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Mark Scheme (Results)

Summer 2015

Pearson Edexcel IAL
in Economics (WEC04) Paper 01

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Mark scheme: WEC04 iAL

****SECTION A: ESSAYS – PLEASE USE DETAILED MARKING CRITERIA WHICH ARE TO BE FOUND AT THE END OF THIS MARKSCHEME****

FOR ALL QUESTIONS: No mark scheme can cover all possible responses. Therefore, reward analysis which is relevant to the question even if this is not specifically identified in the mark scheme.

Question Number		Mark
1 (a)	• Understanding/definition of globalisation The theory of comparative advantage: • Understanding/definition of comparative advantage • Use of numerical and diagrammatic examples • Application of specialisation/comparative advantage to particular countries • Specialisation according to comparative advantage leads to more international trade, increasing globalisation • Allows developing countries (who may not have an absolute advantage in the production of any goods/services) to trade internationally, furthering globalisation • Such trade requires the liberalisation of international capital markets, leading to financial globalisation Other factors have been more important in explaining increased globalisation, e.g.: • Trade liberalisation • Political change (e.g. breakdown of Soviet system and opening up of China) • Reduced cost of transport (e.g. containerisation) and communications (e.g. international phone calls, the internet, teleconferencing, mobile phones etc.) • Increased significance of transnational companies • The rise in world skill levels • The liberalisation of global capital/financial markets • Enhanced role of international economic institutions (e.g. the IMF, the World Bank, etc.) *General evaluative comments could include:* • *Difference factors have been most important at different times over the past 40 years* • *Difficulties of separating the factors, e.g. increased significance of transnational companies in order to take advantage of differences in comparative advantages* • *Assumptions and limitations of the model of comparative advantage*	**(15)**

Question Number		Mark
1 (b)	Candidates may be rewarded for argument that globalisation has been beneficial, or that it has not, and use reverse arguments in evaluation. • Understanding/definition of developed and developing countries Globalisation has been beneficial: • Allows greater specialisation in areas of comparative advantage, leading to increased global efficiency - increasing global output, meaning that there are more goods and services available for consumption for all people • Gains in efficiency lead to economic growth and higher average incomes, raising the standard of living for all • Increased economies of scale result in lower priced goods and services, increasing consumer surplus globally • International competition reduces national monopoly power, leading to lower prices for consumers, and more non-price competitive goods and services too • Higher rates of growth have led to reductions in the number of people living in absolute poverty globally (but particularly in developing countries) • Increased choice when buying goods and services for consumers in all countries • Spread of transnational companies has led to more jobs, training and infrastructure investment in developing countries Globalisation has not been beneficial: • Rising income inequality between developed and developing countries, and also within countries, particularly between those living in rural and urban areas in developing countries • Growing demand for raw materials has caused large rises in commodity prices. The rise in food prices has been particularly damaging to people living in developing countries • Environmental concerns: deforestation, loss of biodiversity, global warming etc. These may particularly affect people living in developing countries where there is less government regulation of activities • Exploitation of natural resources and/or labour in developing countries by more developed countries / transnational corporations • A loss of economic and cultural diversity as goods and services become homogenised • Unemployment in developed economies as companies outsource / move production to lower wage economies, which may cause pressure on government budgets *Other evaluative comments could include:* • *Prioritisation of different effects* • *Discussion of whether globalisation has been of more benefit to developed or developing economies* • *Different effects on different countries* • *Different effects at different points in time (SR/LR distinction also)* • *The importance of government intervention/regulation to correct any resulting market failures* **NB Award a maximum of 20 marks (Level 4) if a candidate does not refer to <u>both</u> developed and developing countries in their response.**	**(25)**

Question Number		Mark
2 (a)	• Understanding of terms of trade • Understanding of a worsening (deterioration) of the terms of trade Possible factors could include • A depreciation / devaluation of the exchange rate • Low relative inflation rates • Higher relative productivity rates • Lower relative labour costs (wage and non-wage costs) • Higher relative levels of capital investment • Change in the price of commodities, e.g. oil (a rise in the price of commodities for net importers, and a fall in the price of commodities for net exporters) • Primary product dependency may lead to a worsening of terms of trade over time • Increased globalisation and the industrialisation of China, India and Latin American countries • Increased competition in the markets of a country's main exports / reduced competition in the markets of a country's main imports • Protectionist policies *Evaluative comments could include:* • *Prioritisation of factors* • *Different factors will be more important in different economies, e.g. the price of oil will be highly important in Saudi Arabia, but not in other countries* • *Different factors will be more important at different times, e.g. whilst we would expect countries that specialise in primary products to face a worsening terms of trade, the rapid growth of the BRIC economies has actually led to a favourable movement in their terms of trade over the past 10 years* • *The importance of labour costs will depend on whether a country tends to import and export labour-intensive or capital-intensive goods and services*	**(15)**

