



# Examiners' Report June 2010

# GCE Economics 6EC04





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June 2010

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This was the first exam paper for the new specification, but was similar in many ways to the unit 6 of the legacy specification. Candidates had a choice of longer, essay questions and then a choice of data response questions.

## Question 1

This was the least popular of the three essay questions and responses were generally weaker than on the other essays.

Better answers to part (a) were able to examine some valid causes of inequality such as inheritance, education, pension rights and ownership of assets. However, others struggled to develop more than one point or wrote generalised answers relating to wages.

Answers to part (b) were more convincing with some discussion of the possible impact on tax revenues, disincentives and the effect on aggregate demand. However, evaluation was often surprisingly weak, given the topical nature of this question.

Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen (図).
If you change your mind, put a line through the box (図) and then indicate your new question with a cross (図).

Chosen Question Number: Question 1 🛛 Question 2 🖾 Question 3 🖾
a) There are Many reasons for
wealth and income income inequality in
Bangeladesh Bangeladesh is a law
ecenemically developed country, with
One reason for an inequality in
wealth and income may be load
and ownership. A country such as Bongeladesh
is reliant on it's agricultural market
and most people from a brind age
work on the land. Thus if # many
people don't own bits of lond to
grow agricultural connedities then
they will have a low income.
However this is dependent on how
reliant the citizens are on agricultural
work. Furthermore it also depends upon
onsest omverelje.
A second reason for an
a income and wealth inequality is
corruption. In less economically developed
contries high levels of

corruption exist, as for example people have to pay protection fees to local mob's . Furthermore there may to corruption in large firms exploiting farmers and trade win union rights. However there has been an introduction of fair trade schemes, which give farmers a greater percentage of the retail price, however this may be a price discrimination technique (changing different groups of consumer different prices for the same good or service) from the supermovhets. Another reason may be poor education and training resulting in poor human capital. Many children are forced to work from a young age or do not have access to schools, thus preventing them from gaining better jobs, thus the cousing income inequality. However government sponding may increase the provision of education and availability. There is also a time log for education to take affect.

A fourth	reason	for inequa	dita may
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difficult for	people	to accers	jobs
thus limiting	their	incorno. How	ever
institutes s			
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bwiegz.			



The answers to both parts of the question included some relevant points but the analysis was not developed fully or evaluated effectively. In part (a) there were valid points relating to land ownership, corruption and education but in all cases the analysis were rather superficial. However, there were some valid evaluative comments so this part was awarded 13/20 marks.

The answers to both parts of the question included some relevant points but the analysis was not developed fully or evaluated effectively. In part (a) there were valid points relating to land ownership, corruption and education but in all cases the analysis were rather superficial. However, there were some valid evaluative comments so this part was awarded 13/20 marks.

In part (b) there was mention of greater tax revenue but then the answer considered how this might be spent, ignoring the current context of fiscal deficits. The second point about increased equality was made fairly well and included some relevant evaluation concerning tax evasion and capital flight. However, a further point concerning incentives to work was not developed very fully. This part was awarded 14/30, a level 2 mark.



In answering part (b), it is important to consider the context in which a new, higher tax rate was introduced. In this case, it was clearly not to provide more funds for extra public expenditure but to reduce the size of the fiscal deficit.

Do not use pencil. Use black ink or ball-point pen. Put a cross in the box indicating the question from Section A that you have chosen (X). If you change your mind, put a line through the box (ﷺ) and then indicate your new question with a cross (X). Chosen Question Number: Question 1 🗷 Question 2 🖸 Question 3 In the world for the richest 10% of people 80% of income, and the poorest 90% only 20% of world income. or the incom cumulation incous population the UK (approx.) is There is still exinequality although we are a developed country section A is show Hat of Arricas (an LEDC) through

However this increality

gets its should be evened out by inheritan tax. However infrentains tax does not fax supiciently to completely equalse the quet. Raking Masses Inherstance for would be we full on the order inscription as if is us Heir fault they inheret and slouded, perhaps not be punished by extra toxes. Finther more increasing anout of income tax due when you inherit negy be a reason for inequality as, by increasing tax you redace the incentive to inherit. Flurefore instruct more people with spend began they are evado the box by yould array inheriture early so it is not seen as identiace as none detrementally they mun neve abroad to avoid it altogloto so that less duldren du not have to pay any of the ow or any other government: This is an excuple of government jaille as they loose reverse now tax by men increasing it so they end up with less many money How when they started. This is Blown by the layer curso where T reven A and from there it you Try Tap rate to increuse the tex rate

the revenue will octubly docume p-pp. Income inequality can be caused by education. In the UK there is a vicions cipcle, those with high income and afford to seed four duldre to private schools when it is assured up are getting a high class education, which allows you to the som a high income yourself Where as the poorer children in society are openerally i started schools where the otton. Although the government enjoyees students to about a secondary advoto until As age of 16, coon to be raised to 17 and them 18 in 2015, the grality of the education is not always hop, ad dolder eed up leaving without qualifocettons, ie: no exsE's. Therepour because of theirs background thou have less ability to earn a high inour ad there inequeality Anotter course recently of income inequalità is unemployment.

amemployment is vising tesse

people are out of work and not county.

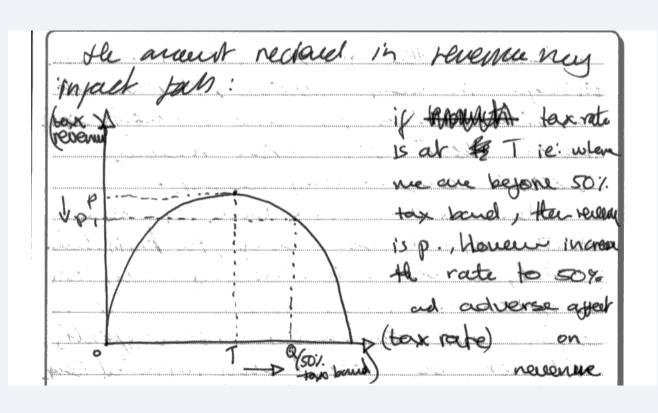
This increases inequality as the power people can't carn there every up and close the inear gap if they don't bear pobs where as those a pigner incomes are still carn't theoretic whiley the government give unemply next benefits. Though the arount is next year and although beops people just about the inequality as that well closesse incentive por the pool to work their ways out appoints.

b) Income tex is a progressive tex and direct tox. It is progressive as it charges the rich a hospier percent of income and the poor way to top inequality. It is direct as this levied a each individual it is not a choice like war which and therefore pay it is usually texture from you become you thouse recieve your recieve your recieve your recieve your recieve your recieve your recieves your receives your your years your production of these progressions your production of these progressions your production of the progression your production of the production of

This will encourage the very rich to more of avoid to encourage the very rich of more of avoid in some segrething the boar state is lower for the lower incomo fig. at 20% or your prist segreth away that is firm alof of more labor away and the part of work had glowing the part less incentine to work had below away income to prove the increase in those on members of the increase in those on members of the province of the series of the

although on afford higher to see, they also with the back the power who will be pushed closes to substance inequality and distributive to work had the hugher tax bound new cause a brain drain. They can do the same affects tax abroad. This out plous of human applied that is well trained and valuely

would be catasfroptic to our as ready
foull econonous which needs high
productive and blovepore shilled weeks
the growthing growing through all
the sponding which could Brink our
econous cause's a the recessor Theye
a massive negotive effect of the SO; toro
pen 's brain drain which at this
pount would be catastophic for the Uk.
The vigor tax bands are asses
at increasey tax reserves respected
by the government, however due
to the doineatives and brain drain



may insue By increase rate to a (50): tax bad revenue falls to p.

