GradeMax



Pearson
Edexcel

Mark Scheme (Results)

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Pearson Edexcel International Advanced Level
In Economics (WEC14/01)
Paper 4: Developments in the global economy

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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.

Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	**–**	**The only correct answer is A** ***B*** *is not correct because there will be an increase in trade* ***C*** *is not correct because there will be an increase in living standards* ***D*** *is not correct because there will be a decrease in absolute poverty*	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is D** ***A*** *is not correct because the Lorenz curve relates to inequality not to GDP per capita* ***B*** *is not correct because the Lorenz curve does not illustrate changes in income tax* ***C*** *is not correct because the Gini coefficient of Country A is smaller than it is for Country B*	**(1)**
3	**–**	**The only correct answer is C** ***A*** *is not correct because a reduction in spending on infrastructure will increase transport costs and therefore, reduce international competitiveness* ***B*** *is not correct because stricter regulation of labour markets will increase costs of employing labour and therefore, reduce international competitiveness* ***D*** *is not correct because more restrictions on free trade will add to costs of importing and exporting and therefore, reducing international competitiveness*	**(1)**

4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is C** ***A*** *is not correct because devaluation happens in a fixed exchange rate* ***B*** *is not correct because revaluation happens in a fixed exchange rate* ***D*** *is not correct because there is a decrease in the exchange rate*	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.	**The only correct answer is A** ***B*** *is not correct because net welfare loss areas are ABC and DEF* ***C*** *is not correct because producer surplus has increased by the area P_1 P_2 B A* ***D*** *is not correct because consumer surplus has decreased by the area P_1 P_2 E F*	**(1)**
6	**QS5**: Calculate and interpret index numbers.	**The only correct answer is B** ***A*** *is not correct because 100.0 represents the base year* ***C*** *is not correct because 101.9 is the index number for 2016 using 2015 as base year* ***D*** *is not correct because 102.8 is the index number for 2017 using 2015 as base year*	**(1)**

Section B

Question	Answer	Mark
7 (a)	**Application 2** Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **Application** Up to 2 marks for calculations: • (1.34m – 0.97m) / 0.97m x 100 **(1)** • 38.14 **(1)** **Award full marks for the correct answer (38.14, 38.1, 38)**	**(2)**

Question	Answer	Mark
7 (b)	**Knowledge 2, Application 2, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** Up to 2 marks for identifying two benefits and up to two marks for linked explanations showing the benefits of the growth in the number of tourists, e.g.: • Likely to increase AD as a result of increase in FDI **(1)** which could lead to increase in economic growth via the multiplier **(1)** • Create employment as tourism is a labour-intensive industry **(1)** raising incomes/living standards, and therefore increasing HDI/ economic development **(1)** • Increased tax revenues for the government from higher profits, incomes, expenditure by the tourists **(1)** may be used to reduce fiscal deficit/fund spending on public services **(1)** • Helps attract FDI by TNCs **(1)** who might invest in infrastructure, hotels and associated services, increasing LRAS **(1)** • Important source of foreign exchange **(1)** as tourists spend on goods/services provided in the local economy and this helps fill the foreign exchange gap **(1)** • Improvement in the balance of payments position **(1)** through the inflows into the capital and financial account as a result of the FDI / inflows into current account as a result of tourists spending **(1)** **Application** Up to 2 marks for application to tourism, e.g.: • Figure1: the number of tourist arrivals increased from 0.99m in 2013 to 1.34m in 2017 **(1)** • Real GDP growth rose from 3.3% in 2013 to 3.9% in 2017. This was mainly a result of significant growth in the tourism sector **(1)** • Earnings from tourism exceeded $1 billion **(1)** • Sector is expected to grow by an average of 6% every year between 2018 and 2023 **(1)** • Tourism contributes nearly 7% of Mauritius' GDP **(1)**	**(6)**

Question	Answer	Mark
7 (c)	**Knowledge 2, Application 2** Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for understanding of reduction in fiscal deficit, e.g.: • When the increase in tax revenues is greater **(1)** than the increase in public expenditure **(1)** • Public expenditure is decreasing **(1)** and government tax revenue is increasing **(1)** • Lower public sector borrowing **(1)** to finance public expenditure **(1)** **OR** 1 mark for definition of fiscal deficit – e.g. when government spending is greater than tax revenues **Application** 1 mark for application to Mauritius' public expenditure and 1 mark for application to Mauritius' tax revenue, e.g.: • Public expenditure increased from 25.1% of GDP in 2016 to 25.4% of GDP in 2017 **(1)** and total tax revenues increased from 21.7% of GDP to 22.5% of GDP **(1)** • As a proportion of GDP, public expenditure increased by 0.3 percentage points **(1)** and tax revenues increased by 0.8 percentage points **(1)** • Current and capital expenditures **(1)** increased at a slower rate than the rise in tax revenues from direct and indirect taxes **(1)** • Higher tax revenue was received from income tax, corporation tax and indirect taxes **(1)**	**(4)**

