GCSE

Economics

General Certificate of Secondary Education **A593**

The UK Economy and Globalisation

Mark Scheme for June 2010

Any enquiries about publications should be addressed to:

Question			Expected Answer	Mark	Rationale
1	(a)		**Name one country which uses the euro as its currency.** One mark for correct identification of a country using the Euro. Examples – Germany, France, Greece.	**[1]**	
	(b)		**Tick two statements, which are true of free trade.** **Statements** **Tick** All goods are traded for no cost No tariffs are imposed on goods and services ✓ There are no import quotas imposed on goods and services ✓ There are no costs for labour	**[2]**	
	(c)		**Using Fig. 2, compare economic growth in the Euro area with that in China between 1998 and 2008.** China grew at the fastest rate throughout the period (1) 1998 economic growth was just below 8% and in 2008 it was approximately 9% (2), whereas the UK and Euro economic growth was lower than 4 % throughout the period (1), Eurozone in 1998 was approximately 3.4% and in 2008 was approximately 1.7% (2), China has an upward trend whereas the UK has a downward trend (1), use of statistics to back this up (1). 1 mark for statement, 1 mark for use of statistics. Maximum of 4 marks	**[4]**	

Question			Expected Answer	Mark	Rationale
2	(a)		**Describe the changes in China's current account on the balance of payments between 1998 and 2008.** improving (1) surplus (1), increased from approximately 3% of GDP in 1998 (1) to 10% of GDP in 2008 (1), steep increase from 2004 to 2008 (1), backed up by data (1). 1 mark for statement, 1 mark for use of statistics. Maximum of 4 marks.	**[4]**	
	(b)		**Explain what is meant by 'an export'.** A good or service produced in the UK and sold abroad, the money received enters the UK (2). Selling domestic goods/services to foreign countries (2) 1 mark for brief definition.	**[2]**	'puts' or 'gives' TV
	(c)		**The current account on the balance of payments shows how much countries trade with each other. Identify and explain two reasons why countries trade with each other.** 1 mark of identification of reason and 1 mark of explanation of reason. Indicative answer – Reasons: increase consumer choice, increase consumer welfare, to allow consumers to buy goods that we cannot produce such as bananas, exploit economies of scale, increase economic growth, specialisation and absolute advantage	**[4]**	*If explanation is correct but reason incorrect or too vague give one mark for the explanation.*

Question			Expected Answer	Mark	Rationale
3	(a)	(i)	**State the value of EU exports of transport equipment to China.** 10986m euros	**[1]**	*Allow without m or euros*
		(ii)	**Calculate the balance of trade in clothing. Show your working.** 27,432 millions of euros Exports: 864 million Import: 28,296 million Exports – Imports = 28296 – 864(1)	**[3]**	
	(b)		**Explain how a quota reduces imports.** A quota is a fixed amount of a good that can enter a country from another (1), this reduces the number of imports coming in as they can no longer import as many as they like (1) A fixed amount of an import (1) this restricts/controls the number of the good coming into the country (1)	**[2]**	
	(c)		**Other than a quota, explain one method by which a country could reduce imports.** 1 mark of identification of reason and 1 mark of explanation of reason. Indicative answer – tariffs, subsidies, embargoes, administrative barriers.	**[2]**	
	(d)		**Using Fig. 6, explain one reason why European manufacturers might not be able to compete with cheaper imports from China.** 1 mark for reason, 2 marks for explanation. Indicative answer – cheaper labour, cheaper raw materials, lower tax on firms in China.	**[3]**	

Question			Expected Answer	Mark	Rationale
	(e)		**Fig. 6 states that countries specialise in what they are best at producing. Why is this? Give reasons for your answer.**		*Use levels.*
			Level 2 (3-6 marks) Candidates are able to analyse why countries specialise. They will use appropriate economics terms. At the bottom of this level candidates can apply the idea of specialisation to countries.		
			Level 1 (1-2 marks) Candidates show knowledge of specialisation and/or answer in terms of the division of labour.		
			Indicative answer – increase output, more efficient use of resources, able to gain through trade, increase economic growth.	**[6]**	

Question			Expected Answer	Mark	Rationale
4	(a)		**Using an example, explain what is meant by an 'exchange rate'.** The value of one currency in terms of another (1 mark) Example £1 = €1.44 (1 mark).	**[2]**	
	(b)		**Explain how exchange rates are determined.** Exchange rates are determined by the forces of demand and supply (1 mark), use of diagram to explain (2 marks), if interest rates rise people will save in UK banks and so buy pounds, increased demand for pounds will cause the value of the pound to rise (strengthen) (2 marks). Floating or fixed exchange rate (1). Trade between countries (up to 2). Speculation (up to 2). Long term investment (up to 2).	**[4]**	*Allow diagram in words (1 mark)*
	(c)		**Explain what has happened to the value of the pound against the euro between 2007 and 2008.** The value of the £ to the euro has fallen during the period (1) from approximately £1= 1.64 Euros to £1= 1.27 Euros (2), a downward trend is shown (1) Maximum of 3 marks	**[3]**	

