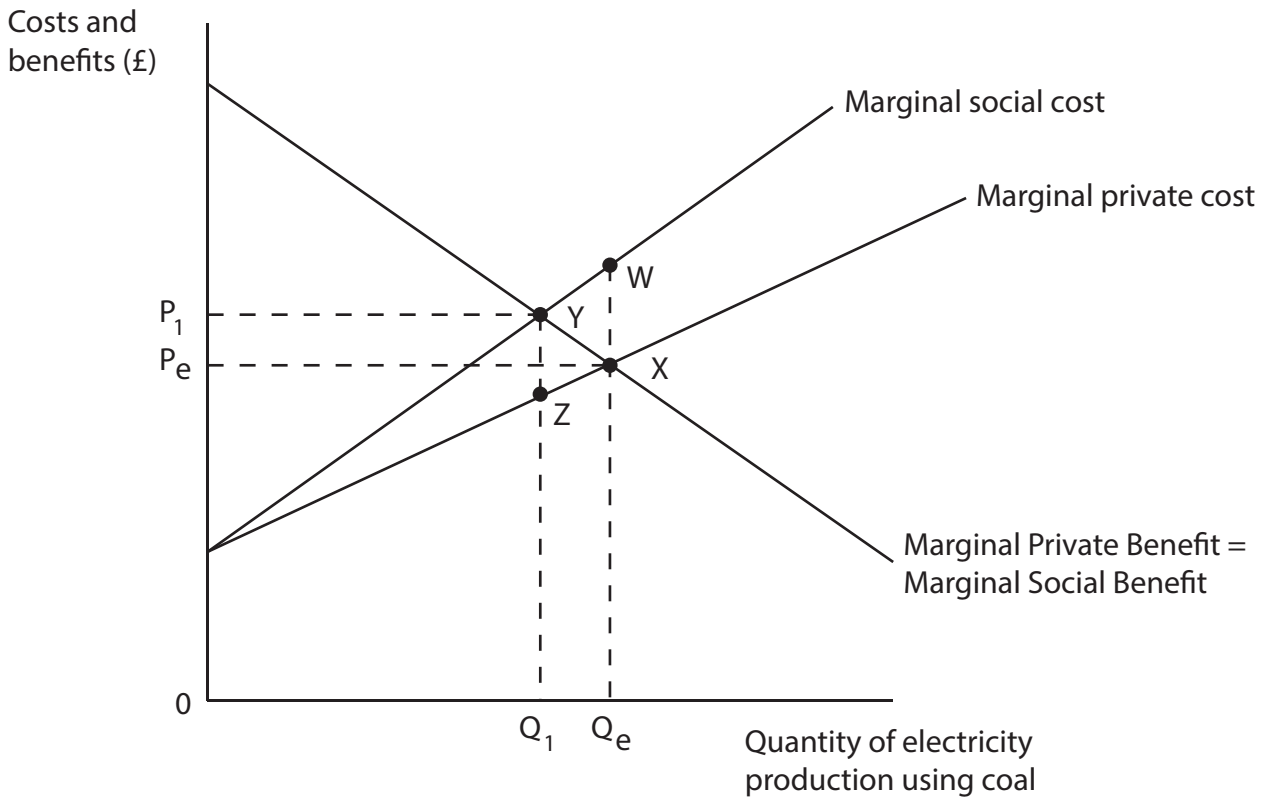
- A signal to producers that coffee has become less popular
- B ration the good so that more can now afford to purchase it
- C lead to producers substituting to alternative crop
- D create an incentive for producers to grow more coffee

Answer

(Total for Question 4 = 5 marks)



5 The diagram shows the market for the production of electricity using coal. Assume there are no external benefits.



(a) Which one of the following can be inferred from the diagram?

(1)

- A At the free market equilibrium quantity the marginal social costs exceed the marginal social benefits
- B The area of net welfare loss at the free market equilibrium is given by the area XYZ
- C The social optimum quantity exceeds the free market equilibrium quantity
- D An increase in the quantity from  $Q_1$  to  $Q_e$  will reduce the net welfare loss

Answer



(b) Explain how the introduction of a tradable pollution permit scheme is likely to reduce the production of electricity using coal.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

---

**(Total for Question 5 = 5 marks)**

---

**TOTAL FOR SECTION A = 25 MARKS**



**BLANK PAGE**  
**QUESTION 6 BEGINS ON THE NEXT PAGE.**



## SECTION B

Read the following extracts (A to C) before answering question 6.

Write your answers in the spaces provided.

### European markets

#### Extract A – Free movement of labour

In most European countries, welfare benefits are linked to an individual's tax contributions. In the UK, the benefit system is funded by general taxation and does not depend on an individual's contributions.

Since 1 January 2014, citizens from Bulgaria and Romania have been freely allowed to move to the UK to live and work. They are able to claim benefits until they find suitable employment. 5

The case for the free movement of labour is clear. The UK has benefited overwhelmingly from this.

UK students can apply to study and workers can apply for jobs in other European Union (EU) countries and take their families with them. Over 1 million UK citizens have moved elsewhere in the EU. 400 000 live full-time in Spain alone. They get free access to Spanish doctors and, if they become permanent residents, to hospital treatment at the expense of Spanish taxpayers. 10 000 UK citizens who moved to Germany are currently claiming unemployment benefit. 10

In 2004, the UK decided not to impose restrictions on migrants from countries which had newly joined the EU. As a result, the number that came was far higher than expected adding around 2% to the labour force between 2004 and 2011. Of these, 1.1 million remain in the UK in 2014. In 2013 alone 2.2 million Polish citizens left Poland for other countries in the EU, leaving a population of just 36.5 million. 15

(Source: adapted from 'Britain is in desperate need of immigration from the EU,' by Robert Buckland, *The Telegraph*, 2nd January 2014, <http://www.telegraph.co.uk/news/uknews/immigration/10547750/Britain-is-in-desperate-need-of-immigration-from-the-EU.html>)

*Copyright Pending*



## Extract B – Immigration and the labour market

Immigration is partly to blame for low wages thanks to “unprecedented expansion of the labour supply”, said one former government advisor.

He believes that immigration “must have had some impact” on the labour market. Wage growth has fallen behind inflation since 2009.

The issue is one of balance. Allow too little immigration, and businesses might find it difficult to set up or continue without access to the affordable skills they need. Too much immigration, wages fall and it becomes more difficult for some unemployed UK citizens to find a job. 5

However, the downward pressure on wages has helped lower labour costs and has made the UK’s exports relatively cheaper. Firms in the UK can now recruit much needed staff from Eastern Europe to fill job vacancies. Some sectors are also benefiting from skilled labour leading to rising productivity. 10

(Source: adapted from ‘Immigration suppresses wages, says Margaret Thatcher’s former adviser’ by Matthew Holehouse, *The Telegraph*, 9th January 2014 <http://www.telegraph.co.uk/news/uknews/immigration/10560472/Immigration-suppresses-wages-says-Margaret-Thatchers-former-adviser.html>)

*Copyright Pending*

## Extract C – Europe’s Shrinking Conglomerates

Europe’s conglomerates are demerging in order to reduce in size and to sell off parts of their business that either don’t make enough money or don’t fit with how they see the future. It makes sense to concentrate on fewer industries.

Germany’s Siemens AG has sold five businesses this year to focus on what it calls ‘electrification, automation and digitalisation’. Siemens is selling 50% of its appliance business to Bosch for \$US3.75 billion. It is also selling a health company for \$US1.3 billion, a clinical microbiology division, an alarms-and-video surveillance maker, and a hearing-aids business for \$US2.75 billion. 5

Philips is focusing on health-care and selling its lighting products business. Bayer has seen the revenue earned from its plastics division fall 2.3%, so they are selling this off and focusing on healthcare and crop sciences, where revenues rose 3% and 5.25% respectively. 10

As companies try to become more focused, workforces are also shrinking. Philips employed 117 000 people at the end of 2013, down from more than 121 000 in 2008. Bayer reduced its staffing by 3 000 in 2013, while Siemens has 362 000 workers, a fifth fewer than in 2005. With unemployment at 11.5% in the eurozone, the additional job cuts which may result from these demergers could add to this. 15

20 years ago Hanson grew through a number of mergers, to become one of the world’s biggest companies incorporating cigarettes, mining, toys and brickmaking. Since then it has gone through a number of demergers. Possibly the unfocused, unwieldy conglomerate is a thing of the past. 20

(Source: adapted from ‘Europe’s Shrinking Conglomerates’ by Mark Gilbert, Bloomberg View, 3rd November 2014, <http://www.bloombergvie.com/articles/2014-11-05/europe-s-shrinking-conglomerates?cmpid=yhoo>)

*Copyright Pending*



- 6 (a) With reference to Extract A, explain how migration out of Poland into Britain may affect the Polish production possibility frontier. Use an appropriate diagram in your answer. (5)
- (b) With reference to extract A, assess **two** factors which might affect the geographical mobility of labour in the EU. (10)
- (c) Discuss the likely benefits of increased immigration from Eastern Europe for employers in the UK. (12)
- (d) Examine the likely reasons Hanson chose to grow 'through a number of mergers, to become one of the world's biggest companies'(Extract C lines 18 and 19). (8)
- (e) Discuss the likely impact of the demerging of conglomerates on efficiency. (15)





**SECTION C**

**Answer ONE question from this section.**

**Write your answer in the space provided.**

**EITHER**

- 7** To what extent are subsidies more effective than minimum prices in supporting farmers?

**(Total for Question 7 = 25 marks)**

---

**OR**

- 8** Evaluate the likely consequences of imperfect information in the market for higher education. Use an appropriate externalities diagram in your answer.

**(Total for Question 8 = 25 marks)**

---



Question Number	Answer	Mark
<b>1(a)</b>	<p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b> 1 mark for calculating both the percentage change in quantity or the percentage change in earnings. 1 mark for correct answer</p> <p>Percentage change in quantity = <math>0.32/1.94 \times 100 = 16.5</math> (1) And Percentage change in earnings = <math>16.8/500.7 \times 100 = 3.4</math> (1)</p> <p>YED = <math>16.5/3.4 = 4.9</math> (1)</p> <p>NB if the answer given is 4.8 to 5 award 2 marks.</p>	<b>(2)</b>

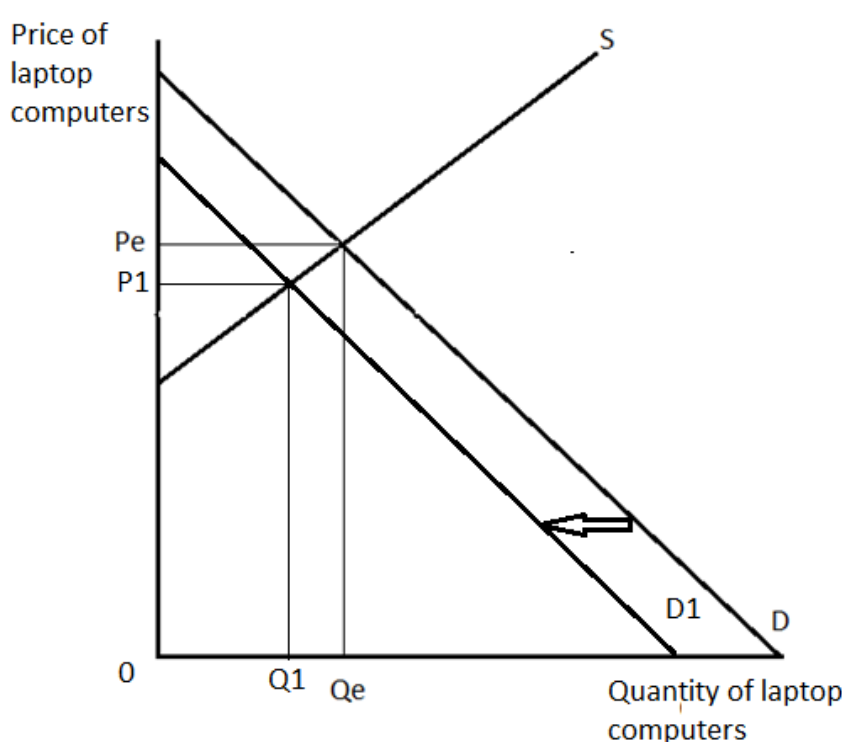
Question Number	Answer	Mark
<b>1(b)</b>	D	<b>(1)</b>

