

# General Certificate of Education

## Economics 6141

*ECN6 Government Policy, the National and International  
Economy*

# Mark Scheme

## *2006 examination - June series*

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

## Advanced Level Economics

June 2006

ECN6

### Mark Scheme

#### General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

- (i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 4 of this mark scheme.
- (ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 3. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 4. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

**APPLYING THE ‘LEVELS’ MARK SCHEME****Levels of Response Mark Band Descriptors****Level 1**

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

**0 to 6 marks** (*Mid-Point: 3 marks*)

**Level 2**

A few issues are recognised but there is only limited evidence of the candidate’s ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

**7 to 12 marks** (*Mid-Point: 10 marks*)

**Level 3**

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.

**13 to 20 marks** (*Mid-Point: 17 marks*)

**Level 4**

Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist’s ‘tool kit’ of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.

**21 to 26 marks** (*Mid-Point: 24 marks*)

**Level 5**

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist’s ‘tool kit’ of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.

**27 to 30 marks** (*Mid-Point: 29 marks*)

### THE KEY TO BE USED WHEN USING THE ‘LEVELS’ MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate’s response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

### QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

- (i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
- (ii) use of specialist vocabulary, where appropriate;
- (iii) legibility of handwriting;
- (iv) accuracy of spelling, punctuation and grammar.

### Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist’s ‘tool kit’ of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

**SECTION A**

**1**

**Total for this question: 50 marks**

- |  |
|--|
| 1 (a) Using <b>Extract A</b> , compare real GDP growth for the world economy with that shown for the emerging markets and developed countries for the period 1996 to 2005. <span style="float: right;"><i>(4 marks)</i></span> |
|--|

**Award one mark for each valid point made and one mark for the supporting reference to the data. Points might include:**

- all three display volatile GDP growth throughout the period
- the peaks and troughs in GDP growth for the emerging markets and developed countries reflect those for the world economy as a whole
- the emerging markets have a better GDP growth than the world as a whole for most of the period
- for most of the period, the industrial countries are unable to match the GDP growth of the world as a whole

A maximum of **1 mark** may be awarded if the candidate simply trawls through the data with no attempt at comparison.

A maximum of **2 marks** may be awarded if there is no use of statistics.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

A maximum of **1 mark** if a candidate does not include any reference to the world economy in the comparisons made.

A maximum of **3 marks** if a candidate makes a comparison between the world economy and **either** developed countries **or** emerging markets.

**MAXIMUM FOR PART (a) 4 MARKS**

1 (b) **Extract B** (lines 1 and 2) describes globalisation as a ‘force sweeping away frontiers and encouraging economic integration’. Explain the term ‘globalisation’ with the help of this description. *(6 marks)*

**For candidates who:**

attempt a brief explanation of the phrases in the quotation (e.g. a reduction or abolition of customs barriers, with trade and investment drawing economies closer together and increasing interdependence) **up to 2 marks**

develop an explanation of the trade issue, e.g. referring to comparative advantage, types of protectionism, consequences for countries increasingly involved in world trade **up to 4 marks**

explain the significance of international capital flows, perhaps including a definition of investment, referring to the role of MNCs, distinguishing portfolio and direct investment **up to 4 marks**

make reference to the movement of people, e.g. between developing countries, between developing countries and the advanced world, skill transference, impact on labour supply and wage levels of both recipient countries and those affected by net emigration, the economic implications of the transfer of cultures, perhaps leading to gradual cultural change in the countries affected **up to 4 marks**

explain the significance of the spread of knowledge and technology to the globalisation process, e.g. referring to the spread of knowledge of production methods, management expertise, export markets and appropriate economic policies **up to 4 marks**

**MAXIMUM FOR PART (b) 6 MARKS**

- 1 (c) Analyse the way in which **either** freer trade **or** increased international investment might help achieve economic growth (**Extract D**, lines 1 and 2). *(10 marks)*

Candidates are likely to develop the leads given in Extracts C & D. Some parts of a candidate's answer could, of course, be relevant to either choice in the question

**Issues and areas for discussion include:**

- economic growth;
  
- trade and the export-led multiplier;
- absolute/comparative advantage;
- specialisation, efficiency, increased production;
- competitiveness;
- the stimulus to R&D and hence innovation;
  
- definition of investment;
- investment and the multiplier process;
- accelerator (note this is not in the A2 specification);
- efficiency and competitiveness;
- R&D and innovation.

