A-Level
Economics

7136/2 National and International Economy (New)
Final Mark Scheme

7136
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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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

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Level of response marking instructions

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

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

Descriptions of Annotations

Annotation	Description
?	Unsure/unclear/somewhat confusing
AN	Analysis
APP	Application
BOD	Benefit of the doubt
Cross	Incorrect
EVAL	Evaluation
IR	Irrelevant
KU	Knowledge and understanding
NAQ	Not answering question
On Page Comment	Text box
REP_BIG	Repetition
SEEN	Seen
Tick	Correct
Enhanced Off Page Comment	May be used to make a comment

Step 1 Determine a level

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

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

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

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

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

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

Section A

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

0 1 Using the data in **Extract A (Figure 2)**, calculate, to **two** decimal places, the mean growth rate for India from 2010 to 2014.

[2 marks]

Calculation:
(10.26 + 6.64 + 5.62 + 6.64 + 7.24) = 36.4 36.4 ÷ 5 = 7.28 = 7.28% to 2 d.p.

Response	**Max 2 marks**
For the correct answer (7.28%) with the % sign and to 2 d.p.	**2 marks**
For a correct answer but without the % sign **and/or** not to 2 d.p.	**1 mark**

0 2 Explain why the data in **Extract A (Figure 1)** show that living standards in India have improved.

[4 marks]

Response	**Max 4 marks**
• includes evidence that shows that living standards in India have improved • clearly explains how this data is evidence that India is moving to a higher level of human development	**4 marks**
• includes evidence that shows that living standards in India have improved • unclear explanation of how this data is evidence that that India is moving to a higher level of human development	**3 marks**
• includes some limited evidence that shows that living standards in India have improved • limited explanation of how this data is evidence that India is moving to a higher level of human development	**2 marks**
• includes evidence that does not clearly show that living standards in India have improved • no explanation of how this data is evidence that India is moving to a higher level of human development	**1 mark**

Relevant issues include:

- meaning of 'living standards'
- life expectancy has risen from 53.9 years in 1980 to 68.0 years in 2014
- expected years of schooling has increased from 6.4 years in 1980 to 11.7 years in 2014
- the Gross National Income per capita has risen from $1255 in 1980 to $5497 in 2014
- the HDI score has risen from 0.362 in 1980 to 0.609 in 2014

0 3 **Extract B** (lines 17-19) states 'India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth.'

With the help of a diagram, explain how export subsidies may help promote economic growth in India.

[9 marks]

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

A micro diagram showing a rightward shift in supply is expected. The candidate could demonstrate the effects of increased exports, due to the subsidy, using an AD/AS diagram. Provided there is valid explanation, accept either a rightward shift in the SRAS or a rightward shift in AD.

Relevant issues include:

- definitions/explanations: export subsidy, exports, trade, economic growth
- impact of an export subsidy on price, quantity, the volume and value of trade
- impact of an export subsidy on employment in particular industries
- linking trade to aggregate demand
- impact of export subsidies on investment
- linking export subsidies to both short-run and long-run economic growth

0 4 **Extract C** (lines 2-3) states 'More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that greater use of market-based strategies is the best way to improve the economic development of India.

[25 marks]

Areas for discussion include:

- definitions/explanations: economic development, market-based strategies, interventionist strategies
- differences and links between economic growth and economic development
- examples of market-based strategies such as privatisation, deregulation, liberalisation of foreign trade, removing restrictions on international investment
- examples of interventionist strategies such as government spending on infrastructure, protectionist policies and government spending on health and education
- the pros and cons of market-based approaches to achieving development
- the pros and cons of interventionist approaches to achieving development
- difficulties in measuring development in terms of economic/human development
- the potential barriers that may hinder India's development
- analysis of the impact of development on formal employment/informal employment
- the progression from the primary sector to secondary sector employment
- whether growth and development are sustainable
- economic/social/political freedom arguments
- costs of development and/or growth and their impact on living standards
- the effectiveness of policies that might stimulate development
- protectionism as an aid to development
- the role of investment (domestic and foreign direct)
- key industries in development.

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

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

Section A

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

0 5 Using **Extract D (Figure 3)**, calculate, to **two** decimal places, the mean inflation rate for Japan from 2010 to 2015.

[2 marks]

Calculation:
(-0.72 + -0.28 + -0.03 + 0.36 + 2.75 + 0.80) = 2.88 2.88 ÷ 6 = 0.48 = 0.48% to 2 d.p.

Response	**Max 2 marks**
For a correct answer (0.48%) with the % sign and to 2 d.p.	**2 marks**
For a correct answer but without the % sign **and/or** not to 2 d.p.	**1 mark**

0 6 Explain how the data in **Extract D (Figure 4)** show that Japan has been less successful than the UK in achieving a stable rate of economic growth.