Question Number	Answer	Mark
<b>1(c)</b>	<p style="text-align: center;"><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for identifying the impact of the increased income on increasing new car sales</p> <p><b>Analysis:</b> 1 mark for link to slowing growth and how the rate car sales grow will slow, e.g.</p> <ul style="list-style-type: none"> <li>• New car sales will increase in each of the years (1) but the rate at which they increase will slow (1).</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>2(a)</b>	<p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/understanding:</b> 1 mark for identifying the condition for sales maximisation, e.g.</p> <p>AR=AC And 1 mark for identifying the condition for profit maximisation, e.g.</p> <p>MR=MC</p> <p><b>Application:</b> up to 2 marks for calculation of total revenue and changes.</p> <p>Profit maximisation TR = £12 x 12 = £144 (1) OR Sales maximisation TR = £8 x 16 = £128 (1)</p> <p>£128 - £144 = -£16 (1)</p> <p>NB accept 16 or -16 for 4 marks up to 3 marks for calculation of total revenue and changes.</p> <p>Profit maximisation TR = £12 x 12 = £144 (1) Sales maximisation TR = £8 x 16 = £128 (1)</p> <p>£128 - £144 = -£16 (1)</p> <p>NB accept 16 or -16 for 4 marks.</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>2(b)</b>	C	<b>(1)</b>

Question Number	Answer	Mark
3(a)	B	(1)

Question Number	Answer	Mark
3(b)	<p style="text-align: center;"><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge/ understanding</b> Supply and demand diagram for laptop market showing:</p> <p>Initial supply and demand curve and axes correctly labelled (1)</p> <p>Initial equilibrium price and quantity correctly labelled (1)</p> <p><b>Application:</b> Reduction (leftward shift) in demand (1)</p> <p>New equilibrium correctly labelled showing lower price and quantity (1).</p>  <p>The diagram is a coordinate plane with the vertical axis labeled 'Price of laptop computers' and the horizontal axis labeled 'Quantity of laptop computers'. The origin is marked '0'. An upward-sloping supply curve 'S' and two downward-sloping demand curves 'D' and 'D1' are shown. 'D1' is to the left of 'D', with a double-headed arrow between them pointing left, indicating a leftward shift. The initial equilibrium is at the intersection of 'S' and 'D', with price <math>P_e</math> and quantity <math>Q_e</math> marked. The new equilibrium is at the intersection of 'S' and 'D1', with price <math>P_1</math> and quantity <math>Q_1</math> marked. Dashed lines connect these equilibrium points to their respective values on the axes.</p>	(4)

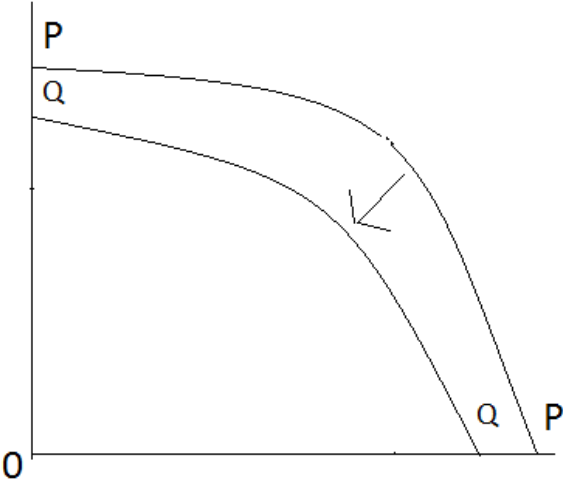
Question Number	Answer	Mark
<b>4(a)</b>	<p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b> 1 mark for calculating both the percentage change in quantity and the percentage change in price and 1 mark for correct answer</p> <p>Percentage change in quantity = <math>0.2/145 \times 100 = 0.1</math> (1) Or Percentage change in price = <math>2.14/2.84 \times 100 = 75.4</math> (1)</p> <p>PES = <math>0.1/75.4 = 0.0</math> (1)</p> <p>NB if the answer given is 0 to 0.002 award 2 marks.</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>4(b)</b>	D	<b>(1)</b>

Question Number	Answer	Mark
<b>4(c)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge:</b> 1 mark for identifying that is likely to become more elastic and 1 mark identifying why, e.g.</p> <p>The price elasticity of supply will become more elastic (1) as coffee growers will be able to respond by planting more coffee which will increase supply in the long run (1).</p>	<b>(2)</b>

Question Number	Answer	Mark
5(a)	A	(1)

Question Number	Answer	Mark
5(b)	<p style="text-align: center;"><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for defining what a permit scheme is, e.g.</p> <p>a tradable permit scheme is where firms are given permits which give them a limit to the amount of pollution they emit (1)</p> <p>1 mark for understanding the process, e.g.</p> <p>if they emit more than permitted then they can trade them with firms who have excess permits (1)</p> <p><b>Application:</b> 1 mark for impact. This creates a profit incentive for firms to reduce pollution (1)</p> <p><b>Analysis:</b> 1 marks for linked development linked to process, e.g.</p> <p>as firms may have excess permits they can sell to add to the firm's revenue (1).</p>	(4)

Question Number	Answer	Mark
6(a)	<p style="text-align: center;"><b>Knowledge 1, Application 1, Analysis 3</b></p> <p><b>Knowledge/understanding:</b> 1 mark for defining PPF</p> <ul style="list-style-type: none"> <li>• maximum possible production using available resources</li> </ul> <p><b>Application:</b> 1 mark for reference to extract, e.g. 2.2 million Polish emigrants (1)</p> <p><b>Analysis:</b> 1 mark for each of the following:</p> <ul style="list-style-type: none"> <li>• Draw PPF accurately (1)</li> <li>• PPF shifted inward marked on diagram (1)</li> <li>• Explanation of why PPF shifts inwards (1)</li> </ul> <div style="text-align: center;"> <p><b>Capital goods</b></p>  <p><b>Consumer goods</b></p> </div> <p>e.g. With people leaving Poland the labour force reduces in size meaning with available resources less consumer and capital goods can be produced (1).</p>	<b>(5)</b>

Question Number	Indicative content	Mark
<b>6(b)</b>	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• Understanding of geographical mobility of labour</li> </ul> <p>Factors that affect mobility of labour:</p> <ul style="list-style-type: none"> <li>• Benefit system- e.g. in UK funded by taxation</li> <li>• EU rules- Bulgarian/ Romanians allowed to move freely</li> <li>• Free access to Spanish doctor</li> <li>• Increases the incentive to move to the UK relative to other countries where benefits are contribution based making labour more mobile towards UK</li> <li>• Increases the number that are able to move between countries within the EU. Previously people in Bulgaria and Romania had to apply for a visa to move to the UK but now they can freely move to the UK.</li> <li>• If citizens move to Spain they have access to Spanish GPs and this will make moving to Spain more attractive and increase the mobility in to Spain.</li> </ul>	<b>(6)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.



Question Number	Indicative content	Mark
<b>6(b)</b> continued	<b>Evaluation 4</b>	
	<ul style="list-style-type: none"> <li>• Benefits are lower than rewards of work then it will have little impact on mobility of labour</li> <li>• Have to wait until permanent residents before receiving hospital treatment.</li> <li>• People are less likely to move regions for employment or different jobs as the safety net exists reducing the need to move for work and mobility</li> <li>• Magnitude- depends on size of benefits</li> <li>• Prioritisation- which factor might have the biggest impact on geographical mobility of labour</li> </ul>	<b>(4)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(c)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 4</b></p> <p style="text-align: center;">Candidates may present benefits as Knowledge, Application and Analysis and problems as Evaluation or vice versa.</p> <p><b>Benefits</b></p> <ul style="list-style-type: none"> <li>• Bulgarian/ Romanian etc can provide labour where there are shortages</li> <li>• May attract students to UK who may remain and be productive in UK economy- particularly if skilled occupations</li> <li>• Added 2% to labour force- downward pressure on wages- firms able to employ more at lower costs</li> <li>• Migration, means it is easier to set up or continue here with access to the affordable skills they need.</li> <li>• The downward pressure on wages has helped lower unit labour costs and has made our exports relatively cheaper.</li> <li>• For firms in the UK there is now less regulation in recruiting much needed staff from Eastern Europe where shortages exist in the UK</li> <li>• Some sectors are also benefiting from skilled labour leading to rising productivity.</li> </ul>	<b>(8)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3–5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6–8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
<b>6 (c) continued</b>	<p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Magnitude “unprecedented expansion of labour supply” had contributed to stagnant wages.</li> <li>• Make it more difficult for unemployed people legally settled here to find a job</li> <li>• Little impact if benefits are more attractive to them</li> <li>• Magnitude- 1.1 million remain</li> <li>• Other factors may be to blame for stagnant wages- e.g. business confidence, recessions, financial crises, austerity measure.</li> </ul>	<b>(4)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(d)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge/understanding:</b> 2 marks for identification of likely reasons (1+1)</p> <p><b>Application:</b> 2 marks for reference to the data (1+1)</p> <p><b>Analysis:</b> 2 marks for linked explanation of these reasons (1+1)</p> <ul style="list-style-type: none"> <li>• To spread risk (1)- so that if one of the markets does less well (1) it will have less effect on the business (1) if profits falling in brickmaking (1), make money in cigarettes (1)</li> <li>• Asset stripping (1) the business may have bought one company (1) and kept all profitable aspects (1) and sold off unprofitable parts of business (1). So they may have continued mining minerals that were most profitable (1) and stopped mining others (1)</li> <li>• Economies of scale (1) by growing the business to benefit (1) from falling average costs (1) by owning a larger business that includes cigarettes, mining, toys and brickmaking they may be able to benefit from financial economies (1) as banks are willing to lend to the bigger company at lower rates of interest (1)</li> </ul> <p>Evaluation: 2 marks for two evaluative comments, e.g.</p> <ul style="list-style-type: none"> <li>• Likelihood of economies small as so diverse (1)</li> <li>• Only limited connection between businesses (1)</li> </ul> <p>OR 2 marks for identification and linked development e.g.</p> <ul style="list-style-type: none"> <li>• Asset stripping is likely to be the most likely reasons (1) as they have latterly started demerging and selling off aspects of the business that are less profitable.(1)</li> </ul>	<b>(8)</b>