Question Number		Mark
2(b)	• Understanding of a rise (favourable movement) in a country's terms of trade • Understanding of macroeconomic objective • Price of exports rises relative to price of imports. This would tend to worsen the economy's trade balance, failing to meet the objective of a healthy balance of payments position o *Although this depends on the PED for a country's imports and exports (may be extended to a discussion of the Marshall-Lerner condition / 'J-curve' effect)* o *Although the current account on the balance of payments has two additional components, which may move in the opposite direction* • A worsening trade balance may constrain aggregate demand in the country, leading to lower economic growth, and/or rising unemployment, particularly in export industries. o *Although relatively cheaper imports may lead to an increase in (SR)AS, offsetting the negative effects on economic growth* o *Although changes in the other components of AD may more than compensate for this, meaning that unemployment does not rise* • Inflation in the economy is likely to fall, as both demand pull and cost push (imported raw materials) inflationary pressures subside o *This depends on the level of spare capacity in the economy, the size of the multiplier effect, and all other things being equal* • If there is rising unemployment, this is likely to have a negative effect on the government budget balance, as transfer payments rise (automatic stabilisers) and tax revenue falls o *Such a cyclical budget deficit may be less damaging to an economy than a structural budget deficit. It depends on how long the terms of trade rise for, and how great the rise is* • Lower/negative rates of economic growth may have a positive effect on the environment, as fewer non-renewable resources are used, and fewer negative productive externalities occur o *For most developed countries, growth has a positive effect on the environment, as improved green technology is developed, and energy intensity falls* • Lower/negative rates of economic growth may have a positive effect on income inequality in the economy, as less high returns accrue to the owners of the factors of production *Other evaluative comments could include:* • *Prioritisation of factors* • *Different factors more or less important for different countries* • *Different countries may have/prioritise different macroeconomic objectives*	**(25)**

Question Number		Mark
3(a)	• Different levels of education / skills / qualifications • Sectoral make-up of the economy (including primary product dependency) • Resource endowment (quality and quantity of factors of production) leading to different levels of growth • Globalisation • Different levels of infrastructure • Foreign trade relationships and membership of trade blocs • Civil war • Government policy • Corruption / weak or ineffective institutions • Labour flight *Evaluative comments could include:* • *Prioritisation of factors* • *Different factors will be more important between different economies* • *It may be difficult to assign exact causes, as many of these factors may be in play at the same time* **NB Award a maximum of 12 marks (Level 4) if a candidate does not refer to countries in their response.**	**(15)**

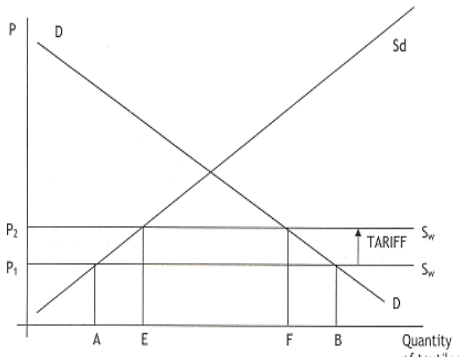
Question Number		Mark
3(b)	• Understanding of income inequality • A rise in the economy's MPC, and hence domestic consumption and aggregate demand are likely to rise • Increase in the size of the multiplier effect, as the economy's MPS and hence MPW fall • This is likely to lead to higher levels of economic growth in the economy • Economic growth may lead to improvement in public sector finances • An increase in aggregate demand may lead to demand pull inflationary pressures in the economy • An increase in the trade deficit, as rising consumption is on both domestically produced and imported goods and services • Redistribution of spending from goods and services / changes in expenditure patterns within the economy • If the decrease in income inequality is achieved through higher levels of progressive taxation and/or higher transfer payment, this may create a disincentive effect, reducing the incentive to work / causing capital and/or labour flight • More equal access to / years of education in the economy • Less variation in life expectancy in the economy • Less emigration from the economy / more immigration into the economy *Evaluative comments could include:* • *A lower savings ratio in the economy may cause a savings gap, restricting investment, and hence potential economic growth* • *The multiplier may not rise if the economy's MPT and MPM rise more than the MPS falls* • *The effects on growth and employment depend on to what extent demand rises for domestically produced goods as opposed to imports* • *The effect on inflation depends on the level of spare capacity in the economy* • *All other things may not be equal, e.g. changes in the exchange rate may cause greater effects on the trade balance etc.* • *Prioritisation of factors* • *Significance: the question says a 'significant' decrease, so any effects are likely to be fairly large*	**(25)**