The government the nay therefore be being over estimate particular because they want more noney.

Less incentive to earn, intoter inequality and brain draw all regatively impact the economy loss consumer speeding as people being less disposable income, therefore a decrease in AD ad due to the layer cure the government will be reaching tess tax so can't increase AD with by government spending. Therefore a

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a prime when the element weeds laga

spending markes will lagger ascentil

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forward he nostrated by the base dain

is likely to be minimal as only than

an element happen schause will he

loosen at the nost consum spendin

usill not be too baday inpacted they

and decrees of first as a source that a second of the seco



In the part (a), there are 3 factors identified and explained: inheritance, education and rising unemployment. The analysis is generally good and there are some sound evaluative comments so this was awarded a Level 5 mark: 18/20.

In the part (a), there are 3 factors identified and explained: inheritance, education and rising unemployment. The analysis is generally good and there are some sound evaluative comments so this was awarded a Level 5 mark: 18/20.

The beginning of part (b) was less convincing with a suggestion that the 50% tax band would increase inequality. However, there was some good discussion relating to incentives to work, tax revenues, the brain drain and aggregate demand. Some evaluation was included in the answer and more especially at the end. Overall, this response was given 24/30 i.e. a Level 4 mark.

## Question 2

In part (a) the best answers contained examples of countries, (presumably from case studies undertaken in class) to illustrate the points which they were making especially on the significance of price inelasticity of demand and supply and income inelasticity of demand. Evaluation was often very effective with examples of countries which had developed on the basis of primary products.

A characteristic of weaker response to this question was an absence of economic concepts.

In part (b) the best answers contained structure analysis and evaluation of several methods by which growth and development might be achieved.

However, weaker responses focused on unrealistic supply side measures which involving significant public expenditure. In these responses, much of the evaluation was brief and not developed.

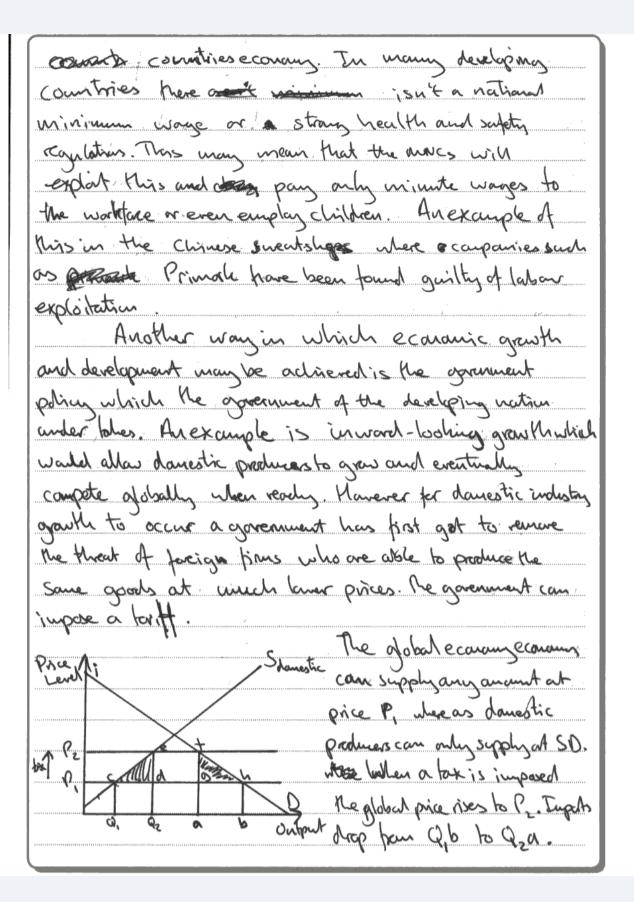
Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen (図).
If you change your mind, put a line through the box (図) and then indicate your new question with a cross (図).

Chosen Question Number: Question 1 Question 2 Question 3 🖾 Primary product offerency dependency the reliance of are an material or simple agricultural more segment to so M of diresity alobal ma un a countr 100000 about apparenced a lune decline by oround economic growth has a direct effect on economic Sereliquent decline over time

the Prebisch-Singer hypothesis. The on This states that due to the demand for primary products being indestre income inclustic and the demand for manufactured goods being income elastic my the demand for (pageon Brothers Dit aless for at manufactured goods will increase at a faster rate than of that for primary products and therefore the terms of trade would determate over true Handel as Thomas Mallhous ance Moment over recount years populations have been increasing at an alorwing rate. With an increase in population cames an increase in the demand for food namely basic agricultural crops as until of the population growth has occurred in developing Countries who demand agricultural crops rather than manufactured foods. This means that the demand for \$ primary products could be in creasing and Newton ust ham growth. On the other hand though agricultural caps are are poure to natural disasters consing hune danoge which could decrease ijseld. Web War Dook you In carclusian primmy product departions could be a specific constaint on growth and development because of its fate being de aded by the Huchatians in global makets. The Prebisch-Singer Importosis is still only a Importusis as New hosnit been

which infantion that preveritie has Firthermore, we there have been countries that have benefited from piruran product dependency such as Blowana and its production of Sycums. This the has brought them sustainable growth. Acosto goth This has mount that they have been able to invest in education, hairing and health to improve their development 200 2.5) Economic growth and development can be pointed in a variety of ways and with the recent boom in afolialisation many doors have been oponed to developing countries for them being able to grow and develop. However, obstalisation is not always so fair First of all a way in which to prenote gowth and development is via aid from around the world. This aid could be governmental or non-governmental such as Oxfam or CAFOO. Aid provides hereliping countries with relief when dealing with an natural disaster or widespears poverty. It the aid is used efficiently and howthy their development can occur such as the building of infastantine or the terining training of

teachers who can then go as to teach children. This i would croate a multiplier effect across the country as it would pravide jobs under construction or baining Forme Bren Mungh three will be a time lan before the benefits gained can be fully appreciated, ance the effects to do filter through then the e coroun could experience & substantial growth. However, corruption is all too common in developing countries. Corruption; sthe manipulation of resources for own personal use. These uses could be in the manufacture or buying of gons and other a stojets of war. So when aid is given it has to be made sive that it is given to the right people A second way in which ecanonic growth can be adjeved in an country is investment from multinational corporations or MNCs for shalf. MNCs may wish to invest in a so developing country for a variety of reasons such as being integrated into other workers where footing blocs may be aborrier to trade of the past trade. The For the developing Country the MNCs may bring infastmetic or training which will contribute to the economic development and granth of the economy economy There are many other reasons as to why MWES may most in good developing morbets which many be detrimental the the Book to the dealiging



Consumer surplus dops from P, hi to Pzt; and producer scrplus rises by "P. P. ce". Tax renewe for the garment was is given by "deta". And Mere is a deadwarght loss on society of the Two shaded himgles. This approach allows domestic producente be use competitive. However, this approach way mean other countries impose a retaliation toriff and also there is a distortion of carporative advantage which decrosses the efficiency of the country My final way to sale promote growth and development is by using fair hade which aims to reduce the exploitation of the producer in the developing notions. This approach though is inefficient as even though carsames paya poemium for the fair lade goods, and only lors of the premium goes to the producer could the rest to the per supermakets. To conclude I believe that the best approach for developing countries to say adapt to promote development and growth is by attenting tererigh direct assessment but the country should frot impose regulations an health health and workers vights



The response to part (a) considers two main points and includes a mention of the problem of natural disasters towards the end. The analysis is not well-developed. but there is some evaluation mainly relating to the significance of increasing population for the demand for agricultural products. This answer was deemed to meet the Level 3 criteria and was awarded 12/20.