Question Number	Indicative content	Mark
6(e)	<p style="text-align: center;"><b>Knowledge 3, Application 3, Analysis 3,</b></p> <p style="text-align: center;">Candidates may present positive impacts as Knowledge, Application and Analysis and negative impacts as Evaluation or vice versa.</p> <ul style="list-style-type: none"> <li>• Eliminating underperforming/ inefficient divisions making more efficient</li> <li>• More allocative efficiency- as less resources wasted on failing parts of the business</li> <li>• More productive efficiency- if diseconomies eliminated</li> <li>• More focused businesses- so less resources wasted on less profitable aspects</li> <li>• More finance available to grow more efficient aspects of business</li> <li>• Smaller units easier to control- perform better wasting less time in decision making</li> <li>• Workforces are shrinking. Philips employed 117 000 people at the end of 2013, down from more than 121 000 in 2008. Bayer reduced its staffing by 3 000 in 2013, while Siemens has 362,000 workers, a fifth fewer than in 2005- reduces over employment</li> <li>• Might lose economies of scale</li> <li>• Focusing on more profitable parts of business enables more profits to be made and invested. More innovation should allow for dynamic efficiency</li> </ul>	<b>(9)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
<b>6(e)</b> continued	<b>Evaluation 6</b>	
	<ul style="list-style-type: none"> <li>• Magnitude- the efficiency gains may be significant given the savings following redundancies</li> <li>• May only be short term trend more about the state of the economy and less about efficiency gains.</li> <li>• Measurement problem- how much efficiency gains will be achieved is difficult to measure</li> <li>• May reduce in size too far so that AC starts to rise.</li> </ul>	<b>(6)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially–developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



Question Number	Indicative content	Mark
7	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8,</b></p> <p><b>Subsidies</b></p> <ul style="list-style-type: none"> <li>• Definition of subsidies.</li> <li>• Link subsidies to effect on lowering firms costs</li> <li>• Increasing supply</li> <li>• Reducing price and increasing quantity</li> <li>• Increasing consumer and producer surplus</li> <li>• Link to affordability- food essential for meeting basic needs</li> <li>• Helps with farmers income and encourages investment</li> </ul> <p><b>Minimum pricing</b></p> <ul style="list-style-type: none"> <li>• Definition of minimum pricing</li> <li>• Explain that when above market price this will <ul style="list-style-type: none"> <li>○ Reduce quantity demanded</li> <li>○ Increase quantity supplied</li> </ul> </li> <li>• Guarantees food production</li> <li>• Protects farmer incomes</li> <li>• Encourages more investment- less risk</li> </ul> <p>NB For a Level 4 response, candidates must consider both methods in their answer.</p>	<b>(16)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relates them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
7 continued	<p style="text-align: center;"><b>Evaluation 9</b></p> <p><b>Evaluation</b> Evaluation of subsidies:</p> <ul style="list-style-type: none"> <li>• Government spending</li> <li>• Opportunity cost</li> <li>• Inefficient allocation of resources</li> <li>• Farmers may become complacent- reliant on subsidies</li> </ul> <p>Evaluation of minimum price:</p> <ul style="list-style-type: none"> <li>• Increase price consumers have to pay</li> <li>• Government may have to buy excess supply/ surplus</li> <li>• Government may have to store or maintain this</li> <li>• May incentivise over production as guaranteed price</li>   <li>• measurement problem to decide size of subsidy/ minimum price</li> <li>• prioritisation of one policy over another with development</li> <li>• magnitude- depends on where set</li> </ul> <ul style="list-style-type: none"> <li>• Diagrams should be rewarded where appropriate.</li> </ul>	<b>(9)</b>

<b>Evaluation</b>		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially–developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
8	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8,</b></p> <ul style="list-style-type: none"> <li>• Define imperfect information/ asymmetric information</li> <li>• Identification of asymmetric information in market for education <ul style="list-style-type: none"> <li>○ Not know contents of course- choose wrong course- affect ability to gain career/ enjoyment on course</li> <li>○ Students not aware of the returns from education e.g. 2 A levels/ degree etc- may under consume/ over consume- missing out on external benefits</li> <li>○ Not aware of external benefits of education to third parties- under consume leading to under consumption as shown in external benefit diagram</li> <li>○ True cost of education- books, accommodation, tuition fees etc – may lead some to accrue debts they cannot afford</li> <li>○ Information not known about some subjects- under consumption may be a problem- e.g. lack of languages teachers, engineers etc.</li> </ul> </li> </ul> <div style="text-align: center;"> </div>	<b>(16)</b>

<b>Knowledge, application and analysis</b>		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5–8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9–12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13–16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
8 continued	<p style="text-align: center;"><b>Evaluation 9</b></p> <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• information available on internet/ by universities to reduce the problem</li> <li>• Long term- less of an issue as more go to university and friends and family can share information</li> <li>• Can we afford for all to access HE- budget deficit issues</li> <li>• Measurement of costs and benefits hard to quantify to know positions of curves</li> </ul>	<b>(9)</b>

<b>Evaluation</b>		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Write your name here

Surname

Other names

**Pearson Edexcel**  
**Level 3 GCE**

Centre Number

--	--	--	--	--	--

Candidate Number

--	--	--	--	--

# Economics A

**Advanced**

**Paper 2: The national and global economy**

Specimen Paper

**Time: 2 hours**

Paper Reference

**9EC0/02**

**You do not need any other materials.**

Total Marks

## Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

## Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

## Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

S48717A

©2015 Pearson Education Ltd.

1/1/1/1



**PEARSON**

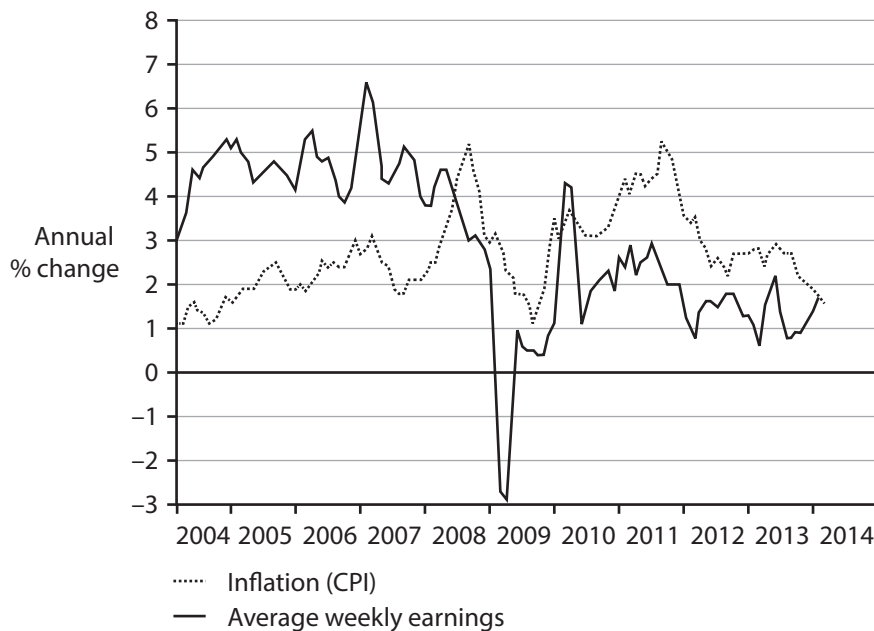
## SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 The chart below shows the annual percentage change in average weekly nominal earnings and the inflation rate in the UK as measured by changes in the CPI from March 2004 to March 2014.

**Annual percentage change in average weekly nominal earnings and inflation rate (CPI),  
March 2004 to March 2014**



(Source: ONS)  
Copyright Pending

- (a) Which **one** of the following can be inferred from the chart?

(1)

- A Throughout the period shown, average weekly nominal earnings have risen.
- B From March 2004 to March 2008, average weekly real earnings were falling.
- C Throughout the period shown, average weekly real earnings have risen.
- D From April 2010 to December 2013, average weekly real earnings were falling.

Answer





(b) Explain the likely effect of a decrease in average weekly real earnings on the equilibrium level of real national output in the UK. Include an aggregate demand and aggregate supply diagram in your answer.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**(Total for Question 1 = 5 marks)**



**2** The unemployment rate in Portugal decreased steadily from 17.5% in the first quarter of 2013 to 13.1% in the third quarter of 2014.

(a) **One** possible cause of this change in the unemployment rate is that over this period there was an increase in:

(1)

- A** immigration into Portugal
- B** aggregate demand in Portugal
- C** the size of Portugal's negative output gap
- D** the value of Portugal's trade deficit

Answer

(b) Explain the likely effect of this change in the unemployment rate on Portugal's budget deficit.

(4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**(Total for Question 2 = 5 marks)**



**BLANK PAGE**



**3** (a) A fall in tax revenues and an increase in public expenditure on welfare benefits during a recession is an example of (1)

- A** the operation of automatic stabilisers
- B** expansionary monetary policy
- C** the use of discretionary fiscal policy
- D** the use of direct controls

Answer

(b) Explain the likely effect of an increase in capital expenditure by the public sector on a country's output gap. (4)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

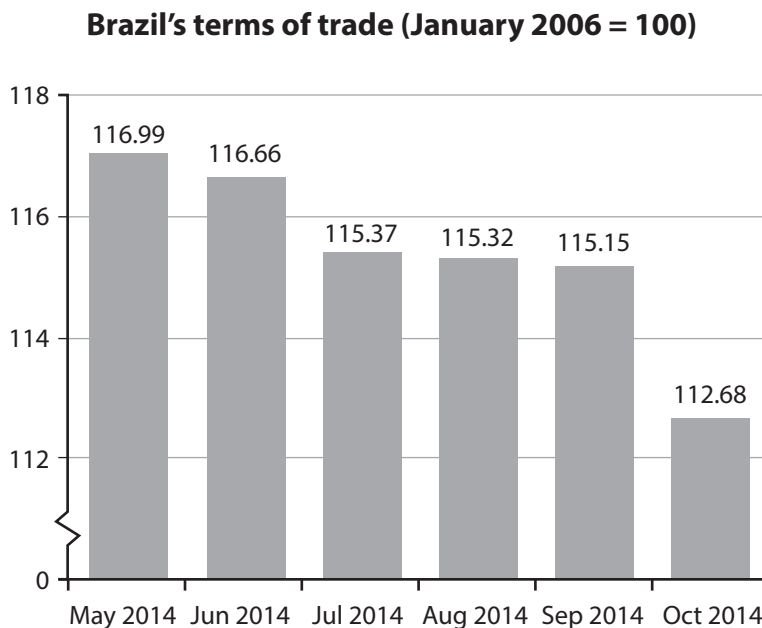
**(Total for Question 3 = 5 marks)**



**BLANK PAGE  
QUESTION 4 BEGINS ON THE NEXT PAGE.**



4 The chart below shows an index of Brazil's terms of trade.



(Source: [www.tradingeconomics.com](http://www.tradingeconomics.com), Funcex, Brazil)

*Copyright Pending*

(a) Calculate Brazil's terms of trade for November 2014 from the following information:

Index of export prices: 148.5

Index of import prices: 134.1

You are advised to show your workings.

(2)

.....

.....

.....

.....

(b) Explain what may have happened to Brazil's import and export prices to cause the change in the terms of trade shown from May 2014 to November 2014.

(2)

.....

.....

.....

.....