Question	Answer	Mark
7 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** Quantitative skills assessed: **QS2**: Calculate, use and understand percentages, percentage changes and percentage point changes. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** Up to 2 marks for identifying two likely effects and up to 2 marks for linked explanations showing the effects of the reduction in the 'base interest rate', e.g.: • Increase in consumption **(1)** as the reward for saving and cost of borrowing falls, so consumers spend more, thereby increasing AD – leads to higher inflation/prevents deflation **(1)** • Increase in investment **(1)** as the cost of borrowing for firms fall, less interest repayments imply lower cost of production, increasing injections and AD – higher economic growth and employment **(1)** • Increase in net trade **(1)** due to less hot money flows, low demand for currency which reduces the exchange rate – an improvement in current account, as exports become relatively cheaper and imports relatively expensive **(1)** **Application** Up to 2 marks for application to sources, e.g.: • Low inflationary pressures between 2015 and 2016 **(1)** • GDP growth rose from 3.3% in 2013 to 3.9% in 2017 **(1)** • Diagram showing an increase in Aggregate Demand **(1)** • 0.5 *percentage points* change in the base interest rate **(1)** **Evaluation** Up to 2 marks for evaluative comments, e.g.: • Inflationary pressures are due to changes in global commodity and food prices which are volatile **(1)** and once they increase, it could lead to a greater rise in inflation; Figure 2 → 0.98% to 3.67% **(1)** • Cut in interest rate is unlikely to have an impact if consumer and business confidence is low **(1)** and therefore the multiplier effects may be small **(1)**	

	• 0.5 percentage points change in the base interest rate is small or relatively insignificant **(1)** and hence the impact on consumption/ investment/net trade may be limited causing small shift of AD **(1)** • Problem facing policymakers when applying policies **(1)** they are unable to control external shocks, i.e. due to cost push factors **(1)** • Time frame: monetary policy does not have immediate effect on behaviour **(1)** for example, people with fixed mortgage rates or traders who have fixed contracts – small impact on growth **(1)**	**(8)**

<table>
<tr><th>Question Number</th><th colspan="2">Indicative content</th></tr>
<tr><td>7 (e)</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

Knowledge, Application and Analysis (8 marks) – indicative content

Measures include:
• Increasing training programmes to increase labour productivity through development of skills and human capital. This will “reduce the economy’s skills mismatch”, increasing the private sectors access to “scientists and engineers”. It will allow firms to raise competitiveness in global markets
• Subsidies/tax incentives may encourage firms to invest in innovation which would not otherwise be started due to the high risk and cost involved. This allows firms to gain technical economies of scale and dynamic efficiency. It helps reduce problem of “lack of finance to fund research and development”
• Decreasing administrative/regulatory burdens on large companies and SMEs. Reducing “bureaucracy” simplifies the processes of buying land and gaining environmental clearances. This would otherwise hinder entrepreneurship in the private sector
• Improving infrastructure helps to address the bottlenecks in “power sources, water supply, transport, and telecommunications”. It ensures the stability of electricity, no water shortages, good transport and telecommunication links. This helps raise total factor productivity through fall in costs for the private sector, thereby allowing more efficient use of productive inputs</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.
Use of generic material or irrelevant information or inappropriate examples.
Descriptive approach, which has no chains of reasoning.</td></tr>
</table>

Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples that are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Government needs to significantly spend on improving the private sector, especially the SMEs as they "contributed to 40% of the country's GDP and employed 55% of the country's workforce" • Spending on training and infrastructure requires large public expenditure – "Financing of these infrastructure developments remains a key issue because the country has relatively high levels of public sector debt". • Investment in training carries time lags. There may be no guarantee of work after training as the skills may become obsolete. Therefore the "shortage of highly qualified labour" is likely to remain • Risk of funding inefficient firms could lead to a misallocation of resources. It is likely to encourage inefficiency in large companies and SMEs in the private sector • Bureaucracy is not the main factor that is restricting growth of the private sector. Mauritius is the "most business-friendly countries in the region." It has already made progress in "starting a business, dealing with construction permits and registering property" which have simplified regulatory burdens • Planning infrastructure projects takes time, so it is not clear how quickly growth from this investment would become evident for the private sector. The benefits to the private sector depend on the quality of infrastructure	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section C