Four ways by which growth and development could be achieved are identified in part (b) but some of the analysis is superficial e.g. relating to fair trade. However, there is evaluation of three of the methods. This answer achieved 22/40 i.e. just into the Level 4 category.



The analysis of aid could have included reference to how it might reduce absolute poverty; how it might be used to improve education and enrolment rates as well as a more detailed analysis of the effects of aid when directed towards investment in physical capital.

#### **Question 3**

This was the most popular of the three essay questions. Although there some sound responses to this question, candidates seemed to have difficulty finding three points to explain the UK's fall in international competitiveness in part (a). Rises in the sterling exchange rate were usually very well explained (although the analysis of a minority of weak responses was very confused) as was relatively high inflation in the domestic economy. Only the better candidates discussed cost-raising regulations in the UK or the relatively low ratio of R&D to post-tax profits. Non-price factors such as quality, reliability on delivery, after sale services were only mentioned by candidates who presented deep analyses.

In part (b), most candidates were able to provide several methods by which the government and businesses were able to improve competitiveness. These were often analysed and evaluated quite well. However, illustrative examples were lacking (e.g. schemes for modern apprenticeships; having a target of 50% university entrance). Similarly, evaluation was often rather superficial. For example, responses merely mentioned 'time lags' in relation to education and training without any relevant detail about planning, constructing and equipping schools, colleges university buildings. Weak answers often listed proposals such as 'cut costs' or 'improve quality' without any suggestions about how these were to be achieved. Further, some answers suggested protectionism and devaluation as methods without providing any context. For example, devaluation is not a policy relevant to countries with floating exchange rates.

A minority of candidates were unable to access high marks because they ignored the requirement to examine strategies which might be used by both businesses and governments.

Do not use pencil. Use black ink or ball-point pen.
Put a cross in the box indicating the question from Section A that you have chosen (図).
If you change your mind, put a line through the box (図) and then indicate your new question with a cross (図).

Chosen Question Number: Question 1 Question 2 Question 3 🗵 The first partor which may have coursed the decrease in UK'S competitiveness could be a foll of autput per man have. measurement in productivity concrease in price of goods and services fewer goods. the international competitioners of such decreases) & effect on the semand of exports rising price would depend on its elasticity trice elasticity of semand measures Pla responsiveress Hence if we's product are an inelastric change in price would be not proportionally smaller decrease in Semand and rie-serva The second factor which may have cause a devience could am appreciation of 5 the Resonat a UK'S currency gains streanght over ther of UK's goods would decrease and competitioner would decrease

However at the some times due to the stronger wronny copies the quantity domanded of impats in the UK would increase as they become cheaper than domestic goods. This increase would cause on a weakening of the pound. I am oder to buy the impats Due to the part that more currency enters the global months Din order to mirchose Due to the feet that in order to buy imports local asserting has to be orchanged for forign asserting home due to this increase in semand for seports import supply of local arrency would increase and so its price would decrease and so competitiveness would rise again The Flird facts which might have caused the secrease could be a lak in opone capacity. Inflation. Due to insufficient space capacity ( un used factors of production) the prices level in uk's economy may have increase. The the price level inverses whis experts to other goods become coefficient and so their found would decrease. and so compete tiveness would foll

(b) The first strategy & business could imparent could be to shift production to a country where labour is changes. By shifting production business may be able to reduce usage costs As usage cots decrease the price of the final product product would become would decrease and so the more competitive in the global mortet. However if production shift is not done confully it could cause a foll in competitiveness . is shifted in a country without y proper education proper health care system the company may face increasing costs due first of all 6 unstilled labour training and second to see absences some by back of proper health. As costs increase competitiveness falls. The second strategy a business could take it asks to become more competitive could be to focus production on quality rather than price and so aim to caller a different kind of sustamers. By producing enoung goods businesses may be able to become more competitives so as made by in the deciding factor. government outry could under take to strengthen the local annewy. By weatering the arrang the Bul products would become draper Then foreign ones and so they a become competitive

However when weren my is were lened impats would become costeier and so their demand would decrease. This feel in demand for imports would counter effect to weatening done by the government as local currency supply to global model is represed and so to its price would to increase. As arrany sostengenten exports would become costler and so less competitive strategy The parth factor which a government would under take (Raises aimed to expand aggregate supply) of supply note policies & By expanding the sevel of space capacity in the economy a government may be able to reduce price level and so the country's exports would become chapter and so gain competitiveness. However the change in price and would depend on the Gold of spore apacity already present in the economy. IP high amounts are already present then increasing them now wouldn't have any effect. IR however little or no spore capacity is present that than to dampe in prior would be great.



This answer lacked sufficient depth of analysis and contained only limited evaluation. The answer to part (a) begins with a feasible point about a fall in productivity with some associated analysis and evaluation. The appreciation of the currency is also explained reasonably well but the final point concerning inflation is superficial e.g. there is no recognition that it is a country's inflation rate relative to that in other countries which is important. This part was awarded 13 marks.

Although the candidate attempted to include four strategies in part (b), they were not explained or evaluated very well. For example, in discussing the second strategy, there is no consideration of how quality may be improved. Similarly, it is suggested that the currency 'could be weakened' but there is no analysis of the mechanism by which this could be achieved. Therefore, this part was deemed to fit the Level 2 criteria and was awarded 14 marks.



To score highly, it is important that the analysis is detailed. For example, the last point made in this response to part (b) related to supply side policies. The analysis could have been improved by including an AD/AS diagram and considering some specific examples of supply side policies with an explanation of how they could increase international competitiveness.

Do not use pencil. Use black ink or ball-point pen.

Put a cross in the box indicating the question from Section A that you have chosen (⋈).

If you change your mind, put a line through the box (⋈) and then indicate your new question with a cross (⋈).