(c) The change in Brazil's terms of trade shown between May 2014 and October 2014 is most likely to cause

(1)

- A** a decrease in competitiveness of Brazil's goods and services
- B** an increase in Brazil's fiscal surplus
- C** an increase in the competitiveness in Brazil's goods and services
- D** a decrease in inequality in Brazil

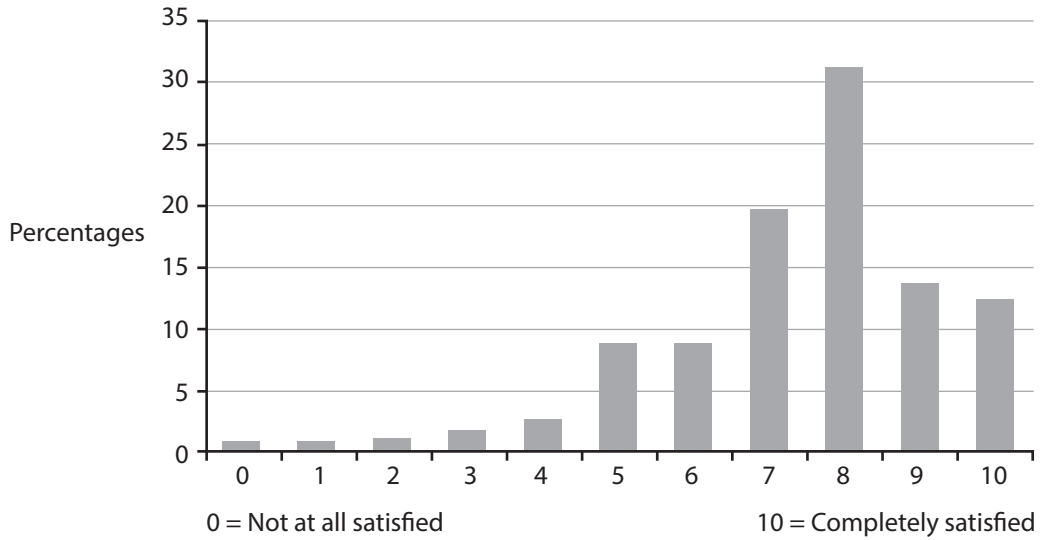
Answer

**(Total for Question 4 = 5 marks)**

---



5 The chart below shows the distribution of responses to the question 'Overall, how satisfied are you with your life nowadays?' where 0 is 'not at all' and 10 is 'completely'. This data was used as part of the UK's 2014 national well-being measure.



(Source: 'Measuring National Well-being: Life in the UK', 2014, ONS, 18 March 2014, [http://www.ons.gov.uk/ons/dcp171766\\_352740.pdf](http://www.ons.gov.uk/ons/dcp171766_352740.pdf))

Copyright Pending

(a) Which **one** the following can be inferred from the above chart?

(1)

- A Everyone in the most satisfied quintile rated their satisfaction as 9 or 10
- B The mean score was 5
- C Everyone in the least satisfied quintile rated their satisfaction as 5 or below
- D The median score was 7

Answer







**BLANK PAGE**



## SECTION B

Read Figures 1 and 2 and the extracts (A–C) before answering the questions.

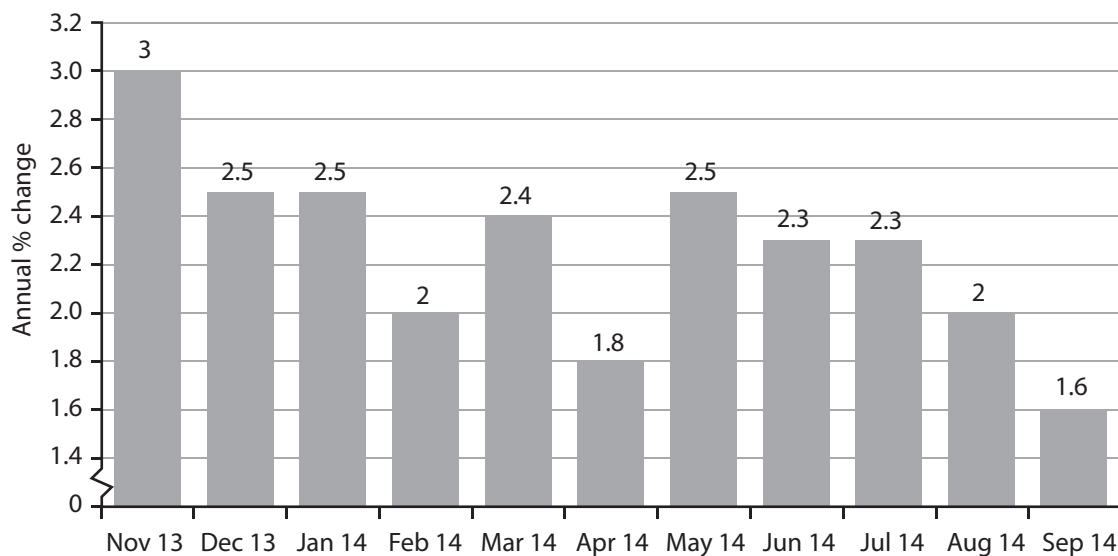
Write your answers in the spaces provided.

### The Chinese economy

**Figure 1 – Chinese CPI basket: weighting of components and annual percentage change in price of components, October 2014**

Component	Weighting in the CPI basket (%)	Annual percentage change in price (%)
<b>Food</b>	31.8	2.5
<b>Non-food</b>	68.2	1.2

**Figure 2 – China’s inflation rate as measured by the CPI, Nov 2013 to Sept 2014 (annual percentage change)**



(Source: [www.tradingeconomics.com](http://www.tradingeconomics.com), National bureau of statistics of China)

*Copyright Pending*



## Extract A – Disinflation in China

In China, consumer price inflation is at a near five-year low. The drop in global energy costs has led to weaker inflation everywhere, but many see China's current disinflation as a sign of deeper problems that are unique to the world's second-largest economy: severe overcapacity, and insufficient demand from home and abroad leading to slower economic growth.

5

The country has a long history of excessive investment across some industries, from solar panels and shipbuilding to steel and chemicals. Last week, government researchers put a figure on wasteful spending. By their calculations, \$6.8 trillion has been squandered on "ineffective investment" – such as unneeded steel mills, ghost cities and empty stadiums – since the start of the 2009 stimulus launched to protect China from the global financial crisis.

10

With the increased likelihood of deflation, the Chinese Government has several options for generating demand but the worry is that it may decide to use currency devaluation to create inflation at home. A sharp drop in the value of the Chinese currency (the renminbi) could boost exports, and help use up excess capacity; it would also offset the effects of weaker commodity prices. But rising import prices would be bad for Chinese consumers, as would higher input costs for manufacturers.

15

Such a move could prove disastrous for efforts elsewhere, notably Europe and Japan, to fight deflation. China is the world's top exporter to the EU, meaning that a significant drop in the price of its goods would put fresh downward pressure on already very low inflation trends in the eurozone. But the aggressive expansion of the Bank of Japan's quantitative easing programme has caused the Japanese currency (the yen) to fall to a record low against the renminbi, while South Korea has said that it is watching the Japanese currency closely. If the Bank of Japan sparks a regional currency war, through the use of competitive devaluation, China may not be able to remain neutral.

20

25

(Source: adapted from 'China: Fear of a Deflationary Spiral', *Financial Times*, 30 November 2014, <http://www.ft.com/cms/s/0/7a0e882e-700b-11e4-bc6a-00144feabdc0.html#axzz3Kg1mdeX2>)

*Copyright Pending*

## Extract B – Investment, credit and debt

According to official statistics, investment as a proportion of GDP in China grew from 42% in 2007 to 48% in 2011. Linked with this rise was a large growth in credit and debt. According to the International Monetary Fund, by the final quarter of 2013, total corporate debt had reached 200% of GDP, up from only 125% before the global financial crisis.

Credit cannot grow faster than GDP forever, even in China. Furthermore, some part of the recent growth has almost certainly been an illusion: investment that does not generate much of a return is in part waste, rather than valuable output – however beneficial its immediate impact on aggregate demand may seem to be.

5

(Source: adapted 'Debt troubles within the Great Wall', *Financial Times*, 1 April 2014, <http://www.ft.com/cms/s/0/b78d8c0e-b661-11e3-905b-00144feabdc0.html#ixzz2ylqfVZrU>)

*Copyright Pending*



### Extract C – Export subsidies in the mobile telecommunications sector

Karel De Gucht, the European Union (EU) trade commissioner, has attacked China's subsidising of its mobile telecommunications equipment sector. The EU has threatened for years to launch a formal investigation into what it says are illegal government subsidies to the Chinese telecommunications sector that give it an unfair advantage in global markets. Such an investigation could result in the European Commission applying high tariffs on Chinese mobile equipment entering the EU.

5

Attacking what he said was a culture of government subsidies in China, Mr De Gucht said the way the telecommunications industry benefits from the support of Chinese state banks and other parts of the government was unfair.

(Source: adapted from 'EU commissioner attacks China's telecoms subsidies', *Financial Times*, 27 March 2014, <http://www.ft.com/cms/s/0/d6d0bcc6-b5cb-11e3-b40e-00144feabdc0.html#ixzz2ylmraFJx>)  
Copyright Pending

- 6 (a) With reference to Figure 1, calculate the annual CPI inflation rate for China in October 2014. (5)
- (b) With reference to Figure 2 and Extract A, examine **two** factors that may have caused disinflation in China in 2014. (8)
- (c) Assess the likely effects of investment in China on Chinese real GDP since 2009. (10)
- (d) **Apart from its effects on investment**, discuss the likely benefits to the Chinese economy of the Government devaluing the currency. (12)
- (e) Discuss the likely economic effects of 'the European Commission applying high tariffs on Chinese mobile equipment entering the EU' (Extract C, lines 5-6). (15)



## SECTION C

**Answer ONE question from this section.**

**Write your answer in the space provided.**

### **EITHER**

- 7** From 2000 to 2013, Zambia's Human Development Index (HDI) increased from 0.423 to 0.561.

Evaluate interventionist strategies that a government can use to promote economic development in its country. Refer to a developing economy of your choice in your answer.

**(Total for Question 7 = 25 marks)**

---

### **OR**

- 8** The Australian government is temporarily increasing the top marginal rate of income tax by 2 percentage points. Incomes over 180 000 Australian dollars will be taxed at a marginal rate of 49%. This measure is expected to affect around 400 000 taxpayers and to raise 3.1 billion Australian dollars in revenue.

Evaluate the likely impact of this tax rise on the Australian economy.