[4 marks]

Response	**Max 4 marks**
• includes evidence that shows that Japan has been less successful than the UK in achieving a stable rate of economic growth • clearly explains how this data is evidence that Japan has been less successful than the UK in achieving a stable rate of economic growth	**4 marks**
• includes evidence that shows that Japan has been less successful than the UK in achieving a stable rate of economic growth • unclear explanation of how this data is evidence that Japan has been less successful than the UK in achieving a stable rate of economic growth	**3 marks**
• includes some evidence that shows that Japan has been less successful than the UK in achieving a stable rate of economic growth • limited explanation of how this data is evidence that Japan has been less successful than the UK in achieving a stable rate of economic growth	**2 marks**
• includes evidence that does not clearly show that Japan has been less successful than the UK in achieving a stable rate of economic growth • no explanation of how this data is evidence that Japan has been less successful than the UK in achieving a stable rate of economic growth	**1 mark**

Relevant issues include:

- meaning of 'stable rate of economic growth'
- the highest annual rate of economic growth recorded for the period was for Japan at 4.75% in 2010 compared to the UK's highest rate of 3.0% in 2014
- the lowest annual rate of economic growth recorded for the period was for Japan at -0.5% in 2011, compared to the UK's lowest rate of 0.75% in 2012
- Japan has a greater range of real GDP growth. It has a high of 4.75% in 2010 compared to a low of -0.5% in 2011, a range of 5.25 percentage points, whereas the UK has a high of 3% in 2014 compared to a low of 0.75% in 2012, a range of 2.25 percentage points
- the UK never experienced a negative annual percentage change in Real GDP whereas Japan did. Japan experienced a 0.5% negative rate in 2011 and a 0.1% negative rate in 2014 whereas the lowest rate for the UK was 0.75% in 2012.

0 7 **Extract E** (lines 9-10) states 'Improvements in productivity on the supply side of the economy could actually lead to more deflation.'

With the help of a diagram, explain how improvements in productivity could cause deflation.

[9 marks]

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

An AD/AS diagram is expected, showing a rightward shift of the AS curve, this can either be LRAS or SRAS.

Relevant issues include:

- definitions/explanations: productivity, supply side, deflation, price level
- possible causes of increased productivity
- relating productivity to supply-side policies (interventionist or market-based)
- linking productivity to average costs/costs of the factors of production
- linking productivity to increases in the long-run productive potential
- explaining the link between falling costs of production and the general price-level.

0 8 **Extract F** (lines 19-20) states 'What is not clear is what should be done if low inflation turns to bad deflation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that monetary policy is the most effective way of tackling deflation in developed economies such as the UK and Japan.

[25 marks]

Areas for discussion include:

- definitions/explanations: monetary policy, deflation, developed economies
- deflation and the different types (malign v benign)
- the effects of deflation
- the nature of developed economies and different experiences of deflation
- the role of interest rates and the transmission mechanism
- the effects of interest rates on investment, employment, saving and consumption
- the link between long-term saving and long-term investment
- the effectiveness of interest rates at very low levels including negative interest rates
- consideration of the MPC's role, primarily in targeting inflation but also in targeting growth
- consideration of differences in the two economies which may determine the effectiveness of monetary policy
- the use of quantitative easing and consideration of its success
- the possible role of the exchange rate in stimulating the economy
- the use of fiscal policy and fiscal stimulus
- considering how government debt may affect the ability to use fiscal policy
- considering how private-sector debt may influence the effectiveness of policies designed to combat deflation
- consideration of the potential conflicts in policy
- the significance of economic shocks and their impact on policies to tackle deflation.

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

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

Section B

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

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

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

0 9 Explain how government policies can reduce the natural rate of unemployment.

[15 marks]

Relevant issues include:

- definitions/explanations: unemployment, government policies, the natural rate of unemployment
- linking the natural rate to equilibrium in the labour market
- identifying the natural rate as being caused by mainly "voluntary" unemployed workers
- linking the natural rate to structural, frictional or real wage unemployment
- explaining the nature of the supply and demand for labour
- explaining the role of supply-side policies in reducing the natural rate
- considering interventionist or laissez-faire approaches to reducing the natural rate
- explaining the role of wage and inflationary expectations in altering the natural rate
- explaining any of the following:
    - the level of JSA
    - the level of taxation
    - the NMW
    - training schemes
    - transferable skills
    - occupational mobility
    - geographical mobility
    - trade union reform
    - labour market flexibility
    - childcare assistance
    - reducing hysteresis/long-term unemployment
    - reducing wage expectations
    - or any other valid reason.

The use of relevant diagrams to support the analysis such as a long-run Phillips curve or a labour market diagram should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 13 to award students marks for this question.

1 0 Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives.

[25 marks]

Areas for discussion include:

- definitions/explanations: unemployment, macroeconomic policy, macroeconomic goals, trade-offs
- explaining the various causes/types of unemployment
- distinguishing between involuntary and voluntary unemployment
- explaining the different policy responses depending upon the nature of the unemployment
- explaining the effects of falling unemployment on:
    - inflation
    - economic growth
    - trade
    - other goals such as the budget deficit
- highlighting the UK's experience in reducing unemployment whilst maintaining stable inflation and a satisfactory balance of payments position
- the role of supply-side policies and productivity improvements in avoiding conflicts
- the effects of economic shocks on the economy and the difficulty of insulating against these
- the short-run Phillips curve
- government policies to reduce unemployment
- considering the relative success of recent government policies in the UK or other economies
- considering the position of the economy in terms of the proximity to the productive potential
- considering the position of the UK in terms of the economic cycle.