Chosen Question Number: Question 1  Question 2  Question 3  M
a) A fell in global competitiveness of UK from 9th to 12th place inclicates that Global there is a decrease in competitiveness. Competitiveness is the ability to sell for country
their products to in the world with the competition from other countries.  There are several factors can affect the competitiveness of UK's goods and
services.
Firstly, the high ster value of sterling is main reason, perhaps the
value of sterlings is increasing recently may be because of strong economy
or greater economic growth, [eading to a large cirrence in demand of obtaining
so exchange reite increases. As exchange rate increases, the price of cuk's
exports become more expensive comparais with other countries, co it leads
to a decrease in price competitaioness of UK's probluet Go less people
in the world want to buy them, finally there is a decrease in exportsand
grobal competitioners decreases. However, it really depends on how
much of the Stenling increases, the greater the increase, the greater
effect on its competitiveness. Moreover, the exchange route many only
contribute part of the drop, perhaps other factors influence the
competitiveness even greater and cover true increase or decreuse
of exchange so with coin a possible reason only.
Secondly, the quality of the goods and services is another
mor factor. Perhaps the quality of the goods and services that
produced by Cus has decreased and on the otherhand, there
is more anestment quality of products in other Countries

relating to a fetter quality of products, it attracts more people such as improve the packaging to buy their products, the demand of them increases. In contrast the UK moduots are comparatively 1895 attractive as noticing movement in quality, 80 finally UK's products become 1884 Competitive go the ranking dropped. However, it depends on show much is spent on unproving quality as perhaps uses products and services have to remained in a really ligh standard already, it doesn't really need much change on the other hand the high investment on a comprovement to of goods is in poor countries go finally the goods from pour countries has improved but still worse than UK's. Perhaps a lot of poor countries have been growing like China co wies ranking dropped. Thirdly, it can be caused by a loweproductivity in UK comparing with other Fle countries such as France and Germany. It needs to a decrease in output: from UK, to compete with other countries, ut needs to exports more so the factories need to spend more money on supervising or appreciating the workers in order to increase the outputs. As a result, it leads to an increase in Cost of moductions; in order to keep the profit margin, the price is raised and LUX products become more expensive and become less price competitive so the international competitiveness drops. However, the cost opent on increasing the canoni productivity may contribute little to in crease the cost of production and UK is a well developed countries, may be It has a good infrastructure to help improve the productivity to it really

olepends true level of productivity of UKS workers. In conclution, there are many factors which can coffect the international conjectitureness and really depende on the size of changes of them, Also, different factors may have different effects in snort term and long term To increase or improve the competitueness of a country's goods and services. Both businesses and government cain try to increase the infrastructure or equipment used in production Businesses can put more papetal in improving tru machine on azuipment so the workers can produce goods more efficiently and reduce true time Can occur and productivity may be increased. Government can comprone the infragtracture in the city or the area near to the factories so tul lomes can transport to those areas eaver for bransport cost decreases pris of products may decrease Buas have less competitive pressure. So finally producte become more price competitio ancind with greater productivity so competitioners may be improved. However, it involved great opportunity cost in improving the productivity and malhere, it may but the production line in short term. Also, improvement in infraretructure takes time to have effect and it depends on how much is spent on improvement too. improving. Secondly, Education or health care can increase the competitiveness too. For trusinesces, they can provide more

trainings for their workers so their workers become more skilled and roise the productivity. Spent on heath care can reduce the chances of having morkers in production line po the production not stopped and at ensures a reasonable amount of products are produced. For government, an improvement in education in a country can increase the number of skilled reople, it increase tre jeeple who can note in remio manufacturing rector. And it can che prove tour our industry and comparing with other countries, that it has a hetler pervices provided And goods and services become more competitive However, it may take a lot of trive to have effect as education can not suadency improve the skills of people, it needs time for people to practice. Moreover, there is cost inowed and can be high so maybe less provey can be spent improving often parts of the society and cause choos within the country. Thirdly, an improvement in quality of services and goods is really important. The Businesses can improve the parkaging of the products to attract people to suy them and perhaps employ kind reonle to serve austonus to eth prove tul Pervices. Moreover, try consumer tastes is Changing all the time, the businesses can do more research or memberting on the taste of one cuptomis in order

to ruit the favour of customers. Also, they can

Unvent some new products to develop a new market.

Finally, the products and review of a country become

sure competitive and attractive comparing with other Countries Government can reduces the regulations on developing outputs to businesses have under options to me develop now module and have greater ranges of products, so the countries services and manufactoris for full their industries to promise grown. rector become more competition. His wever, other countries can also do tre same and treir products may not be so attractive at last. And it also depends on how much is spent on improvement as it may not have effect on the conjetitioner Lastly, the countries can reduce the unit cost of production such as finding cheap raw materials from other countries and or import from them. Also, taly can set trueis factories in porrecountries like Bangladesh or to China to have cheaper labour. By reducing the regulation by government, businesses find much easier to reduce east of production as they can use the ran materials in one country Or government can subsidy the factories so the susinesses ION unit cost of production, so finally less competitions messure, lower price and finally more competitions. plumerer, other countries may pan the use of ran materials to reduce one chances of getting cheave you materials. Itso, this can exploit the environment cause external cort. There is limited raw maderials , no ture is chance of having competition getting var maderial with other countries



The quality of this answer was significantly higher than the previous one. Each part contains sound analysis and evaluation although in part (a) the section on quality was perhaps less strong than the discussion of the other points while in part (b) the discussion of methods of cutting costs was a bit fragmented compared with the previous paragraphs. Nevertheless both parts scored Level 5 marks (18/20 and 26/30).



In part (b), it is best to focus on specific policies and then to analyse and evaluate these fully.

### Question 4 (a)

This was intended to be a relatively straightforward question and most candidates scored some marks. There were clear indications in the first paragraph as to what was implied by 'deglobalisation'. Regrettably few candidates made any reference to actual declines in world trade or to the fall in FDI.

(a) Explain the characteristics of deglobalisation (Extract 1, line 4).

Deglobalisation is the opposite of globalisation where there tends to be a fall in trade and investment flows. As Figure 2 shows, morld exports have fullen more than 10%. This is mainly because of the lack of contidence and the decline of demand tor world exports and imports. Countries start to put up protection ism measures to protect domestic industries causing specialisation and the law of comparative advantage to lose its function. This would lead to a fall in world output and an invesse in prices as a result. Lack of confidence would lead to a fall to investment flows as people are not confident that they will get high returns.



The candidate begins by identifying 2 features of deglobalisation - falling trade and investment flows. There is clear reference to the data in the second sentence. The answer goes on to consider the impact of protectionism on trade.



Include reference to the data - this is worth 2 marks. Far too many candidates completely ignore the data.

(a) Explain the characteristics of 'deglobalisation' (Extract 1, line 4).

(5)

Deblobalisation is the break up of interdependent between countries across the world. This happens when trade and investment flows begin to decline between countries and they begin concertate on their domestic economy i.e. pratect their infant industries. This is happening gince 2008, suggests extract 1, since the financial multdown. Figure 2 also presents this deglobalisation' as it shows a significant decrease in exports and imports suggesting a severe few in trade.



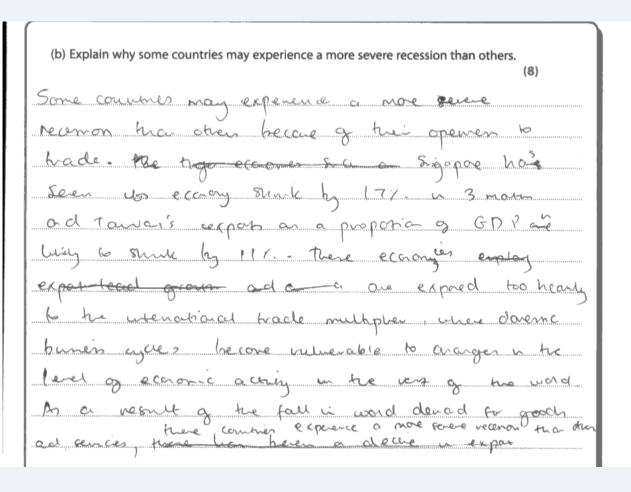
Clear identification of decline in trade and foreign direct investment with some further consideration of figure 2. However, there are no specific data references so the maximum mark possible is 3.