Question			Expected Answer	Mark	Rationale
	(d)		**How will the change in the exchange rate between 2000 and 2008 have affected the international competitiveness of UK trade with the rest of the EU? Give reasons for your answer.**		
			Level 2 (3-6 marks) Candidates are able to analyse why UK exports are likely to become cheaper. They will use appropriate economics terms. At the top candidates will say that this increased competitiveness is only artificial, costs have not decreased and the firms have not become efficient, the exchange rate may change again and make firms less competitive.		
			Level 1 (1-2 marks) Candidates show knowledge of competitiveness.		
			Indicative answer – the value of the £ against the Euro has fallen which means the £ has weakened. This will cause exports to become cheaper. Candidates may use figures from the case study to illustrate this point. Therefore become artificially more competitive. Not all countries have the Euro	**[6]**	
	(e)		**Other than the exchange rate, state two factors that might influence the competitiveness of UK exports.**		
			1 mark for any of the following, higher productivity, lower costs of raw materials, a better trained workers etc.	**[2]**	

Question			Expected Answer	Mark	Rationale
5	(a)		**Compare the changes in UK inflation with that of the Euro area between 2002 and 2008.** Inflation in both the Euro area and UK has been rising during the period (1), Euro area it increases from approximately 1.1% to approximately 2.8% (1), in the UK inflation increases from approximately 1.5% to 2.5% (1). Maximum 3 marks.	**[3]**	
	(b)		**Explain what is meant by "inflation".** The persistent or continuing rise in the average price level (2), measured by the CPI (1). Maximum of two marks.	**[2]**	
	(c)		**The UK imports a large quantity of goods from China. Explain how the rate of inflation in China between 2006 and 2008 may affect the UK economy.** **Level 2 – 3-6 marks** Candidates are able to analyse how higher priced Chinese goods will affect the UK economy. **Level 1 – 1-2 marks** Candidates applies the information from the inflation graph. Indicative answer – Increased inflation in China makes their products more expensive. Imports coming into the UK from China will be more expensive and may lead to cost-push inflation. This may mean that UK consumers by domestically produced goods rather than Chinese imports.	**[6]**	

Question			Expected Answer	Mark	Rationale
6	(a)	(i)	**In which year was investment highest as a percentage of GDP in the UK?** 2007	**[1]**	
		(ii)	**What percentage of GDP was investment in that year?** 18.35%	**[1]**	*No % required*
	(b)		**Explain how the changes in investment between 2003 and 2007 may have affected productivity in the UK.** **Level 2 – 3-4 marks** Candidates are able to analyse how increasing investment causes an increase in productivity **Level 1 – 1-2 marks)** Candidates applies the information from the investment graph. Indicative answer – investment has risen. Investment on better machinery leads to firms being able to produce more in the same period of time, if investment on capital rises firms are buying new and improved machinery which will mean that their productivity will also rise.	**[4]**	

Question			Expected Answer	Mark	Rationale
7			**Fig. 3 shows that the UK had a deficit on the current account on the balance of payments between 1998 and 2008. Using the information in the case study and your own knowledge of economics, discuss the factors which may have caused this deficit.** **Level 4 10-12 marks** Candidate evaluates the reasons for the deficit in the current accounts of the UK with a conclusion reached – complex issues are discussed with clear reference to data. Complex issues have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs are consistently relevant, and have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar. Candidate has been able to demonstrate and apply knowledge and understanding. The candidate should have analysed with reference to the question. At the top of the level the candidate will have suggested which factor might be the most important in causing the deficit. **Level 3** **7-9 marks** Candidate analyses the reasons for the deficit in the current account of the UK. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning. Knowledge and understanding has been demonstrated and applied/understood.		*Data from the case study must be used in order for candidates to get beyond level 1.*

Question			Expected Answer	Mark	Rationale
7			**Level 2** **4-6 marks** Candidate demonstrates an understanding of the current account deficit in the UK – simple ideas are expressed in an appropriate way. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive. A basic knowledge and understanding has been demonstrated. **Level 1** **1-3 marks** Candidate demonstrates a knowledge of the current account – simple ideas have been expressed. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility. **0 marks** No evidence submitted or response does not address the question. Indicative answer – Strong positive growth means consumers have more money to spend which is usually spent on imported luxury items. Cheaper products coming from countries like China. Inflation has been rising therefore prices are rising at a faster rate making UK goods more expensive. Falling productivity leads to higher prices compared to competitors. The exchange rate however shows a weakening of the pound against the Euro which should make British exports cheaper and therefore more competitive. Other factors – Minimum wage in the UK, deindustrialization in the UK.	**[12]**	

	AO1	AO2	AO3	AO4
1a	1			1
1b	2			2
1c		2	2	4
2a		1		1
2b	1	1	2	4
2c	2			2
2d	2	2		4
3ai		1		1
3aii		3		3
3b	2			2
3c	1	1		2
3d	1	1	1	3
3e	2		4	6
4a	2			2
4b	2	2		4
4c		2	1	3
4d			4	2
4e	2			2
5a	1	3		4
5b				2
5c	2	2	4	8
6ai		1		1
6aii		1		1
6b	1	1	2	4
7	3	3	6	12
Totals	27	27	26	80

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