**LEVEL 1**

The candidate draws briefly from the extracts with little or no analysis, and so displays little understanding of the trade/investment and growth relationship. **1 to 3 marks**

**LEVEL 2**

One or more linkages between trade/investment and growth are identified and some explanation given of how investment or trade can have an impact on growth. The analysis may be a little confused or incomplete, but correct for the most part. At the top of the band there is a clarity to the explanation with some use of economic terminology and concepts. **4 to 7 marks**

**LEVEL 3**

At least **two** issues are clearly explained in a well-organised answer. Good understanding and sound analytical skills are displayed. Economic terminology and concepts are well-used. At the top of the band there may be illustration from real world experiences although this is not an essential requirement for full marks to be awarded **8 to 10 marks**

If a candidate discusses both rather than either/or, award marks to the stronger part.

**MAXIMUM FOR PART (c) 10 MARKS**

1 (d) ‘Globalisation is, on balance...highly desirable’ (**Extract B**, line 6). Using the data and your economic knowledge, evaluate the economic consequences of globalisation for **either** developed **or** developing countries. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks or more**.

Evaluation could be in terms of: the extent to which a country has embraced the globalisation process to date, the inherent strengths/weaknesses of individual countries in either category, experiences of countries could be similar to some extent in both categories, the dangers of generalisations, an overall judgement on whether or not it is desirable.

**Issues and areas for discussion:**

- the term ‘globalisation’ clarified
- the criteria by which we categorise countries

For developed countries:

- economic growth and jobs;
- the benefits to exports of emerging markets;
- the increasing import threat from the developing countries and the possible temptation to strengthen protectionism provided by trade blocs;
- the impact on income distribution;
- the net impact of outsourcing;
- the role of MNCs and inward investment;
- the potential for outward investment;
- the impact of net capital flows and trade flows on the balance of payments of individual countries;
- the influence on structural reforms (differing consequences for manufacturing and services);
- the impact on labour markets;
- the impact on efficiency/productivity;
- the downward pressure on inflation which globalisation might bring;
- the potential for diminishing aid commitments or better targeting of aid;
- environmental issues;
- the winner/loser debate in the context of the advanced world.

For the developing countries:

- diversification away from primary activities;
- the aid-dependency issue;
- ability to repay debts and the possible impact on future borrowing;
- development of specialisms within the context of comparative advantage;
- economic growth and job creation;
- economic development;
- benefits of outsourcing by advanced countries;
- export potential;
- inward investment;
- income equality/inequality;
- absolute/relative poverty;
- living standards generally, for example, as measured by the HDI;
- impact of greater market-orientation;
- the environment (recent evidence that for many of these countries the priority is economic growth and development rather than environmental concerns);
- fiscal benefits;
- the winner/loser debate in the context of the developing countries.

**Also give credit for:**

- reference to real world examples
- diagrams
- an overall judgement on the issues raised

Where the candidate discusses the impact of globalisation generally, without explicit references to either developed or developing countries (i.e. does not make his/her choice clear), award a maximum of **24 marks** (mid level 4).

Where there is no explicit reference to the data, award a maximum of **21 marks**.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART (d) 30 MARKS**

**TOTAL FOR QUESTION 1: 50 MARKS**

## SECTION B

**Each question carries 50 marks**

- 2 (a) Explain the term ‘underlying trend rate of economic growth’ and the factors determining this trend rate. *(20 marks)*

### **For candidates who:**

explain the underlying trend rate of economic growth, e.g. in terms of productive potential, the economy’s ability to grow without an accelerating rate of inflation, PPF, LRAS, references to GDP, references to supply-side issues

**up to 2 marks for each point explained to a maximum of 8 marks  
but note also the additional marks available for  
diagrams as indicated below**

explain causative factors which would include:

- investment, eg candidates might define investment, distinguish net and gross investment, refer to the importance of increasing productive capacity for GDP/trend growth, the possibility of seeing greater capital intensity in production plants with more technology and automation, the significance of FDI in creating such plants;
- research and development/technological progress;
- education and training;
- productivity.

**up to 6 marks per explanation**

explain the potential significance of rising AD to trend growth (i.e. increasing AD perhaps creating an economic climate in which factors determining trend growth might flourish) and explain ways of achieving this rise in AD.

**up to 6 marks**

use diagrams to support their explanations, e.g. PPF, LRAS, trend growth/actual growth, an increase in AD creating a climate in which factors determining trend growth might flourish. For an AD/AS diagram, 1 mark for correct labelling of axes, 1 mark for correct labelling of information provided (eg LRAS), 1 mark for coordinates, 1 mark for correct representation of information (eg shift of the LRAS, classical or Keynesian). For a trend growth/actual growth diagram or PPF diagram, 1 mark for correct labelling of axes, 1 mark for other labelling, 2 marks for correct representation of information as explained by the candidate around the diagram.