Candidate could have secured the other 2 marks by making specific reference to the data in figure 2.

#### Question 4 (b)

This was designed to be a relatively accessible question. Candidates could score up to 3 marks for identifying two relevant factors and another 3 for some explanation with the other two for data references. However, many weaker candidates failed to score more than 5 marks. The main reason was a lack of analysis, many simply identifying issues raised in the text and quoting some figures.



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This answer focuses on one issue only: dependence on FDI. It is explained and illustrated with an example of one country so the marks were allocated as follows: 1 for identification, one for example and 2 for explanation/analysis.



Use of the information in the extract would have enabled the candidate to provide a fuller response.

(b) Explain why some countries may experience a more severe recession than others. Some course man expense a moe suce recenon has ober becare of the openen to hade - the hope econes & a Sigopore hos Seen us econy sunk by 17/ 1 3 mous ad tawais export as a proportion of GDP and listy to should by 111. - There economics employ expertence grave ada a are expert too heary 6 he when about hade multiples , where down c buses agae ? become vulnerable to arange in the led of econocic acting in the ich of the word there comments experse a more former vecesion than the ach cerces the Molorer comme ula specacien in the production of a nanow rage of good and sense un trei copa une advantage, u voae the role and so become relicable to enteral shace. A decle u he decad for can ad electrones unch as word elane good, has had exposes of here good are a Japan and Closen, who we see a fall is repor eam of a core and exploquence in a venily of deplate the rold ween on



The candidate has identified two reasons: openness to trade and specialism in particular products. These points are explained briefly but adequately and supported by examples of particular countries.

## Question 4 (c)

There were some good answers to this question which applied theory well to the context of tourism with many answers drawing on material not only in the cextract but from their own knowledge e.g. the significance of tourism in the Maldives. However, a significant minority wrote generalised answers and did not include any effective evaluation.

(c) Examine the possible effects of the global recession on countries with well-established tourist industries. (10)To begin with, tourist industries rely on the world economy much; therefore, the international tourist humbers fell by 1 % in the second half of 2008, and the effect is significant, compared to a growth of more than 5% of tourist industries in the previous 4 years. In particular, the visitous in the Caribbean man full by 33%. One effect is that there is unemployment, increase tenrist countries because hotels in Caribbean one which means half of the employed people are not to \_\_\_\_ satisfy the demand. The crime rate man increase, as people lose their jobs, and they want to steal to get money to buy what they want . In addition, there may tiscal deficit since the unemployment benefits increase, and the government expanditure many exceed the government revenue. Nevertheless, nemplayed people may more to another sector to get a Tab which could offset the rise in unemployment rate. Another effect is that there man be negative economic growth because the aggregate demand is falling (ADI to ADZ) the price [evel man tall (Pr to Pi), and the Lea output may try (Q, to Uz), so people enjay less goods and revises and may Lecrease. Additionally, the balance

may be worsened because the value of exports may fall dramatically. However the value of imports may fall as well in the time of global recession, and there may be positive inflow of capital in the capital and financial account, which offset the fall in exports value.



The first paragraph makes good use of the data and gains 2 marks. In the next two paragraphs, there is some analysis of the possible effects of recession on countries with well-established tourist industries which is worth 3 marks. The evaluative comments at the end of the second and third paragraphs are worth just 1 mark each because they are not developed.



Evaluative comments should be explained e.g. why might imports be expected to fall in time of global recession?

(c) Examine the possible effects of the global recession on countries with well-established tourist industries.

(10)

The possible impacts of global recession on countries with well established tourist industries may sugger during recession gcobal recession as uncertainty consumers causes them to some cut spending on boods that are not nessessities, such as holidays and other Luxery items. Therefore tourist industries Suffer a decrease in demand which may have other negative consequences such as unemployment as a result of needed as tourists are no the recorts. The socal may also suffer as tourist may have shapped and bought locally produced goods.

However there may be positive
impacts as the balance of payments
on current account may improve as less
imports will be demanded to supply
the needs of tourists of there will not
be as may. Also on the financial
account if less proxits are made by
the Transmit multipational Tests

hotel chains lower propits may be returned to shareholders in home country. Therefore less will be flowing out of the country.

Also as tourism is the country or recognised to damaging the environment such as bearches there may be time for the natural resources to recover.

Also if the country we prasits made previously to diversify their economies away from tourisms they may be able to develop other industries and move oway from reliance on tourists. Therefore impacts of global recession may be lower.



The discussion of the effects of the recession on tourism were analysed in a rather superficial way so the first paragraph was worth 1 mark for identification and 2 for analysis.

The paragraph on the balance of payments was less convincing because the loss of revenue from tourists was ignored. However, there was some good evaluation in relation to the environment and diversification away from tourism. (3 marks for evaluation)



There was a good opportunity to use AD/AS analysis in considering the effects of recession on tourism.

## Question 4 (d)

This question was often not answered very effectively because many candidates did not consider the significance of the points mentioned in the passage for world trade. Further, few examples were given and evaluation tended to be limited. The best answers used the material convincingly and included specific reference to percentage decline in world trade.

\*(d) With reference to lines 26–34 of Extract 1, evaluate reasons why the banking crisis has hit world trade so severely.

(12)

The idea that the global recenion is more senere tha most first theregat is one of the reasons. Because there was probably a lot of people spending on imputed goods, spending excessively, not planning it has curse people (and governments) to reduce spending rapidly rather than it being pace. If the world had seen the inpending danger of gentler, mere recessive us, and such heights there might have be policies to present there being such a harge coils Also because the supply chains are global Oal country is in trouple it anaberuse through the This is because about the frequentation of glube and outsourcing meterials and from all interdependange. This means that ever if enjoying very strong grown ey. China they are still cleeply expected by the countries in poor condition. "Protectionin" has also been an issue. Because countries have wanted to dow thenselves of to bad economic have tried to stop such economies from accessing lingering . This is significantly load because as the stors down growth slows, but when barriers are exected, slows ever more: Barriers stop consumer goods / luxury capital for gout difficult too The currency is also affected by all this so again there is uncertainty about price fluctuatrons across seems borders became of currency uncertainty. However this was not such an montary of trading blocks such as the eurozone became that uncertainty is eliminated



This response used the material from the extract effectively and included the example of China in the discussion of global supply chains. However, there was no evaluation and so the maximum mark possible is 7/12.



The higher mark base questions always demand evaluation so it is important that the answer includes some comments which show signs of critical thinking.

\*(d) With reference to lines 26-34 of Extract 1, evaluate reasons why the banking crisis has hit world trade so severely. (12)One reason why he banking will has hit wood trade to leutrely is due to the effects of componenties and alobalisation- secours the word's economiso were becoming so closely integrated, recension in one country would have QUICKLY SPANOOD BLUE AND CONSTRUCT CONSTRUCT CONTRACT CON for bounst-concentrated countries som on the Connecon countries as they hand mortinertianal companies which epitomied to gide allietion. to Quality this is Bytemely lightly and globalisation was exigned to have commen a , do you are at elopor trade, and here the street at dea hours from an light ont Additionally, the lack of expan arediti audiable to form has hit would tade and two has made It difficult for them to sen their goods almoad, Possibly due thereby limiting world trade as a result, possible to the increasing apprecion of learns to lead to businesses that was a large teature of the receiving Acueve, a conte to evaluate, this is the significant than the forces effect of phoballiation because lack of financial equital is more of a mon term problem while other like projection in and on more a long term 210m1+100m+ -Moreover, the warrage in providuous pointes deployed by countries May have also heightered the extest of the banking this on world trade. This is because postectionism actively discovages international trade by making foreign produce her completive M' domestic' markets, through the last of Importants and this would have been especially detrimental to capital expones with an armany whose already - expensive goods herome ever more coiny due to protectionism.