Section A Part (a) Questions: Performance Criteria for Mark base 15		
Level 0	0	• No rewardable material
Level 1	1-3	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting and applying different economic ideas are unsuccessful • Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	4-6	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	7-9	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions • Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
Level 4	10-12	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions • Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.
Level 5	13-15	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Section A Part (b) Questions: Performance Criteria for Mark base 25		
Level 0	0	• No rewardable material
Level 1	1-5	• Displays knowledge presented as facts without awareness of other viewpoints • Demonstrates limited understanding with little or no analysis • Attempts at selecting and applying different economic ideas are unsuccessful • Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
Level 2	6-10	• Displays elementary knowledge of well learnt economic facts showing a generalised understanding together with limited analysis i.e. identification of points or a very limited discussion • Displays a limited ability to select and apply different economic ideas • Material presented has a basic relevance but lacks organisation, but is generally comprehensible. Frequent punctuation and/or grammar errors are likely to be present which affects the clarity and coherence of the writing overall.
Level 3	11-15	• Displays knowledge and understanding of economic principles, concepts and theories as well as some analysis of issues i.e. answer might lack sufficient breadth and depth to be worthy of a higher mark • Shows some ability to apply economic ideas and relate them to economic problems • Employs different approaches to reach conclusions • Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
Level 4	16-20	• Displays a good knowledge of economic principles, concepts and theories together with an analysis of the issues involved • Demonstrates an ability to select and apply economic ideas and to relate them to economic problems • Evidence of some evaluation of alternative approaches leading to conclusions • Material is presented in a generally relevant and logical way, but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.
Level 5	21-25	• Displays a wide range of knowledge of economic principles, concepts and theories together with a rigorous analysis of issues • Demonstrates an outstanding ability to select and apply economic ideas to economic problems • Evaluation is well balanced and critical leading to valid conclusions • Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Question Number		Mark
4(a)	A free trade area comprises countries which agree to abolish or severely limit internal trade barriers / tariffs and quotas on trade between member countries (2) Application: the Trans-Pacific Partnership (TPP) will be a FTA / "In June 2012 the WTO reported 319 such agreements were in force" (2) 2 marks for knowledge; 2 marks for application / data reference	**(4)**

Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for knowledge – see above
Level 2	3-4	Up to 2marks for knowledge and 2 marks for data references

Question Number		
4(b)	• Non-tariff barriers, e.g. bureaucracy and time-consuming customs procedures - these increase the cost of imported goods, reducing their price competitiveness on the domestic market • Subsidies to domestic producers, e.g. agricultural production subsidies - these reduce the production costs of domestic firms, allowing them to lower their prices below those of imported goods • Quotas - set a limit on the number of goods that can be imported, this raises the price of imported goods (as their supply falls), and creates more demand for domestically produced goods • Tariffs (taxes on imports) - these raise the price of imported goods, reducing their price competitiveness on the domestic market. These raise government revenues and create a deadweight welfare loss. Answers may make use of a diagram showing the effects of a tariff:  Application: 1 specific data reference from the Extracts (2) e.g. The WTO aims to "cut bureaucracy and reduce delays at borders around the world"	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two types of protectionism
Level 2	3-4	2 marks for identification of two types of protectionism; 2 for application
Level 3	5-8	2 marks for identification of two types of protectionism; 2 for application and 4 for analysis

Question Number		Mark
4(c)		**(12)**
Knowledge, Application and Analysis – Indicative content		
	Candidates may be rewarded for argument that regional trading blocs do conflict with the objectives of the WTO, or that they do not, and use reverse arguments in evaluation. • The WTO aims for free trade, trading blocs aim for preferential trade. Trading blocs don't accord with the WTO's MFN principle • The WTO aims to settle trade disputes, whereas trading blocs can cement differences between countries • The WTO pursues a development agenda, while trading blocs may not form between developed and developing countries, meaning the development gap between the two may increase • The existence of trade blocs could offer countries an alternative to joining the WTO, or distract them from their WTO negotiations / make WTO agreements less important	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the conflicts between the WTO and trade blocs with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the conflicts between the WTO and trade blocs. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the conflicts between the WTO and trade blocs with appropriate application to context throughout. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content		
	• The terms of the GATT do allow for the formation of trading blocs (Article 24), so theoretically there is no conflict. • Trading blocs result in free trade between members, and may cut tariffs quicker and by more than WTO rounds have so far been able to do. We can therefore perhaps view them as 'stepping stones' to unilateral trade liberalisation - the formation of the TPP may lead to wider free trade in the Asia-Pacific region • Trading blocs could be viewed as continuing the WTO's work if it has become stalled. Trading blocs can lead to closer economic and political integration, making disputes less likely. • The fact that customs unions, common markets and economic unions negotiate as one body at the WTO may also make it easier for motions to be passed, given the WTO's consensual decision making process • Trading blocs do sometimes include both developed and developing countries (e.g. Vietnam and the USA in the TPP). There is certainly a strong economic rationale for this occurring, as they are most likely to have comparative advantages in very different kinds of goods and services • What kind of trading bloc we are considering will affect the extent	