**up to 4 marks per diagram to  
a maximum of 6 marks**

reward references to the UK and/or other economies

Candidates who attempt only one part of the question should be limited to a maximum of **12 marks**.

Candidates whose answers are essentially concerned with AD and actual growth and so convey no understanding of the distinction between actual and trend growth, should be limited to a maximum of **8 marks**.

**MAXIMUM FOR PART (a) 20 MARKS**

- 2 (b) Evaluate the potential impact on the economic growth of the UK economy if it were to adopt the single European currency. (30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks or more**. Evaluation could be in terms of: the degree of convergence of the UK economy with the eurozone at the time of entry, the strength/weakness of the UK economy when required to face new challenges arising from entry, the economic climate in Europe, whether the UK can maintain economic stability after entry.

**Issues and areas for discussion:**

- distinction between actual and trend growth;
- GDP and its components;
- recent history of the euro;
- European Central Bank (ECB);
- official entry criteria/the 5 ‘tests’ of the UK government, and so discussion of degree of convergence achieved;
- the euro adding strength to the single market’s evolution;
- exports/imports;
- inward/outward investment;
- potential impact on growth of the loss of control over monetary policy, perhaps related to references to the MPC;
- the impact of the lower interest rates of the eurozone (as at May 2006);
- the impact of fiscal constraints (Stability and Growth Pact);
- the possibility of price transparency leading to lower prices and increased AD;
- the stimulus to concerns over competitiveness and consequent impact on productivity, labour skills, R&D;
- strengths/weaknesses of the UK economy;
- the possible differing impacts on manufacturing and services;
- the economic climate in Europe.

**Also give credit for:**

- reference to the UK economy;
- diagrams;
- an overall judgement on the issues raised.

Candidates should be limited to a maximum of **21 marks** if there is no reference to the UK economy.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART (b) 30 MARKS  
TOTAL FOR QUESTION 2: 50 MARKS**

3 (a) Explain how a fall in the rate of inflation might be achieved by both demand-side <b>and</b> supply-side factors. <i>(20 marks)</i>
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**For candidates who:**

define inflation **up to 2 marks**

distinguish a fall in the rate of inflation from a fall in prices (deflation) **up to 2 marks**

explain possible measurements of inflation, eg RPI, CPI **up to 2 marks**

explain demand-side factors, eg: **up to 4 marks per factor explained to a maximum of 12 marks**

- higher taxation
- lower government spending
- a rise in interest rates
- a fall in the rate of growth of earnings
- a slump in the housing market
- a weakening multiplier effect

explain supply-side factors, eg: **up to 4 marks per factor explained to a maximum of 12 marks**

in the short run:

- falling oil prices
- lower wage settlements
- higher productivity
- downward trends in non-oil commodity prices

in the long run:

- greater application of technology to production
- higher productivity
- increased investment
- the impact of privatisation/deregulation

use diagrams to support their explanations, eg AD/AS. Candidates may identify the Classical/Keynesian distinction. For each diagram, 1 mark for correct labelling of axes, 1 mark for correct labelling of information provided (eg LRAS), 1 mark for coordinates, 1 mark for correct representation of information (eg shift of the AD curve).  
**up to 4 marks per diagram to a maximum of 6 marks**

reward references to the UK economy and/or other economies

If only demand-side or supply-side factors are explained, or no distinction is made between the two, the candidate should be limited to a maximum of **12 marks**.

**MAXIMUM FOR PART (a) 20 MARKS**

3 (b) Evaluate the possible consequences of a falling rate of inflation for the performance of the UK economy. (30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety. **Candidates would not necessarily have to consider all possible performance criteria to reach marks in the higher levels.**

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks or more**.

Evaluation could be in terms of: the extent of the fall, the consequent rate of inflation in relation to that of other economies, how sustained the fall is, how it has been brought about, whether progress towards deflation can be controlled, the importance to some of the discussion of the *ceteris paribus* assumption, eg re the discussion of the impact of lower inflation on trade and investment flows and hence the exchange rate.