**(Total for Question 8 = 25 marks)**

---



Question Number	Answer	Mark
1(a)	D	(1)

Question Number	Answer	Mark
1(b)	<p style="text-align: center;"><b>Application 3, Analysis 1</b></p> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>• AD/AS diagram with axes correctly labelled showing initial equilibrium (1)</li> <li>• Shift of curves to show a decrease in AD or an increase in (SR)AS (1)</li> <li>• New equilibrium real national output marked (1)</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• A decrease in real incomes will lead to a decrease in consumption, leading to a fall in aggregate demand (1)</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• Firms' production costs will decrease, leading to an increase in (SR)AS. (1)</li> </ul>	(4)

Question Number	Answer	Mark
2(a)	B	(1)

Question Number	Answer	Mark
2(b)	<p style="text-align: center;"><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b></p> <ul style="list-style-type: none"> <li>• A budget deficit is when government spending is greater than government tax revenue (1)</li> <li>• A fall in the unemployment rate implies a fall in Portugal's budget deficit (1)</li> </ul> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>• Decreased government spending on transfer payments (1) OR</li> <li>• Increased government tax revenue from income tax or indirect tax, e.g. VAT (1)</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• Less expenditure on transfer payments is required because people in employment are less likely to be entitled to means-tested benefits (1) OR</li> <li>• Tax revenues from income tax are likely to increase because more people are in employment (1) OR</li> <li>• With more people in employment and earning an income, expenditure. (1)</li> </ul>	(4)



Question Number	Answer	Mark
3(a)	A	(1)

Question Number	Answer	Mark
3(b)	<p style="text-align: center;"><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b>  Definition of public expenditure: expenditure by the central government, local authorities or state enterprises (1)  OR  Definition of capital expenditure: any goods used in the production of other goods  AND  Definition of output gap: a measure of the difference between an economy's actual output and its potential output (1)</p> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>Capital expenditure could include expenditure on infrastructure such as roads, rail, internet or on new hospitals, schools (1 mark for a relevant example)</li> </ul> <p><b>Analysis:</b>  Increased public expenditure on capital goods is an injection into the circular flow which will cause GDP to rise by a larger amount than the original injection (the multiplier effect) so reducing the output gap. (1)</p>	(4)

Question Number	Answer	Mark
4(a)	<p style="text-align: center;"><b>Application 2</b></p> <p>Terms of trade = <math>\frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100</math> (1)</p> <p>- <math>= \frac{148.5}{134.1} \times 100 = 110.7</math> (1)</p>	<b>(2)</b>

Question Number	Answer	Mark
4(b)	<p style="text-align: center;"><b>Knowledge 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b>  Identification of one possible cause e.g.</p> <ul style="list-style-type: none"> <li>• a depreciation of the Brazilian currency OR</li> <li>• a decrease in Brazil's inflation rate relative to other countries' inflation rates OR</li> <li>• a decrease in Brazil's export prices (1)</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• A depreciation of the Brazilian currency would cause Brazilian exports to become relatively cheaper and imports relatively more expensive (1) OR</li> <li>• A decrease in Brazil's inflation rate relative to other countries' would cause Brazilian exports to become relatively cheaper (1) OR</li> <li>• A decrease in Brazil's export prices could have been caused by an increase in productivity in Brazil relative to other countries.</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
4(c)	C	<b>(1)</b>

Question Number	Answer	Mark
5(a)	A	(1)

Question Number	Answer	Mark
5(b)	<p style="text-align: center;"><b>Knowledge 2, Application 1, Analysis 1</b></p> <p><b>Knowledge/understanding:</b></p> <ul style="list-style-type: none"> <li>• Real income: the purchasing power of money income or nominal income adjusted for the rate of inflation (1)</li> <li>• Subjective happiness relates to feelings of wellness/ good mood/feelings of satisfaction (1)</li> </ul> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>• Example of how a rise in real income might cause a rise in subjective happiness e.g. happiness gained from being able to afford a holiday abroad (1)</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• Rising real income means that people can afford more goods from which they gain utility so there is a direct relationship between happiness and increases in real income, at least up to a point. (1)</li> </ul>	(4)

Question Number	Answer	Mark
6(a)	<p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding:</b></p> <ul style="list-style-type: none"> <li>• CPI is a weighted average (1)</li> </ul> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>• Contribution from food items = <math>2.5 \times 0.318</math> (1) = 0.795</li> <li>• Contribution from non-food items = <math>1.2 \times 0.682</math> (1) = 0.818</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• <math>0.795 + 0.818</math> (1) = 1.6% (1)</li> </ul> <p>NB Accept 1.6% to 2%.</p>	<b>(5)</b>

Question Number	Answer	Mark
6(b)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge/understanding:</b> 2 marks for identification of 2 factors (1+1)</p> <p><b>Analysis:</b> 2 marks for linked explanation of how these two factors contribute to disinflation (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Fall in global commodity prices (e.g. oil) (K1) reduce firms' production costs (An1)</li> <li>• Fall in demand for Chinese exports due to weak growth in other economies (K1) reduces demand-pull inflationary pressures (An1)</li> <li>• Fall in domestic demand for Chinese goods and services due to falling consumer confidence (K1) reduces demand-pull inflationary pressure (An1)</li> <li>• Over-capacity in China (K1) means that aggregate demand can increase without increasing inflationary pressures (An1)</li> </ul> <p><b>Application:</b> 2 marks for reference to the data (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• Reference to Figure 2 to show disinflation</li> <li>• 'The drop in global energy costs is feeding through to weaker inflation everywhere'</li> <li>• 'long history of excessive development across industries'</li> </ul> <p><b>Evaluation:</b> 2 marks for identification and linked development of one evaluative comment, e.g.</p> <ul style="list-style-type: none"> <li>• Use of Figure 1 to question the extent of the disinflation</li> <li>• Extract describes the overcapacity as 'severe' and says that \$6.8 trillion has been squandered since 2009 on 'ineffective investment'</li> <li>• Some overseas economies are recovering, e.g. USA, UK, implying demand for exports may not continue to be weak.</li> </ul>	<b>(8)</b>

Question Number	Indicative content	Mark
6(c)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>Understanding of investment.</p> <p>Possible effects include:</p> <ul style="list-style-type: none"> <li>• Investment is a component of aggregate demand, so aggregate demand should increase, leading to an increase in real GDP</li> <li>• Positive multiplier effect</li> <li>• Investment increases the economy's productive capacity, leading to an outward shift of the PPF / LRAS curve, so increasing real GDP</li> <li>• Analysis may include an AD/AS diagram showing an increase in AD and/or AS.</li> </ul>	<b>(6)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no links between causes and consequences.
Level 2	3 - 4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5 - 6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
<b>6(c)</b> Continued	<p style="text-align: center;"><b>Evaluation 4</b></p> <p>Possible evaluative comments include:</p> <ul style="list-style-type: none"> <li>• Comment as to the extent /significance of the investment</li> <li>• Much of the investment has been 'ineffective', implying it may create short term growth only</li> <li>• Much of the investment has been financed by borrowing; this may endanger future economic growth</li> <li>• Reduced importance of some of the other components of aggregate demand meant that investment was a particularly important driver of economic growth.</li> </ul>	<b>(4)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1 - 2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3 - 4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(d)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 4</b></p> <p>Candidates may analyse the benefits in their answer, and the costs as evaluation (or vice versa), or may analyse the benefits in their answer, and consider the significance of their arguments as evaluation.</p> <p>Understanding of a devaluation of the currency</p> <p>Possible benefits include:</p> <ul style="list-style-type: none"> <li>• It should increase demand-pull and cost-push inflationary pressures, reducing the possibility of a deflationary spiral (and the costs of this)</li> <li>• Devaluing the currency would increase the international price competitiveness of Chinese goods and services, improving the trade balance and boosting aggregate demand</li> <li>• This would increase employment and improve the government budget balance</li> <li>• It would help to use up the spare capacity in the economy</li> <li>• Interest rate has already been cut - if that isn't effective this may be necessary</li> <li>• A competitive devaluation may be necessary if a currency war breaks out</li> </ul> <p>NB No credit for references to effects on investment.</p>	<b>(8)</b>



Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3 - 5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6 - 8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question number	Indicative content	Mark
<b>6(d)</b> Continued	<p style="text-align: center;"><b>Evaluation 4</b></p> <p>Possible costs include:</p> <ul style="list-style-type: none"> <li>• Experts say that deflation is unlikely in China - growth is still at 7% per annum</li> <li>• A devaluation of the renminbi would raise the price of imports for consumers (lower consumer surplus)</li> <li>• A devaluation of the renminbi would raise the cost of imported raw materials and components for Chinese firms who are already dealing with falling domestic and overseas demand</li> <li>• May spark a currency war/lead to retaliation</li> <li>• If the Marshall-Lerner condition is not satisfied in the long run, then the trade balance may not improve</li> <li>• The trade balance may worsen in the short run due to a 'J-curve' effect</li> <li>• Rising wages may limit the effects of a devaluation</li> </ul> <p>General evaluative points:</p> <ul style="list-style-type: none"> <li>• Effects depend on the size of the devaluation</li> <li>• Effects depend on how long the devaluation is maintained for</li> <li>• Effects depend on the actions of other countries</li> <li>• May lead to action from the WTO</li> <li>• Prioritisation of factors.</li> </ul>	<b>(4)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1 - 2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3 - 4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
6(e)	<p style="text-align: center;"><b>Knowledge 3, Application 3, Analysis 3</b></p> <p>Understanding of tariffs.</p> <p>Possible effects include:</p> <ul style="list-style-type: none"> <li>• Fewer exports of telecommunications equipment sold into the EU</li> <li>• Slow-down in the telecommunications sector in China</li> <li>• Slower increases in Chinese aggregate demand and growth</li> <li>• Increased prices of telecommunications equipment in the EU</li> <li>• Reduction in consumer surplus</li> <li>• Increase in EU producer surplus</li> <li>• Tariff revenue for EU governments</li> <li>• Net decrease in welfare in the EU</li> <li>• May include diagrammatic analysis of tariff</li> <li>• Effects on EU and Chinese trade balances</li> <li>• Growth in EU telecommunications sector, leading to increased employment and positive multiplier effects.</li> </ul>	<b>(9)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4 - 6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7 - 9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
<b>6(e)</b> continued	<p style="text-align: center;"><b>Evaluation 6</b></p> <p>Possible evaluative comments include:</p> <ul style="list-style-type: none"> <li>• Comment on magnitude of tariffs - 'harsh' implies they will be large or have a significant effect</li> <li>• Telecommunications is only one industry within both China and the EU, so any aggregate effects may be small</li> <li>• Effects depend on the price elasticity of demand and supply in the EU for telecommunications equipment</li> <li>• Tariff revenue is a very small proportion of overall tax revenue for EU governments, implying any effects on fiscal balances are likely to be insignificant</li> <li>• Tariffs may be ruled illegal by the WTO</li> <li>• China may retaliate to the tariffs.</li> </ul>	<b>(6)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1 - 2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3 - 4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.
Level 3	5 - 6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
7	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Understanding of economic development. Understanding of interventionist strategies.</p> <p>Possible strategies may include:</p> <ul style="list-style-type: none"> <li>• Investment in education and training to develop human capital</li> <li>• Investment in healthcare to develop human capital</li> <li>• Protectionism to promote economic growth (one dimension of development), allow diversification away from primary product production, earn tariff revenue, prevent dumping/protect domestic standards</li> <li>• Managed exchange rates to promote international competitiveness which leads to economic growth (one dimension of development), allow diversification away from primary product production</li> <li>• Infrastructure development</li> <li>• Promoting joint ventures with global companies to benefit from R&amp;D, training, higher quality products, employment opportunities</li> <li>• Efforts to reduce corruption and increase good governance</li> <li>• Policies to redistribute income, leading to less income inequality, e.g. increased use of progressive taxation and transfer payments</li> <li>• Buffer stock schemes to give producers guaranteed minimum prices incentivising them to invest, and to give consumer guaranteed maximum prices allowing them to afford goods</li> </ul>	

	<p>Possible evaluation points include:</p> <ul style="list-style-type: none"><li>• How to finance strategies/opportunity cost of government spending</li><li>• Some strategies will only be effective in the long run</li><li>• Some strategies may only be effective for a limited amount of time (e.g. protectionism)</li><li>• Evaluative discussion of the different dimensions of economic development</li><li>• Policies to redistribute income may lead to capital flight, or otherwise slow the rate of economic growth</li><li>• Difficulties associated with buffer stock schemes</li><li>• remove buffer stock point</li><li>• Possible trade-offs between growth and environmental impact.</li></ul> <p><b>NB For a Level 4 response, candidates must refer to a developing country in their answer.</b></p>	<p><b>(25)</b></p>
--	--	--------------------

<b>Knowledge, application and analysis</b>		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.