To evaluate, the DIO would regulate was protection und to ensure that trade diversion is not accounting and that it is not accounting the figure and potestionium on word trade may be limited.



This response uses the information in the passage to good effect discussing the significance of globalisation; lack of export credits and protectionism as explanations as to why the banking crisis had such a severe impact on world trade (1 mark for identification + 4 for analysis). Examples (China and Germany) are included to support the analysis (2 marks). There is also some evaluation worth 3 out of 5 marks)



Use the information provided, as this candidate has done, to answer the question.

## Question 4 (e)

This question required candidates to discuss the effects of an increase in protectionism on the world economy. However, many responses were very narrow, focusing on the impact of tariffs on a particular country. Only the best answers considered issues such as the distortion of comparative advantage; reduction in specialisation and world output and the possible impact on inflation as well as some evaluative comments.

*(e) In the light of the global recession, assess the likely economic effects of an increase in protectionism on the world economy.	(15)
There are descend some of modern one	
There are different form of protectionism -	20 r og of of of
ci) Import tariffe -	
2 - Tariffs are takes place	ed on
imports that raises.	flu
mic of imports, an	
By Cont supply before	the
es tang is at s(co) a	as at
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Supplied would to	Leg-
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and consumers copyld ex	pand
demand as prices are lower. else After the tariff is pla	aced the
price of imports could size from Pco +	e Poott.
The couring quantity supplied to risk and so pro	ducers
earn more and consumous to & roduce domand as	
This would have cares a reduction in imports for	*
H. Mis would result in a robe coeffere loss as of - CB+	)
as: consumer surplus change = -(A+B+d+D)	
producer ruplus change = +/A	***************************************
government revenue = +c	
Thus reducing creating a loss of Et - B+D.	паничення при

This would allow the common to raise emports so they face less competition from one imports. However, the extent to which to Affe effect exports depends on elasticity of domand. For instance if domand is inclastic than the measured couldn't be effective as quaintry demanded for enports would be less than proportionate. Another protectionist measure of subsidies would helpto reduce the cost of production for time and true increase Supply and overall Lovertue price of exports. This could because demand for exports as they are more competitive. However, suo entert to which subsidies are effect depends on how much the subsidy is. If the subsidy is low tuen price may not necessarily fall by much. mother protectionist measure is that of Dusties. This is a physical limit on imports that reduces the volume of imports entering the market. This would allow export demand to rive as those there is consumers may switch from imports to emports. This would result in an increase in insections to the circular two of income. They raising economic growth. Thus overall protectionism could help countries to raise the output and of emports and their create growth

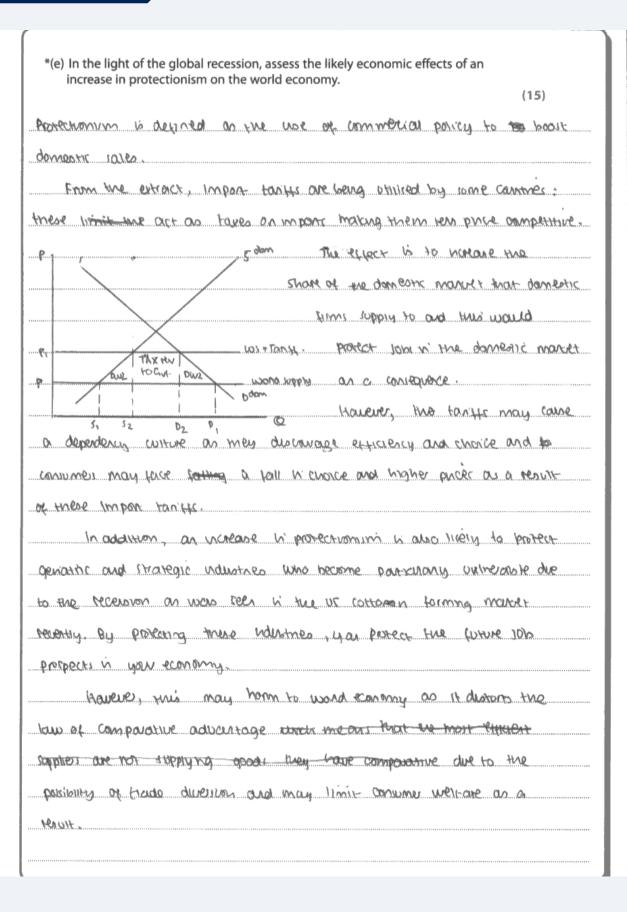


This answer contained a good tariff diagram which was explained fully. There was also some evaluation of tariffs. However, there was no direct answer to the question i.e. how an increase in protectionism would affect the world economy. Therefore, marks were allocated as follows: 2 for the diagram; 3 for explanation of the diagram and a further 2 for evaluation.

The remainder of the answer considered other types of protectionism but did not address the question directly.



You should refer back to the question frequently while writing their answers to ensure that they have addressed the question set.



In addition, extract I also mentions the use of subsidies in order to protect industries. These again would prevence employment domissionly and being wond unem playment law on a result.

Haveve, retailation may occur and I can other ordinates a countries which have a significantly may after at trace was between countries which have a significantly may after any organ, that common are faced with light-contry ten chare and the means which have a different contract of contract price was, retailed on and contract on addition due to contract price was, retailed on and contract contract on addition due to contract price was, retailed on



Unlike the previous response, this answer does consider some effects on the world economy e.g. distortion of comparative advantage; retaliation and higher prices. However, the evaluation was limited and was only awarded 1 mark.

There were 2 marks for identifying the effects on the world economy; 2 for the diagram; 5 for analysis of the diagram and for the impacts on the world economy.



Evaluation could take many forms e.g. consideration of short and long run effects; the magnitude of the protectionist measures and the differential effects on countries.

# Question 5 (a)

This question was generally well-answered with many candidates scoring maximum marks. However, some answers contained no references to the data and a minority of candidates confused a fiscal deficit with a balance of payments deficit on current account.

(5)

(a) With reference to Figure 1, how might the expected change in the UK's fiscal deficit between 2007–08 and 2009–10 be explained?

Fixed deficit accures when a source is considered in the UK's fiscal deficit between 2007–08 and 2009–10 be explained?

Fiscal deficit occurs when a government is spending more than the tex that it recieves, therefore is financeal by government sorrowing one of the seasons for this could be increasing intemployand levels. It mentages is rising then the government will recieve less in tex and have to spend more on benefit (weightyed people). Another reason could be that the fact we were in a recession, recession start to cause all sorts of problems, like back of confidence full invalue of pound to one way the government tries to get out of recession is by increasing government spending.



This answer scored 3 marks for explaining how rising unemployment resulted in increased expenditure on benefits and a reduction in tax revenues. The absence of any data references meant that the other 2 marks could not be awarded.



Always make use of the data to support your answers.