The use of relevant diagrams such as the short-run Phillips curve and AD/AS diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

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

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

1 1 Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world.

[15 marks]

Relevant issues include:

- definitions/explanations: trade, pattern of trade
- explaining the pattern in terms of the geographical distribution of UK exports and imports
- explaining the significance of trade to the UK economy
- explaining the pattern in terms of different goods and services traded
- using relevant examples to illustrate the changes in the pattern of trade
- explaining comparative advantage and how changes in comparative advantage might be significant
- giving a numerical example of comparative advantage
- explaining other possible reasons for changes in the pattern of trade, eg:
    - changes in absolute advantage
    - changes in protectionist/free trade policies in other countries
    - joining/changing membership of trading blocs
    - consideration of trade diversion/trade creation due to trading blocs
    - exchange rate changes
    - changing quality/reputation
    - government intervention distorting markets
    - de-industrialisation
    - causes and changes in globalisation
    - external shocks
    - economic development
    - factor endowment and exploitation of resources
    - innovation and invention (both product and process)
    - any other valid argument.

The use of relevant diagrams, such as a tariff diagram, to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 13 to award students marks for this question.

1 2 Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments.

[25 marks]

Areas for discussion include:

- definitions/explanations: the balance of payments, the current account, current account deficit
- explaining the difference between a surplus or deficit on current account
- explaining the composition of the current account of the balance of payments
- explaining the historical experience of the UK's current account
- explaining the causes of deficits
- explain possible measures to reduce the deficit such as:
    - exchange rate manipulation
    - changes in interest rates potentially affecting the exchange rate
    - expenditure-reducing policies
    - expenditure-switching policies
    - the role of protectionism
    - government role in export promotion/trade deals
    - the role of fiscal and monetary policy
    - supply-side improvements which might begin to provide a solution to the weakness, such as:
        - competitiveness/unit labour costs
        - investment (human and physical capital)
        - technology, R&D and productivity
        - infrastructure
- consideration of the UK's membership of the WTO and EU restricting its ability to use protectionism
- consideration of whether the deficit is a problem if the capital account is in surplus
- consideration of the impact on other macroeconomic goals of trying to reduce the deficit on the current account of the balance of payments.

The use of relevant diagrams such as AD/AS diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

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

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

1 3 Explain how changes in both government spending **and** taxation might affect the level of economic activity.

[15 marks]

Relevant issues include:

- definitions/explanations: government spending, taxation, economic activity
- explaining the different forms of government spending such as capital/current/transfers
- explaining the levels of government spending
- explaining the reasons for government spending ie the redistribution of income and wealth, merit good provision etc.
- explaining how changes in government spending and taxation can influence aggregate demand both directly and indirectly
- explaining discretionary policy
- explaining automatic stabilisers
- explaining the effects of the economic cycle on government spending and taxation
- explaining how changes in government spending could change aggregate supply such as:
  - capital spending on infrastructure
  - training and education
  - subsidies/grants for research and development
  - subsidies/grants for investment
  - tax credits
  - assisted childcare and the effects on labour supply
  - any other relevant point
- multiplier and possible accelerator effects
- explaining the different types of taxation
- explaining how changes in taxation could change aggregate supply such as:
  - reducing income tax creating incentives to work
  - reducing corporation tax allowing firms to retain more profit for investment
  - reducing taxation, possibly making UK firms more competitive abroad and effects on supply
  - using taxation (tariffs) as a form of protectionism, aiding domestic supply
  - any other relevant point.

The use of relevant diagrams such as AD/AS, or labour market diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.
Note: Unless a candidate considers both government expenditure and taxation, they are unlikely to have 'developed a selection of key issues that are relevant to the question' and therefore unlikely to achieve level 3.

Use the levels mark scheme on page 13 to award candidates marks for this question.

1 4 Evaluate the economic consequences for the UK economy of a significant shift in the burden of taxation from direct taxes to indirect taxes.

[25 marks]

Areas for discussion include:

- definitions/explanations: burden of taxation, taxation, direct/indirect taxation, fiscal policy
- explaining the burden of taxation, expressed, for example, as a % of GDP
- describing the current forms of taxation used in the UK and recent changes
- explaining the principals of taxation such as equity
- giving examples of the various direct and indirect taxes
- identifying the differences between progressive, regressive and proportional tax
- the redistributive impact of direct and indirect taxation
- how falling direct taxes may:
    - incentivise work
    - reduce tax avoidance/evasion
    - influence consumption
    - influence investment
    - any other relevant point
- how rising indirect taxes may:
    - affect inflation
    - reduce consumption of demerit goods
    - affect SRAS
    - affect consumption decisions
    - affect wage demands
- evaluating the size of the shift
- evaluating empirical evidence
- evaluating the period of time over which the shift takes place
- policy myopia and political ideology affecting decisions
- the Laffer curve.

The use of relevant diagrams such as the Laffer curve to support the analysis should be taken into account when assessing the quality of the student's response to the question.

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