	to which conflicts may occur • Perhaps the WTO and trade blocs have the same aims, but different ways of achieving them? • Perhaps it's not simply the existence of trade blocs, but the exponential rise in the number of them over the last two decades that has been problematic	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation/ one evaluative comment with explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
4(d)		**(16)**

Knowledge, Application and Analysis – Indicative content

	Benefits of joining the TPP: • Annual global income gains of $295 billion (including $78 billion for the United States) - very significant amounts - which would lead to higher average incomes and standards of living in the countries involved • Increased FDI inflows, which may lead to increases in AD and LRAS for the economies, as well as making it easier for them to finance current account deficits (if relevant) • Increased export sales, leading to job creation in the export industries, higher aggregate demand, and hence economic growth in the economies • Could be a stepping stone to wider free trade agreements in the Asia-Pacific region, meaning it is a pre-cursor to even more income gains • "increased competition and cooperation leading to faster productivity growth and more innovation" • Net welfare gain from removal/reduction in tariffs • Greater economies of scale available • Increased consumer choice • Trade creation	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the benefits of joining the TPP with limited explanation. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the benefits of joining the TPP. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the benefits of joining the TPP with appropriate application to context throughout. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

<table>
<tr><td colspan="4">Evaluation – Indicative content</td></tr>
<tr><td></td><td colspan="2">Candidates may evaluate either in terms of the negative aspects of joining the TPP, or in terms of considering the significance of the benefits analysed.

Negatives include:
• An increase in imports may:
o dampen domestic aggregate demand
o cause unemployment, particularly in infant industries
o lead to a worsening trade balance / current account on the balance of payments balance
• A loss of tariff revenue on imports
• Less diversified industrial base / less risk diversification
• It may detract attention from the WTO, delaying a more beneficial, multilateral trade agreement
• Trade diversion

Other evaluative points:
• Benefits not shared equally between the member countries (e.g. USA gains around one-quarter of the generated income)
• Extract 1 says that 'It is impossible to put probabilities or values on these large [secondary] effects'
• The effects depend on whether further trade liberalisation does indeed occur, and/or how successful the WTO is in the future</td><td></td></tr>
<tr><td>Level</td><td>Marks</td><td colspan="2">Descriptor</td></tr>
<tr><td>0</td><td>0</td><td colspan="2">No evaluative comments.</td></tr>
<tr><td>1</td><td>1-3</td><td colspan="2">For identifying evaluative comments without explanation / one evaluative comment with explanation.</td></tr>
<tr><td>2</td><td>4-6</td><td colspan="2">For evaluative comments with limited explanations.</td></tr>
<tr><td>3</td><td>7-8</td><td colspan="2">For evaluative comments supported by relevant reasoning.</td></tr>
</table>

Question Number		Mark
5(a)	**Current expenditure** is recurring expenditure / spending on items that are consumed / used up in the process of providing a good or service / only last a limited amount of time (1) **Capital expenditure** is spending on assets / investment spending / spending on items that will be used repeatedly in the process of providing a good or service / will last for a considerable amount of time (1) Data reference - two examples from Extract 1 (1 + 1): • **Example of current expenditure**: wages/salaries of public sector employees (1) • **Example of capital expenditure**: infrastructure projects (1) 2 marks for knowledge, 2 for application / data reference	**(4)**

Level	Mark	Descriptor
Level 1	1-2	Up to 2 marks for knowledge – see above
Level 2	3-4	Up to 2 marks for knowledge and 2 marks for 2 data references