(a) With reference to Figure 1, how might the expected change in the UK's fiscal deficit between 2007-08 and 2009-10 be explained? (5) In 2007-08 the ba fixed deficit was around 2.2", or cade was precasted PO-8005 1: 902 20. 1 5.9 of 012 Best of recors of ti ted and 124% or GDP in 3000 7007 -10 This increase in the efficient is due to the government spending boing specific mon taxation Fiscal decicit = opvernment spending minus taxation. During this period, the sound received consol thich resulted is many job losses. These memplosed as now a laining benefit life applicate) and so so openment spending has incremed Almo in Extract I From been been used for training, trying to get people back into work with discount shill Also be due to job lource tree is now less ixome four being collected meaning 1855 toxeater which adds to the deficit.



This answers starts by referring to the data and then offers a sound explanation of why the fiscal deficit has increased.



This is an effective way of tackling this question.

#### Question 5 (b)

As with question 4(b), this question was designed to be relatively accessible. Candidates could score up to 3 marks for identifying two relevant factors and another 3 for some explanation with the other two marks for data references. All too often, however, candidates made no reference to the data and some struggled to offer relevant reasons why the deterioration of the public finances might present problems.

(b) With reference to the information provided, explain the problems resulting from the deterioration in the public finances for the UK or any country of your choice. (8) However the most important impart of the sideal defeated by the UK evoromy will be the need to cut costs and they are any gor annual growth in fablic spending of first 0.7% in red terms for five years after 2010. This means doep cuts in other covernment depression and a moreovery of rubble services that so a lover standard of living.



The candidate sets the scene by describing the expected change in the size of the fiscal deficit and the increase in the national debt. Potential problems such as financial crowding out, inflation and the need to cut public expenditure are then examined. The marks were allocated as follows: 3 marks for identification of points; 2 marks for use of data and a further 3 marks for explanation.



Again, starting with the data gives the answer a framework before considering the potential problems which a country might face when the sharp deterioration in its public finances.

### Question 5 (c)

Many candidates were able to use the first paragraph of Extract 2 to help them answer this question effectively although evaluation proved beyond all but a few. This question discriminated sharply between those candidates who had kept up to date with current issues and those who had relied solely on textbooks. Many got distracted by other parts of the extract, most notably a sizable minority tried to blame the low value of sterling for the weak state of the UK economy.

(c) Evaluate the reasons why the UK economy was in a weak state following the financial crisis in autumn 2007.
(10)
The UK economy was ma weak state
as it can proting because it was
exposed to the steat costs through its
an back and this risked our frageral
seder which - apports and notes up
the whore properties of the UK economic.
This would dancge it's copytetian and
reduced speudose was no me
prancial sorros
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brogged depot melative to deposable manie due
to era UK houseng boom which decreased
tio confidence in our forestral
social and its retropolity. This lad to
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UK para priso rose by the highest interestral
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when demand pour des to low accitability of

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This answer was not untypical of many similar responses. The candidate has identified 3 reasons why the UK economy was in a weak state and explained them well. All are clearly related to the UK economy. However, there is no evaluation so the maximum mark possible is 6 out of 10



Check the command words carefully to ensure that evaluation is included when required. In this case it is very clear that evaluation must be included.

(c) Evaluate the reasons why the UK economy was in a weak state following the financial crisis in autumn 2007.  (10)	
The Ut was in an especially wook state Locause ====================================	

contraction in the banking sector therefore led to large falls in GDD (aspecially since banking Makes up a very large percenterse of GDD).

This massively damaged confidence in the UK economy, resulting in falls in FDI and also in consumer sponding.

However, since 2007 the banking industry has recovered surprisingly well. Furthermore the big fall in confidence in the UK economy resulted in large falls in the value of the Dound, thus limiting the day impact of the global recession on Uf exports. Also the government took some very strong measured to the falls the lawking sector that we reason they help the lawking sector that

Hole reason is that Ut how holds were the work indebted in the GZ This meant that when the recession struct consummer confidence fell massing it also reduced the boson that had facted the Ut antil recently.

house prices had son one bigoast boons in the principa or large fa would have created a very negative encelth effect, thus reducing could have consumer spending. It also lod to a Subprine The Crisis In the UK - with many households going into negative equity thus causing and fuarcial crisis in Uti bonny Howaver, house pray fall much less than what was expected, and are non



## Results Plus

**Examiner Comments** 

This was a convincing response which examined the significance of the finacial services industry; the large debts of households and the house price boom as reasons for the weak state of the UK economy (1 mark for identification, 2 for clear references to the UK economy and 3 for analysis). There was good evaluation at the end of the first page (2 marks) and some brief evaluation at the end of the second page (1 mark)



Recent knowledge about the state of the UK and global economy can be very useful in accessing the highest marks. In this case, the evaluation was based such knowledge.

### Question 5 (d)

Answers to this question were frequently impressive: not only were candidates able to discuss the effectiveness of interest rate policy confidently but many also examined the role of quantitative easing. Evaluation was often stronger on this question than on parts (b) and (c).

However, weaker responses often failed to explain how the monetary transmission mechanism was supposed to work and then were unable to provide much by way of evaluation.

\*(d) Evaluate the likely effectiveness of monetary policy in the management of the economy in the light of the information provided. (12)266 Extract 2 reflects how monetary policy has been the UK a loose nonetry policy in order to recover from the recession. In less than one years, it fell from 5/ to 0.5/, indeed a very significant Les decrese Monatery policy involves intert talis. Lover intrest rates in in the a first of all and in theory going to increase consumer spending as it is changed to Lorrow lover interest rater are likely to rebon confidence domestically and excurage borrowing amongst the population. & Hopefully the more Loround will be speck and the economy will be excise to assured as if it was igroring. The next likely effect could be a loss of confidence for invertors as intocreated with do me involve the reha for savings. Foreign Direct Investment is not altracted into the UK with lower interest rates and therefore lets Lope dot she impaction consumer spending is larger Non the the inject of investment as both are components of Aggregate Demand and and increasing AD will holp to money the economy, Cower interest rates can also mean lower or smaller Competitioness of investors loss confidence and will not

Envert in the Uk, the Danistic UK firms Rell Latind =



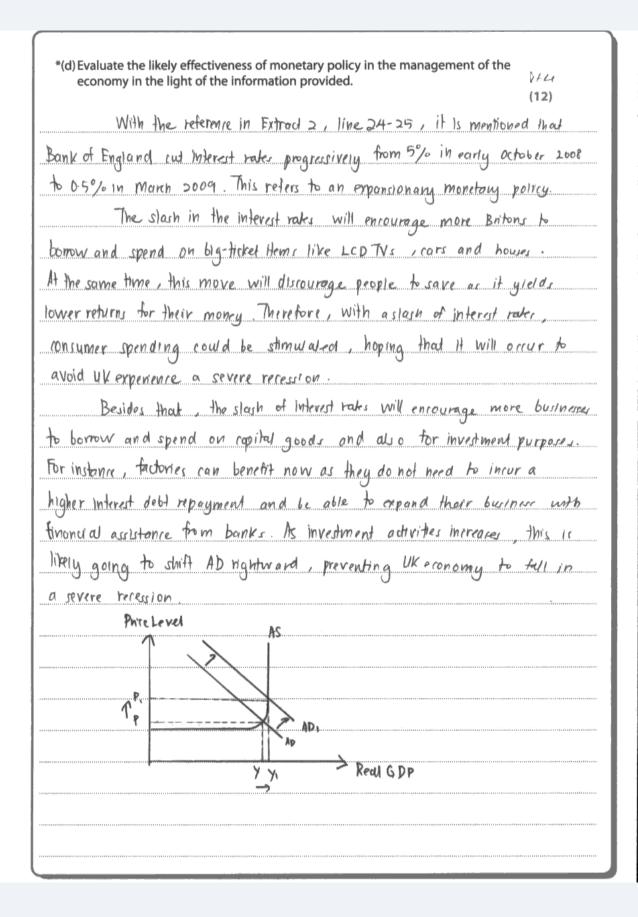
Apart from the first two paragraphs, this is not an impressive response. There is confusion about the link between interest rates and foreign direct investment.