<b>Evaluation</b>		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
8	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Understanding of marginal tax rate.</p> <p>Possible impacts may include:</p> <ul style="list-style-type: none"> <li>• As this is a progressive tax, it should lead to a decrease in income inequality – effect may be illustrated using a Lorenz curve <ul style="list-style-type: none"> <li>○ But it is only increasing by 2 percentage points, only affecting a relatively small number of individuals, and only in place for three years, so any effects may be small</li> </ul> </li> <li>• Increased incentive to work for those affected to maintain their net income <ul style="list-style-type: none"> <li>○ But reduced incentive to work for those affected as the opportunity cost of leisure time has fallen</li> </ul> </li> <li>• Tax revenue is forecast to rise for the Australian government <ul style="list-style-type: none"> <li>○ But an increased incentive to avoid/evade income tax</li> <li>○ Possible labour flight from the Australian economy</li> <li>○ And lower working hours may lead to lower tax revenue (Laffer curve analysis)</li> </ul> </li> <li>• If disposable incomes fall, consumption may fall, leading to a reduction in aggregate demand, and a possible fall in real GDP and average price level <ul style="list-style-type: none"> <li>○ But, highest income earners tend to have a low MPC, so consumption may not change significantly</li> <li>○ But, effects on real GDP depend on the size of the multiplier and the level of spare capacity in the economy.</li> </ul> </li> </ul>	<b>(25)</b>

<b>Knowledge, application and analysis</b>		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

<b>Evaluation</b>		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Write your name here

Surname

Other names

**Pearson Edexcel**  
**Level 3 GCE**

Centre Number

--	--	--	--	--	--

Candidate Number

--	--	--	--	--	--

# Economics A

**Advanced**

**Paper 3: Microeconomics and macroeconomics**

Specimen Paper

**Time: 2 hours**

Paper Reference

**9EC0/03**

**You do not need any other materials.**

Total Marks

## Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- There are two sections in this question paper.
- In Section A, answer **all** of questions 1(a) to 1(c) and one question from 1(d) or 1(e).
- In Section B, answer **all** of questions 2(a) to 2(c) and one question from 2(d) or 2(e).
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

## Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

## Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

S48718A

©2015 Pearson Education Ltd.

1/1/1/1



**PEARSON**

## SECTION A

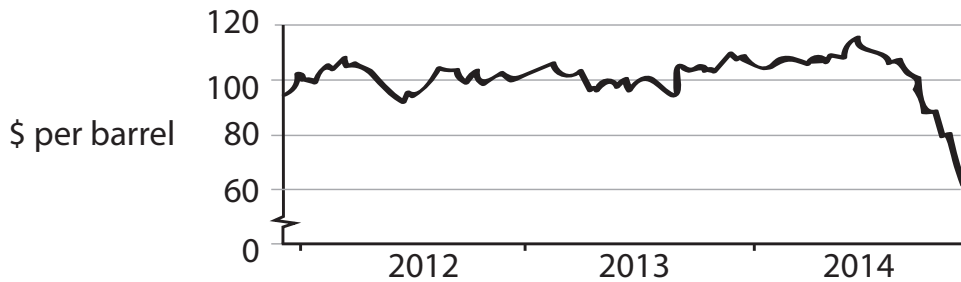
Read Figures 1 and 2 and the following extracts (A and B) before answering Question 1.

Answer ALL questions 1(a) to 1(c), and EITHER Question 1(d) or 1(e).

Write your answers in the spaces provided.

### 1 Deflation

Figure 1 - Oil price, \$ per barrel (2012–2014)



(Source: *The Sunday Times*: 'Don't fret, oil price plunge will pump up growth' by David Smith <http://www.thesundaytimes.co.uk/sto/business/Economy/article1495399.ece>)

*Copyright Pending*

#### Extract A – Falling oil and gas prices

American workers and motorists got some badly-needed relief in October 2014, when the price of oil plunged to its lowest level in years. The oil price has fallen by about 25%, since its peak of \$115 a barrel in June 2014. This means lower prices for consumers with petrol prices now below \$3 a gallon. At present levels, these lower prices are the equivalent of a \$200 billion cost saving to American consumers and businesses. 5

Oil prices are falling because of changes in world supply and demand. Demand has slowed because Europe's growth has been weak. But since 2008, the USA has increased its domestic supply of shale oil and shale gas by a significant 50%. This is a result of the astounding technological revolution in hydraulic fracturing and horizontal drilling i.e. fracking. Already thanks to these technological advances, the USA has become the number one producer of shale gas. Further, oil production in states like Oklahoma, Texas and North Dakota has doubled in just six years. 10

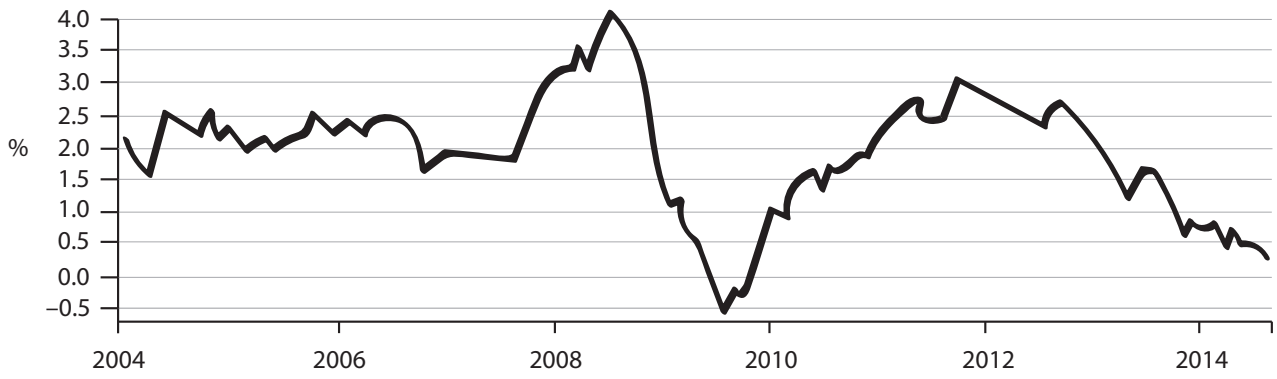
The oil and gas bonanza in the USA is reducing the power of Organisation of Petroleum Exporting Countries (OPEC). Saudi Arabia is flooding the world with oil, which is driving the world price lower. OPEC understands that shale oil and gas could make energy cheaper for decades to come. As American oil companies get better at perfecting the technologies of cracking through shale rock to get to the supplies of energy inside, the USA will soon overtake Saudi Arabia as the dominant player in world energy markets. A cartel is impossible if the world's largest producer—the USA—isn't a member. 15

(Source: adapted from <http://dailysignal.com/2014/10/26/gas-prices-falling/> 'The True Reason Gas Prices Are Falling' by Stephen Moore October 26, 2014)

*Copyright Pending*



**Figure 2 – Eurozone Consumer Price Index (2004–2014)**



(Source: <http://www.bloombergview.com/quicktake/deflation> (from Eurostat))

*Copyright Pending*



S 4 8 7 1 8 A 0 3 2 7

## Extract B – Falling Prices

The price of diesel has gone down – again. And it's not just diesel. It's food, clothing, laptops, air fares and much else. The picture for shop prices looks even more dramatic; according to the British Retail Consortium, non-food price deflation on the high street was 3.2% in September 2014. This is in sharp contrast to the inflationary decades of the 1970s and 1980s. Back then, the big economic challenge was double-digit inflation.

5

Today the threat is very different and, many would argue, much more serious – that of persistent economic stagnation and price deflation. That we are still worrying about this a full six years after the start of the financial crisis is disturbing. Despite record low interest rates and the wholesale application of quantitative easing, central banks in major developed economies are struggling to make inflation meet statutory targets. If even growing economies can't restore equilibrium, what hope does the eurozone have, where years, if not decades, of low inflation or even outright deflation are fast becoming a virtual certainty?

10

What's all the fuss about, some ask? Falling prices – that's surely a good thing? For those with secure forms of fixed income, it most certainly is; it makes them better off. It is also undoubtedly true that there are "good" forms of deflation, created generally speaking by plentiful, and growing, supply. We can include falling commodity, food and energy prices in this category. It was this type of "good" deflation that characterised much of the Industrial Revolution, and to a lesser extent the 1920s, when there were productivity-enhancing breakthroughs in the application of technology that massively expanded supply. Prices dropped, but consumption, living standards and output boomed. There are elements of this type of deflation in present pricing pressures. Since the 1960s, the price of a unit of computing power has fallen from \$8.3 trillion in today's money to little more than 10 cents. These gains have driven major increases in productivity and substantially changed the nature of work, growth and output.

15

20

25

Yet unfortunately they are probably a comparatively minor part of today's deflationary story. Current deflationary pressures seem substantially to be made up of the "bad" variety, particularly in the eurozone – the kind that stem from financial crises, deep recessions, and larger debts, where demand is depressed below the level of supply. The reason why bad deflation is regarded as being undesirable is that once entrenched, it's very hard to get rid of. Inflation can easily be reduced with higher interest rates resulting in lower aggregate demand. However, raising aggregate demand by reducing interest rates is far more problematic. Once interest rates reach zero, it is virtually impossible.

30

If prices are falling, consumers postpone spending decisions in anticipation of getting a better deal tomorrow and instead, save more. This depresses demand, causing companies to invest less, employ less, and pay less. Soon a cycle of declining demand establishes itself, made worse by large debts, the burden of which grow as real wages shrink, making people even more reluctant to spend.

35

(Source: adapted from 'Deflation: good, bad – and turning ugly' *Daily Telegraph*, Jeremy Warner, 31 Oct 2014 <http://www.telegraph.co.uk/finance/financialcrisis/11199850/Deflation-good-bad-and-turning-ugly.html>)

*Copyright Pending*





- 1 (a) Explain the difference between 'good' deflation (Extract B, line 16) and 'bad' deflation (Extract B, line 27). (5)
- (b) With reference to Figure 1 and Extract A, examine the likely reasons for the fall in oil prices since the middle of 2014. (8)
- (c) With reference to Extract A, discuss the factors necessary for the success of a cartel. (12)

**EITHER**

- (d) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of a sustained period of deflation. (25)

**OR**

- (e) With reference to the information provided and your own knowledge, evaluate the microeconomic and macroeconomic effects of a sustained fall in global oil prices. (25)