Question Number		Mark
5(b)		**(12)**
Knowledge, Application and Analysis – Indicative content		
	• "Sharp rises in the price of fuel, water and power" implies rising costs of production for firms, reducing or constraining SRAS, and hence economic growth • The down-grading of the country's credit rating / need to reduce the budget deficit may have damaged business confidence, leading to lower / less quickly rising levels of investment / capital flight, constraining economic growth • Sharp rises in the costs of living (11.9% inflation) may reduce consumer confidence, leading to higher rates of saving, and hence constrained domestic consumption and economic growth • The plan to reduce the budget deficit involved cuts in government spending (e.g. fuel subsidies) and rises in tax rates (a new corporate tax), dampening the growth of aggregate demand, and hence real GDP • The sharp depreciation of the cedi will have raised the price of imports, constraining the growth of / reducing SRAS, and therefore also economic growth • The sharp depreciation of the cedi may have worsened the economy's trade balance either because the Marshall-Lerner condition is not satisfied in the SR or LR for Ghana, or due to a 'J-curve' effect. This would put downward pressure on aggregate demand, constraining economic growth. • Change in the pattern of government spending, from capital expenditure to current expenditure, constraining LRAS growth. • Continued fall-out from the global financial crisis - lower levels of FDI and relatively slow growth in international trade	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the possible factors affecting economic growth rates. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the factors leading to a lower economic growth rate. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the factors leading to a lower economic growth rate, with appropriate application to context throughout. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content		
	• The public sector wage rises were designed to motivate staff and improve the quality of service, so should have led to an increase in SR/LRAS, generating economic growth • Fitch has said that the deficit reduction target is unlikely to be met, so austerity policies are unlikely to be the main cause • As Ghana arguably specialises in primary products, demand for exports is likely to be very price inelastic, meaning it is likely that the Marshall-Lerner condition is not met even in the LR • Significance: there has been a 'sharp' rise in the price of utilities, while the cedi has 'tumbled' so these are likely to be large factors	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation/ one evaluative comment with explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
5(c)	• An increase in the price of fuel and utilities for Ghanaians - reducing consumer purchasing power, and increasing fuel poverty • Inflationary impact on the economy as cost-push pressures increase • Lower rates of economic growth as firms' production costs rise, causing a decrease in Ghana's aggregate supply • Decreased international competitiveness for Ghana's goods and services as the costs of production/inflation rises in the economy • Increased unemployment as national output falls • Lower government spending should reduce the fiscal deficit, which may have positive effects on confidence / credit rating etc. **Conversely, candidates may argue that as a market-orientated strategy to increase competition and efficiency in fuel and utility production, this strategy may promote economic growth, employment and exports.** Data reference (2 marks) e.g. Ghana's fiscal deficit is around -7% in 2013 as shown in Figure 2 (2 marks) OR these cuts are necessary as salaries now consume more than 70% of tax revenue (2 marks)	**(8)**

Level	Mark	Descriptor
Level 1	1-2	2 marks for identification of two impacts
Level 2	3-4	2 marks for identification of two impacts; 2 for application as indicated above
Level 3	5-8	2 marks for identification of two impacts; 2 for application as indicated above and 4 for analysis

Question Number		Mark
5(d)		**(16)**
Knowledge, Application and Analysis – Indicative content		
	Candidates may be rewarded for argument that the level of debt is significant, or that it is not, and use reverse arguments in evaluation. • Understanding of public sector debt The level of debt is significant: • The downgrading of the country's credit rating may mean that investors are less willing to buy gilts, meaning the government becomes less able to finance its debt, or has to pay higher rates of interest on its debt • May lead to the crowding out of private sector consumption and investment • Rising costs of debt service means a rising opportunity cost • Debt has risen to around 50% of GDP • The money has been spent on current rather than capital expenditure, meaning that no future rise in productive capacity / real GDP / tax revenue can be expected to help pay off the debt • Further austerity measures are 'politically difficult' to take • Inequitable to future generations • Expansionary fiscal policy becomes less effective in stimulating the economy if necessary (Ricardian equivalence argument) • If the loans are in hard currency, then a weakening cedi will raise their value	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the significance of the level of debt. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and explanation of the significance of the level of debt. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding and explanation of the significance of the level of debt with appropriate application to context throughout. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing is clear and coherent overall.

Evaluation – Indicative content		
	The level of debt isn't significant: • The country has been able to achieve strong economic growth of 7%, and has grown quicker than the average for Sub-Saharan African economies every year since 2008 • Debt equal to 50% of GDP is not an unsustainable level compared to some eurozone economies, or the criteria for debt forgiveness under the HIPC initiative • Some measures have already been taken to reduce the deficit, for example cutting subsidies and introducing a new corporate tax, which may reduce debt in the future • The high rate of inflation is likely to erode the real value of the debt (if issued in cedi) • The liberalisation of international capital markets reduces the chances of crowding out occurring to any significant extent	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-3	For identifying evaluative comments without explanation / one evaluative comment with explanation.
2	4-6	For evaluative comments with limited explanations.
3	7-8	For evaluative comments supported by relevant reasoning.

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