Question Number	Indicative content
8	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application, Analysis (12 marks) – indicative content** • Understanding/explanation of national debt National debt is a cause for concern: • Rising national debts imply a fiscal deficit which has been mainly caused by deep recessions in many countries. This reflects disequilibrium between the government spending and tax revenues which may lead to structural issues in the long term. • Higher interest payments represent costs to the future generations. Less money will be available for spending on social services and they face high opportunity cost of interest payments • Higher national debt implies increased interest payments: danger of financial crowding out. Higher interest rates reduce private sector investment • Rising national debts lead to loss of confidence in the currency (euro, in case of eurozone countries) that may cause a fall in its value • Possibility of the need to seek assistance from international organisations and other countries; e.g. the IMF or the ECB in case of eurozone countries • Reduction in the country's credit rating and higher future borrowing costs. This leads to a significant loss of confidence in markets resulting in a fall in foreign direct investment (FDI) • Rising national debts could lead to inflationary pressures. If debt becomes too high, there may be insufficient investors to buy government securities. Thus, the government may have to fill the shortfall in revenue by printing money and increasing the money supply **N.B. Candidates may take either perspective as analysis and use their reverse arguments for evaluation i.e. they can argue that national debt is or is not a cause of concern** **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developed country in their answer**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • National debt will be less of a concern if the fiscal deficits are cyclical and short-term rather than structural and unsustainable • Some countries like Greece and Italy faced deflation even when its debts were high/inflation will be unlikely as debts were caused by a recession following the financial crisis • Future generations will not be affected much as high inflationary pressures might erode the real value of debt. This depends on the size of national debt. • As current interest rates in most countries are low, financial crowding out may not be a significant issue • In some countries, their national debts may not be a significant issue if it is financed internally and not from borrowing • Depends on the size of national debt as a proportion of GDP; 55 percentage points increase for Portugal and 30 percentage point increase for Italy show that this will be a significant cause for concern

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question Number	Indicative content
9	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (12 marks) – indicative content** • Understanding/explanation of indirect taxes Effects of the introduction of an indirect tax may include: • Rise in indirect taxes will lead to fall in real incomes, therefore there will be a decline in the level of consumption which would reduce growth, increase unemployment and lower tax revenues • Tax revenues would increase if demand for goods and services affected are price inelastic. It would also help the country to reduce its fiscal deficit • Incentives to work: a higher VAT rate would cause a fall in real incomes. This could increase incentives if people wish to maintain their standard of living • Income distribution: people on low incomes affected more; it might be argued that VAT is regressive especially in relation to energy and food • Price level: could cause a decrease in price level as taxes are a leakage from the circular flow of income. Inflation would only occur if the increase in VAT results in a wage-price spiral • FDI flows: may act as a deterrent as prices of finished goods would be higher • Fall in the level of externalities / consumption of demerit goods which would improve health and the environment - so government would need to spend less money on them, improving public finances. Reference needs to be made to environmental protection as a government objective • Increase in smuggling/hidden economy activity/tax avoidance reducing tax revenue and worsening finances • Accept accurately drawn AD/AS diagram if integrated with analysis points **N.B. Award maximum of Level 3 (9 marks) if a candidate does not refer to a developing country in their answer**

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • If the introduction of indirect tax is during a recession/slowdown, overall tax revenues of these countries may fall – economic growth of Saudi Arabia fell significantly between 2015 and 2017 • There may be no impact on incentives if there are no changes in income tax rates – there is no income tax in Saudi Arabia, so effects might be limited. • Research suggests that the overall effect of VAT in some countries is mildly progressive if focused on very expensive goods • Impact of inflation on individual goods and services will depend on the PED • Leakage in the form of taxes might be offset by an increase in injection – there has been a significant increase in FDI since 2015 • Living standard may not fall as other things may not be equal, e.g. wages may be rising faster than prices • FDI as a result of VAT may not fall if the goods are aimed at export markets. • Significance of the 5% introduction of indirect taxes in these countries. This is relatively small compared to other developed and developing countries • Neighbouring countries introducing VAT at the same time and same rate will reduce chance of smuggling/hidden economy

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question Number	Indicative content
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Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (8 marks) – indicative content • Different factors are important for different countries: for example, UK has a negative current account balance due to its low productivity whereas India is one of the fastest growing nations in the world • Significance of factors in short run and long run: may be short-term only as when economic growth falls, current account deficits could decrease again • Some companies are returning back/reshoring as labour and transportation costs have been increasing in far-east countries. Likely to improve current account performance in the future • If inflation is similarly high or higher in countries where the imported goods originate from, there is no significant change in price competitiveness • Depends on the marginal propensity to import of a country. If the marginal propensity to import is high, then the rise in income due to economic growth will have a larger effect on the current account deficit, since it indicates that imports will vary closely with changes in income • The data provided is for one year only – may not be significant compared to previous years. There is inadequate data to draw conclusions

Level	Mark	Descriptor
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Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially developed chain of reasoning.
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