**SECTION B**

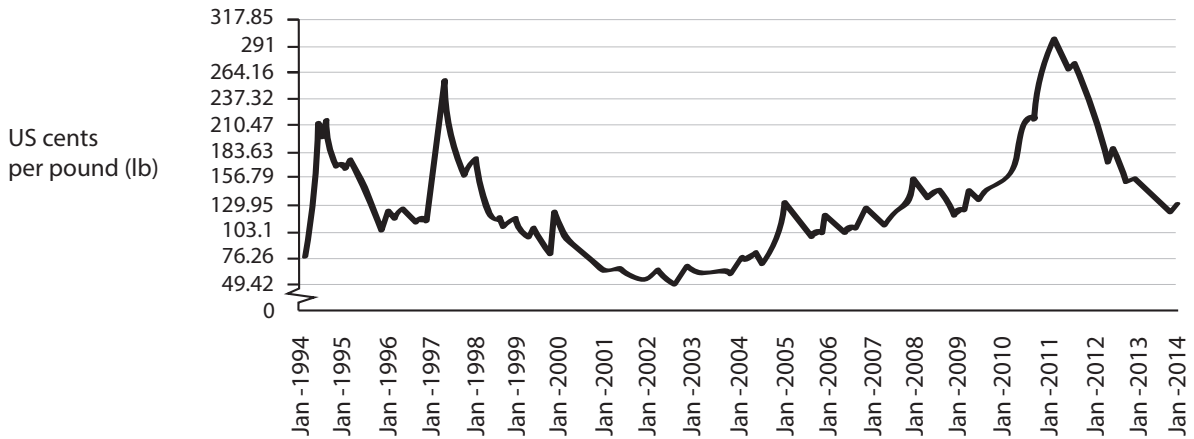
**Read Figures 1 to 4 and the following extracts (A to C) before answering Question 2.**

**Answer ALL questions 2(a) to 2(c), and EITHER Question 2(d) or 2(e).**

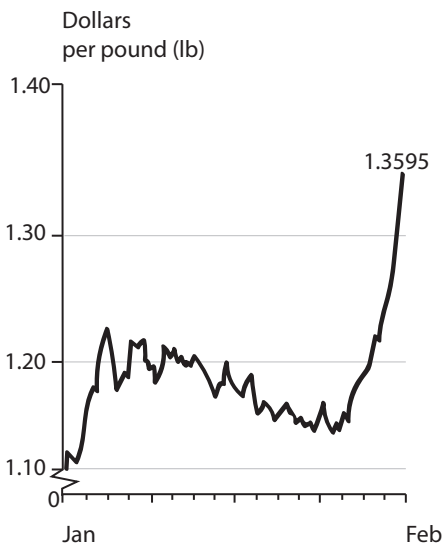
**Write your answers in the spaces provided.**

**2 The market for coffee**

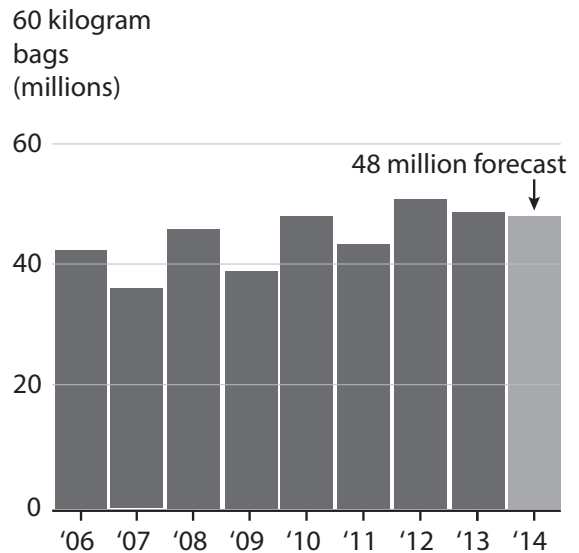
**Figure 1 - Coffee price (mild Arabica), January 1994 – January 2014**



**Figure 2 - Arabica coffee prices for future contracts January–February 2014**



**Figure 3 - Brazilian coffee production 2006–2014**

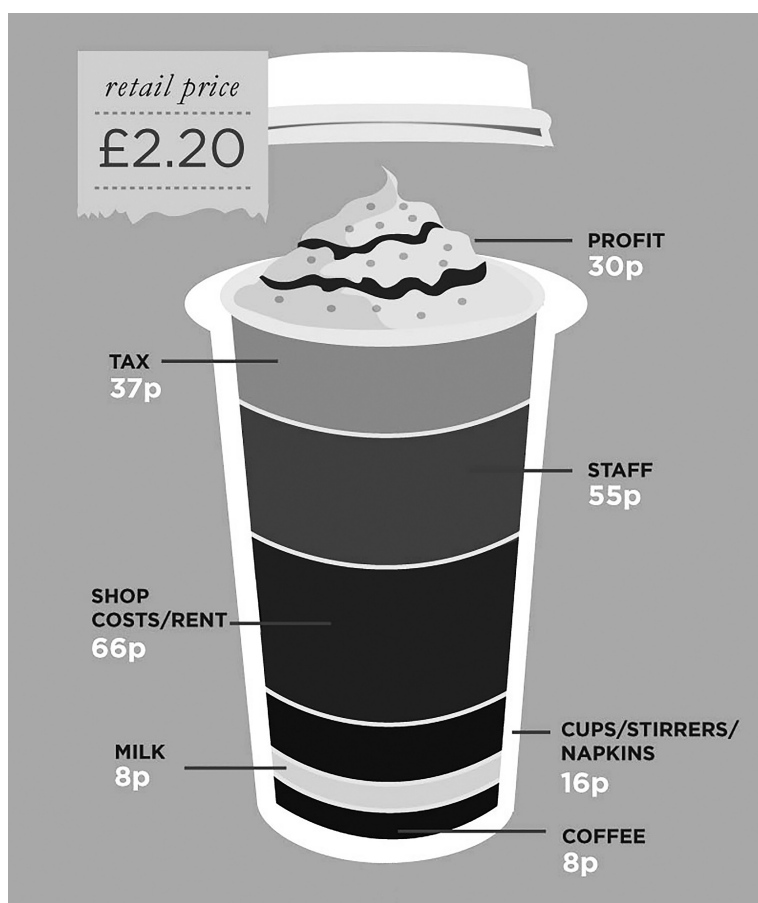


(Source: *The Wall Street Journal* <http://online.wsj.com/news/articles/SB10001424052702304851104579361271411714640?mg=reno64>)

*Copyright Pending*



**Figure 4 - The real cost of a cup of coffee: breakdown of a £2.20 cup of cappuccino**



(Source: <http://www.roadsideretail.com/2013/11/the-real-cost-of-cup-of-coffee.html>)

*Copyright Pending*

**Extract A – The price of a cappuccino**

In 2013, there were more than 15 000 coffee shops in Britain and this number is expected to rise to 20 000 by 2017. Most of these are owned by three large coffee chains (Costa, Starbucks and Caffe Nero). When the financial crisis hit, coffee seemed like the first thing consumers would sacrifice from their daily routines. But coffee survived the economic downturn because it was a luxury consumers felt entitled to treat themselves to, while making savings elsewhere. In 2012, consumers spent almost £6 billion in coffee shops.

5

Stephen Leighton started his 'Has Bean Coffee' business ten years ago in the back of his garage. Now his company provides a range of products to independent coffee shops and directly to consumers through online sales. He sources coffee beans from some of the thousands of small, independent farms in Central America and travels to El Salvador, Costa Rica, Nicaragua and Guatemala to purchase stock. 'Has Bean Coffee' ignores the frequent market price fluctuations and agrees a fixed price for a number of years with its suppliers.

10

(Source: Metro, 'Bean there, drank that: cost of a cup of coffee won't be going down' by Ross McGuinness, Monday 18 Nov 2013)

*Copyright Pending*



## Extract B – Drought in Brazil

In November 2013, many analysts had forecast the Brazilian crop would be a record for the third consecutive year. Since hitting a seven-year low of \$1.015 a pound (lb) in November 2013, coffee bean prices in the \$7 billion market for future contracts increased by 34%. The price increase emphasised Brazil's importance as a commodities' producer. Huge harvests drove down prices for commodities ranging from sugar to coffee beans to oranges in 2012–13.

5

In February 2014, there has been a sharp rise in the price of coffee beans. This increase in prices is a result of abnormally dry weather in Brazil. The lack of rain in Brazil, the world's biggest producer of coffee beans, has forced many traders to rethink their coffee bean forecasts. Some forecasters predict that prices could reach \$1.50 a pound (lb). Prices of Arabica-coffee dropped by 23% in 2013 after investors bet on oversupply. However, between January and February 2014, prices rose by 19%.

10

Higher coffee bean prices can take months to affect consumers' cappuccinos. The world coffee market is dominated by four transnational corporations: Kraft General Foods, Nestle, Proctor & Gamble and Sara Lee Corporation. These corporations often buy coffee beans long before they are harvested, so they will be using cheaper supplies for months. They also exercise considerable market power over the coffee bean farmers.

15

(Source: *The Wall Street Journal*: 'Dry weather in Brazil stirs coffee prices' by Leslie Josephs and Alexandra Wexler, 3 February 2014  
<http://online.wsj.com/news/articles/SB10001424052702304851104579361271411714640?mg=reno64-wsj&url=http%3A%2F%2Fonline.wsj.com%2Farticle%2F%2FSB10001424052702304851104579361271411714640.html>)

*Copyright Pending*



### Extract C – Higher coffee prices and the Brazilian economy

A rapid increase in coffee bean prices won't help to revive the economy in Brazil, the world's biggest producer of the beans. Concerns about slow Brazilian growth have encouraged investors to withdraw their cash, causing the country's currency to depreciate by nearly 20% against the US dollar during 2013. These outflows of cash have been especially difficult for Brazil, as its current account deficit leaves it heavily dependent on foreign money to pay off its debt obligations. 5

In theory, a rise in coffee bean prices in 2014 should help Brazil earn more from its coffee bean exports, which the country can then use to pay its debts or invest in domestic growth. However, analysts suggest that this will be insufficient because coffee bean export revenue accounted for only 6% of Brazil's total agricultural export revenue in 2013. 10

Brazil is also a major grower of many other commodities, including sugar, soya beans, oranges and cotton, and the agriculture sector accounted for about 23% of GDP in 2013.

The dry weather in 2014 has raised concerns about the quantity of coffee beans Brazil will produce. That means growers will see higher prices on smaller volumes. Some analysts say that trend should still help lift revenue, even if Brazil produces less. In 2013, coffee bean export revenue fell 19% even though the volume sold increased by 10.2% from 2012. 15

The depreciation of the Brazilian currency, the *real*, should boost exports. However, Brazil sends many of its goods to other emerging markets, where currencies have depreciated even more. Brazil has been experiencing high annual inflation. The rate of inflation was 5.9% in 2013. 20

(Source: *The Wall Street Journal*, 4 February 2014 'Higher Coffee Prices Won't Wake Up Brazil's Economy' by Leslie Josephs, Alexandra Wexler and Nicole Hong.  
<http://blogs.wsj.com/moneybeat/2014/02/04/higher-coffee-prices-wont-wake-up-brazils-economy/>)

*Copyright Pending*



- 2 (a) With reference to Extract C, explain what can be inferred about the price elasticity of demand for coffee beans. (5)
- (b) With reference to Figure 4, examine the likely impact of the 19% increase in the price of coffee beans between January and February 2014, on the price of a cup of coffee bought from a coffee shop. (8)
- (c) Discuss the different degrees of contestability in the farming of coffee beans **and** in the UK coffee shop market. (12)

**EITHER**

- (d) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of fluctuating coffee bean prices on coffee producing countries. (25)

**OR**

- (e) With reference to the information provided and your own knowledge, evaluate the likely microeconomic and macroeconomic effects of the depreciation of the *real* on Brazil's economy. (25)