The answer does not include any evaluation worthy of credit.

Consequently marks have only been awarded for an understanding of monetary policy, a loose reference to the reduction of interest rates and the impact of lower interest rates on consumer borrowing.



The difference between the factors influencing 'hot' money flows and FDI should be understood.



However, in the midst of the recession, the slain of interest rates may still prove less effective to stimulate consumer spending. This is largely due to the cautious attitude of the many banker in UK. Therefore, even if the consumer is willing to bonow, there will be no sources of funds flowing out from the banks. Since they are rejuctant to lend. Also, it is atto worth to note that the UK banks rather used the remaining funds to correct their extreme defaults in their balance sheets.

We have to bear in mind that an expansionary monetary policy is also subjected to time lags. Britons would rather safeguard themselves by not borrowing and spend until they feel combident about the market again.

If also takes time for Britons to reases that interest rates are at record low level. Therefore, it shows that not all macroeconomic variable change simultaneously.

It takes at least 18 months or more to have an effect into the economy.



A good opening sentence in which it is obvious that the candidate understands monetary policy and has indicated the size of the reduction in interest rates which has occurred.

The next two paragraphs explain the transmission mechanism and include a diagram (although this could be criticised on the basis that the initial equilibrium does not show severe recession). The two paragraphs on the last page provide some good evaluation and were awarded 4 marks out of the 5 available.



To improve the evaluation of the time lags issue, the answer could have included more reasons e.g. people on fixed interest mortgages; or savers with fixed term interest bonds.

#### Question 5 (e)

The quality of responses to this question was rather variable. Some candidates had not allowed a sufficient of time to provide a full answer while other answers were rather narrow, focusing on the impact of price competitiveness and the balance of payments. Many students talked about the J curve effect on the current account and the Marshall-Lerner condition. However, knowledge and understanding of these concepts was incomplete and they often lumped both into the same sentence with regards to the Balance of Payments.

Only the strongest responses used aggregate demand/aggregate supply analysis effectively and included sufficient evaluation.

\*(e) Assess the likely economic implications of 'the 27% decline in sterling's tradeweighted index... between July 2007 and March 2009' (Extract 2, lines 17-18).

(15)

The likely economic implications of the 27% decline in sterling's trade and index... between July 2007 and March 2009' (Extract 2, lines 17-18).

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(15)

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(15)

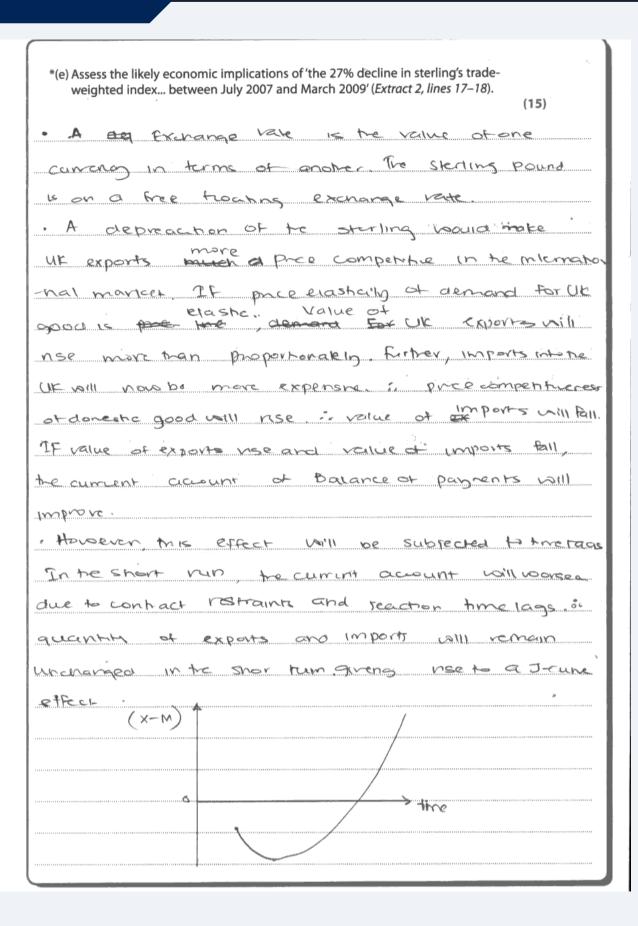
The likely economic index... between Ju



An answer showing an alarming degree of confusion about the effects of depreciation in the value of sterling: it asserts incorrectly that price of importing goods into the UK would be lower whereas the foreign currency price of UK exports would be higher.



A precise understanding of the implications of exchange rate changes is essential in tackling the Unit 4 paper.



Further, a depreciation of the sterling som man nesoutt in demand buil Infrahon Store en If he value of exports 16 greater than he value of imports AD is litery to use since het exports (X-M) isa direct component of AD. Also + man give rise to cost pash merahanam pressures. If many of the raw materials are imported cost of production will use (since imports are more expensive) : man result in cost push infrationary pressures. · However in he cik, since he moretain policy committee has a inflation raiget of CPI 2% II infrahonam pressures manbe tept minimal bute Us Q Of Interest rales. diffeer . Also, a depreciation of Sterling man affect speculative buncos and sellers IF speculars assume hat the bound is likely to depreciate even Further, the man pull out their foreign currency CE) Savings from the UK and some purchase a curring sinich is appreciating This will increase the suppos of pound in the forex market and therefore will further deprecase he pound. This is known as the self Aufilling propress - A depreaation in the exchange rake man result man Increase in donestic employment Since imports one more expensive, an expenditure switching effect would be a pserved where consumer sworth to domesticula produced goods. Further stra Since stemand for exports

Increases as see output in both secrors must demand to increase Since labour is in derived demand labour of all sage rates will increase. This will result in lower unemployment.

Therease in employment sould intern impore sovernment brances as tax revenues (mamand) tax) now increase. This may being to normowen the Recall defrait.



This is a fairly effective response starting with a definition and then an examination of the effects on the prices of exports and imports. There is some evaluation in terms of the J curve effect but the Marshall-Lerner condition is not mentioned specifically.

The possible inflationary consequences of the depreciation are considered with a little evaluation in terms of the role of the Monetary Policy Committee. There is further discussion of the possible effects in terms of speculation, employment and public finances.

The main weakness in this response was insufficient evaluation (which scored 3 out of 6 marks).



This response could have been enhanced further if an AD/AS diagram had been included to support the written analysis.

## Grade boundary

Grade	Max. Mark	A*	Α	В	С	D	Е	N	U
Raw mark boundary	100	76	68	60	52	45	38	31	0
Uniform mark scale boundary	120	108	96	84	72	60	48	36	0

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