It is expected that candidates will choose from economic growth, employment/ unemployment, the balance of payments, and possibly the exchange rate, or deal in less detail with all four. **It will be quite possible for a candidate to achieve higher level marks without necessarily covering all aspects of economic performance but discussion of TWO of the above would be expected for Levels 4/5.**

**Issues and areas for discussion:**

- explanation of the term ‘economic performance’;
- an explanation of inflation;
- measurement of inflation;
- the UK inflation target;
- the role of the MPC;
- the extent of the fall in the rate of inflation;
- the significance of international comparisons;
- the sustainability of the fall;
- how any fall in inflation has been achieved – suppression of AD growth/longer term sound economic management/supply-side reforms;
- the impact of any deflation which may occur;
- GDP and economic growth, eg:
  - definition/explanation of GDP/economic growth
  - encouragement to invest and the overall impact of increased investment
  - the benefits of an export-led multiplier;
- employment/unemployment, eg the benefits to jobs of greater competitiveness, the confidence given to a business for expansion in which job creation might feature;
- the balance of payments, eg benefits to current account, attraction of inward investment as falling inflation creates greater confidence;
- the exchange rate, eg possible stronger demand for UK exports, fewer imports if domestic output is seen as more competitive.

**Also give credit for:**

- reference to the UK and/or other economies;
- diagrams;
- an overall judgement on the issues raised.

Candidates should be limited to a maximum of **21 marks** if there is no reference to the UK economy.

**USE THE LEVELS MARK SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART (b) 30 MARKS**

**TOTAL FOR QUESTION 3: 50 MARKS**

4 (a) Explain how exchange rates are determined in a floating exchange rate system. (20 marks)

**For candidates who:**

define the term ‘exchange rate’ **up to 2 marks**

distinguish between a fixed and floating exchange rate system **up to 4 marks**

explain the essential elements of a floating exchange rate system **up to 4 marks**

explain determinants of the exchange rate in a floating exchange rate system, eg: **up to 6 marks per determinant discussed**

- trade flows (candidates may refer to influences on trade such as income trends, inflation, other determinants of competitiveness such as quality)
- investment flows
- speculation
- interest rates
- the possibility of managed flexibility (dirty floating)

use supply and demand diagrams to support their explanations. For each diagram, 1 mark for correct labelling of axes, 1 mark for correct labelling of information provided (eg the curves shown), 1 mark for coordinates, 1 mark for correct representation of information (i.e. appropriate shift of the curves). **up to 4 marks per diagram to a maximum of 6 marks**

reward references to the UK economy and/or other economies

Where the candidate only makes reference to one determinant, he/she should be limited to a maximum of **12 marks**.

**MAXIMUM FOR PART (a) 20 MARKS**

- 4 (b) Evaluate the possible impact on UK macroeconomic performance of a sustained rise in the value of the pound sterling against the euro and the US dollar. (30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety. **Candidates would not necessarily have to consider all macroeconomic indicators to reach marks in the higher levels.**

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks or more**.

Evaluation could be in terms of: the danger of making generalisations for macroeconomic indicators collectively, the extent and duration of the rise, whether elasticity conditions are favourable/unfavourable as far as the balance of payments and other indicators are concerned, how the rise is viewed by economic agents in relation to other considerations, e.g. MNCs making a broad assessment of an economy prior to any investment decisions, the extent to which producers respond positively to the impact of a rising exchange rate on export competitiveness, the strength/weakness of those parts of the economy not directly affected by exchange rate movements.

**Issues and areas for discussion:**

- what is meant by macroeconomic performance;
- significance of the eurozone and the USA in UK trade;
- significance of the general economic climate;
- numerical example of implications of a rise in the exchange rate;
- the balance of payments and the trade in goods, the trade in services (some candidates might single out tourism), potential overall impact on the current account, the potential impact on the capital account;
- the significance of supply and demand elasticity conditions for trade and hence other aspects of macroeconomic performance;
- significance of the exchange rate in relation to other determinants of competitiveness;
- extent and success of producers' efforts to counteract the potential negative impact on competitiveness, e.g. a renewed effort to close the productivity gap;
- the impact on domestic inflation of lower import prices and greater producer efficiency and hence the impact on future balance of payments performance;
- the £'s movement against other currencies and possible consequences of this for the UK economy (for example, new opportunities if there is a weakening of the £ against some other currencies);
- the potential impact on economic growth;
- the potential impact on employment/unemployment, eg possibly a weaker export-led multiplier;
- an assessment of the importance of the rise relative to other factors influencing investment decisions, eg by MNCs;
- the underlying strength of the UK economy.

**Also give credit for:**

- real world references;
- diagrams;
- an overall judgement on the issues raised;

Candidates should be limited to a maximum of **21 marks** if there is no reference to the UK economy.

**USE THE LEVELS MARKING SCHEME ON PAGES 3 & 4**

**MAXIMUM FOR PART (b) 30 MARKS  
TOTAL FOR QUESTION 4: 50 MARKS**