Question Number		Mark
1(a)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge:</b></p> <ul style="list-style-type: none"><li>• 'Good' deflation - Caused by an increase in aggregate supply (1)</li><li>• 'Bad' deflation - caused by falling aggregate demand (1)</li></ul> <p><b>Application:</b></p> <p>2 data references from Extract 1: (2 marks)</p> <ul style="list-style-type: none"><li>• For 'good' deflation - falling price of unit of computing power (1)</li><li>• For 'bad' deflation - recession in eurozone (1)</li></ul> <p><b>Analysis:</b></p> <p>1 mark for explanation of the link between:</p> <p>Either</p> <ul style="list-style-type: none"><li>• AS and 'good' deflation: because it is caused by new technology; falling raw material prices which result in higher real output (1)</li></ul> <p>OR</p> <ul style="list-style-type: none"><li>• AD and 'bad' deflation: because it is caused by falling real wages which result in lower real output. (1)</li></ul>	<b>(5)</b>

Question Number		Mark
1(b)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge and analysis:</b> 1 mark for each reason, up to 2 marks <b>(K)</b>. A further 2 marks for supply and demand diagram(s) or further development or explanation <b>(A)</b></p> <ul style="list-style-type: none"> <li>• Fall in demand - recession in eurozone; slowdown in China and Asia</li> <li>• Increase in supply - shale oil</li> </ul> <p><b>Application (1+1 marks):</b></p> <p>Specific data reference from Figure 1, e.g. fall in oil price from around \$115 a barrel in mid 2014 (1) to just over \$60 a barrel by the end of 2014 (1)</p> <p>Specific data references from Extract A: e.g. 50% increase in oil supply in USA (1)</p> <p><b>Evaluation:</b> (2 marks for any relevant point):</p> <ul style="list-style-type: none"> <li>• Prioritisation - discussion of which factor has had the greatest impact</li> <li>• Fall in demand might be more temporary than increase in supply.</li> </ul>	<b>(8)</b>



Question Number	Indicative content	Mark
<b>1(c)</b>	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 4</b></p> <ul style="list-style-type: none"> <li>• Meaning of a cartel: group producers acting together; restricting supply to force up price</li> <li>• The producers act as a monopolist when a cartel is formed</li> <li>• All major producers must be members of the cartel for it to be able to succeed</li> <li>• No new substitutes for the product must be available (in this case shale oil is an effective substitute for oil)</li> <li>• Supply must be controlled – without 'cheating' by individual producers.</li> </ul>	<b>(8)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3 - 5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6 - 8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
<b>1(c)</b> continued	<p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Much will depend on relative price of oil in relation to sources of renewable energy</li> <li>• A cartel might be more successful in the short run than in the long run when alternatives may be developed and become more available</li> <li>• Less powerful members of the cartel are likely to cheat</li> <li>• Difficulty of controlling activities of major producers</li> <li>• Impact of increase in shale oil/gas production</li> <li>• Inability to prevent entry of new producers (discussion of the degree of contestability in the market.</li> </ul>	<b>(4)</b>

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Indicative content	Mark
1(d)	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> <li>• on consumers - increase in real value of savings; falling prices so increase in consumers' surplus</li> <li>• on producers - lower input prices leading to falling costs of production and possibly higher profits</li> <li>• on workers - could result in nominal wage cuts</li> <li>• on shareholders - falling profits might result in falling dividends.</li> </ul> <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> <li>• impact on Investment - less incentive for firms to buy capital equipment</li> <li>• impact on Employment - could lead to a 1930s type depression with massive unemployment</li> <li>• impact on Economic growth - could result in prolonged depression</li> <li>• impact on Real value of a country's national debt increases.</li> </ul> <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• impact depends on the causes of deflation – whether it is 'good' or 'bad'</li> <li>• consumers face increase in real value of mortgages and debts</li> <li>• producers face falling revenues and profits</li> <li>• impact on macroeconomic variables (growth, employment, balance of payments) dependent on type of deflation.</li> </ul>	<b>(25)</b>

<b>Knowledge, application and analysis</b>		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

<b>Evaluation</b>		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
1(e)	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> <li>• impact on costs of production resulting in higher profits for businesses</li> <li>• impact on revenues and profits of oil companies (reference to price inelasticity of demand)</li> <li>• impact on investment decisions by firms in the oil market, especially with reference to shale oil</li> <li>• impact on wages of workers in oil industry</li> <li>• impact on consumer real incomes and on demand for other goods and services</li> <li>• impact on green energy industries (reference to cross elasticity of demand).</li> </ul> <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> <li>• lower global rates of inflation (AD/AS analysis)</li> <li>• impact on global growth rates</li> <li>• impact on balance of payments on current accounts of oil importing countries and oil exporting countries</li> <li>• impact on CO<sub>2</sub> emissions: consideration of impact on climate change on different countries - reference to external costs.</li> </ul> <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• impact on different industries will depend on their oil costs as a proportion of total costs</li> <li>• impact on households will depend on cost of oil in household budgets</li> <li>• impact on demand for other goods and services will depend on other factors e.g. state of world economy, consumer confidence, household debt</li> <li>• impact on inflation rates and growth rates depends on elasticities of AD and AS curves</li> <li>• impact on balance of payments on current account of different countries depending on whether they are net importers or net exporters of oil</li> <li>• impact on external costs depends on how different price elasticity of demand for oil.</li> </ul>	<b>(25)</b>

<b>Knowledge, application and analysis</b>		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.



Question Number		Mark
2(a)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 1</b></p> <p><b>Knowledge and analysis:</b> 1 mark for identification of price inelastic demand and 1 mark for definition of price inelastic demand (a change in price leads to a less than proportionate change in quantity demanded).</p> <p>A further mark for explanation of either of the following:</p> <ul style="list-style-type: none"> <li>• Price and total revenue moving in the same direction – indication that demand is price inelastic</li> <li>• Demand price inelastic because there are no good substitutes.</li> </ul> <p><b>Application:</b> 2 references from Extract 3: (2 marks)</p> <ul style="list-style-type: none"> <li>• 'Some analysts say that trend (higher prices) should still help lift revenue, even if Brazil produces less' (1)</li> <li>• 'Last year, coffee export revenue fell 19% even though the volume sold rose 10.2% from a year earlier'. (1)</li> </ul>	<b>(5)</b>

Question Number	Indicative content	Mark
2(b)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge and analysis:</b> 1 mark for coffee beans as a cost of production; 1 for affect on supply curve. A further 2 marks for further development/explanation</p> <ul style="list-style-type: none"> <li>• Supply and demand diagram illustrating a leftward shift in the supply curve and rise in the price of a cup of coffee Or verbal explanation</li> </ul> <p><b>Application:</b> up to 2 marks for 2 references to Figure 4: e.g.</p> <ul style="list-style-type: none"> <li>• Coffee represents 3.6% of the cost of a cup of coffee. (1)</li> <li>• Other costs e.g. rent, packaging, wages and profit represent £ 2.12 out of £2.20 of the price of a cup of coffee. (1)</li> </ul> <p><b>Evaluation:</b> (2 marks for any valid point):</p> <ul style="list-style-type: none"> <li>• Coffee beans only a small proportion of price of a cup of coffee</li> <li>• Competition might mean that coffee shops/chains absorb increased costs by reducing profit margins</li> <li>• Consideration of interdependence under oligopoly.</li> </ul>	<b>(8)</b>

Question Number	Indicative content	Mark
2(c)	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 4</b></p> <ul style="list-style-type: none"> <li>• Understanding of contestability - low barriers to exit (sunk costs) and entry</li> <li>• Examples of exit barriers and entry barriers in the context of coffee bean farmers and coffee shops</li> <li>• Coffee beans - large number of coffee farmers suggesting low barriers to exit and entry. High threat of potential competition suggesting that the market is contestable</li> <li>• Coffee shop market - dominated by three large chains suggesting low contestability</li> <li>• Sunk costs for coffee shops include - heavy advertising; strong global brand names. These limit the threat of potential competition so making the market less contestable.</li> </ul>	<b>(8)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	3 - 5	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	6 - 8	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
2(c) continued	<p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Coffee bean producers - contestability limited because coffee beans can only be grown in certain climates; long growing period</li> <li>• Coffee shops - fairly contestable because; many small independent coffee shops; low start-up costs; few sunk costs: shops and equipment can be leased or rented; skills required relatively low.</li> </ul>	<b>(4)</b>

Level	Marks	Descriptor
0	0	No evaluative comments
1	1-2	<p>Identification of generic evaluative comments without supporting evidence/reference to context.</p> <p>No evidence of a logical chain of reasoning.</p>
2	3-4	<p>Evaluative comments supported by relevant reasoning and appropriate reference to context.</p> <p>Evaluation recognises different viewpoints and/or is critical of the evidence.</p>

Question Number	Indicative content	Mark
2(d)	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> <li>• fluctuating revenues for farmers</li> <li>• uncertainty - difficult for producers to plan investment and output</li> <li>• implications for how the farmer uses his land.</li> </ul> <p>Macroeconomic effects:</p> <ul style="list-style-type: none"> <li>• fluctuating export revenues</li> <li>• fluctuations in the country's balance of payments on current account</li> <li>• could be reflected in fluctuations in the country's GDP</li> <li>• implications for the country's economic development</li> <li>• resources might not be allocated efficiently.</li> </ul> <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• uncertainty can be reduced by forward purchases of coffee beans at set prices</li> <li>• much depends on whether there is a long run upward or downward trend in prices of coffee prices</li> <li>• impact on individual coffee producing countries will depend on the significance of coffee to the country' economy</li> <li>• degree of price fluctuation depends on price elasticities of demand and supply</li> <li>• price fluctuations might act as an incentive for countries to diversify and/or develop manufacturing and tertiary industries</li> <li>• possibility of government intervention to stabilise farmers' incomes e.g. through the introduction of a buffer stock scheme.</li> </ul>	<b>(25)</b>

<b>Knowledge, application and analysis</b>		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2 (e)	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <p>Microeconomic effects:</p> <ul style="list-style-type: none"> <li>• understanding of the impact of depreciation of the <i>real</i>:</li> <li>• Brazilian exports will be cheaper abroad, leading to higher demand while imports into Brazil will be more expensive resulting in a decrease in demand</li> <li>• primary producers: export revenues may fall since demand for many primary products is price inelastic</li> <li>• increase in costs for firms reliant on imported raw materials</li> <li>• increase in competitiveness for Brazilian exporters of manufactured goods.</li> </ul> <p>Macroeconomic effects: Brazil's currency depreciated by 20% in 2013</p> <ul style="list-style-type: none"> <li>• this should increase the competitiveness of its goods and services and lead to an improvement in the current account of the balance of payments</li> <li>• this could lead to an increase in employment</li> <li>• cost push inflation</li> <li>• there is an increase in the real burden of foreign debt.</li> </ul> <p>Possible evaluation points include:</p> <ul style="list-style-type: none"> <li>• 20% depreciation is significant but much depends on whether this is sustained in the medium term</li> <li>• impact on individual Brazilian producers depends on their reliance on imports and/or exports</li> <li>• inflation is a problem so any competitive advantage may be lost quickly. (Depreciation raises the cost of imported raw materials and goods)</li> <li>• impact on current account will depend on whether the Marshall-Lerner condition is fulfilled</li> <li>• Also: short run and long run effect on the current account may be analysed using the J curve effect.</li> </ul>	<b>(25)</b>



<b>Knowledge, application and analysis</b>		
Level	Marks	Descriptor
	0	A completely inaccurate response.
Level 1	1 - 4	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	5 - 8	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	9 - 12	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	13 - 16	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

<b>Evaluation</b>		
Level	Marks	Descriptor
	0	No evaluative comments.
Level 1	1 - 3	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4 - 6	Evidence of evaluation of alternative approaches which is unbalanced, leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	7 - 9	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.