



# **Mark Scheme (Results)**

**Summer 2018**

**Pearson Edexcel GCE A Level**

**In Economics B (9EB0)**

**Paper 02 Competing in the global economy**

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Summer 2018

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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.

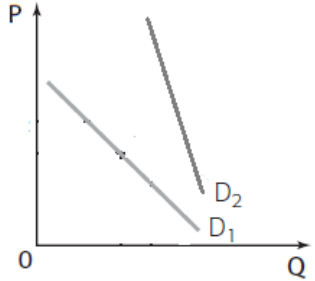
## Section A

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Mark       |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(a)</b>     | <p><b>Knowledge/understanding 1, Application 3</b></p> <p><b>Knowledge/understanding:</b> 1 mark for:</p> <p>YED = % change in Qd/% change in Income (1)</p> <p><b>Application:</b> up to 2 marks for calculating the correct percentage change in income:</p> <p>Income (2015) 62 029 – (2008) 29 229 (1) = ¥32 800</p> <p>Income 32 800/29 229 (1) = 112%</p> <p>and 1 mark for the coefficient of YED:</p> <p>161%/112% = 1.4 (1)</p> <p><b>NB: if no working is shown award marks as below</b></p> <ul style="list-style-type: none"> <li>• If the answer given is 1.4 award 4 marks.</li> <li>• If the answer given is 1.43 award 3 marks.</li> <li>• If the answer given is 1.4% award 3 marks.</li> <li>• If the answer given is 1.43% award 2 marks.</li> </ul> | <b>(4)</b> |

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(b)</b>     | <p><b>Knowledge/understanding 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for identifying an impact on B of P e.g. the positive flow of income/may reduce UK current account deficit (1).</p> <p><b>Application:</b> up to 2 marks are available for context e.g. average spend of Chinese tourists is £2 688 per person (1).<br/>e.g. tourists will spend on accommodation, shopping, food and transport (1).</p> <p><b>Analysis:</b> 1 mark available for developing explanation e.g. tourism creates inflows of foreign currency adding to current account/improving the current account (1).</p> | <b>(4)</b> |

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark       |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(c)</b>     | <p style="text-align: center;"><b>Knowledge/understanding 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for identifying a way in which the digital economy boosts tourism e.g. ease of booking across a range of platforms/increased consumer knowledge of UK as a tourist destination (1).</p> <p><b>Application:</b> up to 2 marks are available for a contextualised answer e.g. accommodation and flight bookings (1) 22 million hits on visitbritain website (1).</p> <p><b>Analysis:</b> 1 mark for developing the way in which the digital economy boosts tourism e.g. it makes the task of visiting Britain much easier and thereby increases tourist numbers (1).</p> | <b>(4)</b> |

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |            |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1(d)</b>     | <p style="text-align: center;"><b>Knowledge/understanding 2, Application 2, Analysis 2</b></p> <p><b>Knowledge/understanding:</b> up to 2 marks are available for identifying an impact of a trade union e.g. a positive impact on working conditions/pay (1) this may increase costs for the London hotel industry (1)</p> <p><b>Application:</b> up to 2 marks are available for a contextualised answer e.g. accidents caused by tiredness (1) low pay and exploitation (1).</p> <p><b>Analysis:</b> up to 2 marks are available for developing the impact of a trade union e.g. trade union representation may be able to negotiate with management to bring about improvements in pay and working conditions (1). This may affect profitability of the London hotel industry/ increase prices for consumers (1).</p> | <b>(6)</b> |

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 1(e)            | <p data-bbox="427 264 1153 336"><b>Knowledge/understanding 2, Application 2, Analysis 2, Evaluation 2</b></p>  <ul data-bbox="405 723 1219 1429" style="list-style-type: none"> <li>• Demand curve shows relationship between price and quantity demanded.</li> <li>• PED measures the responsiveness of demand to changes in price.</li> <li>• Successful promotion may increase demand at all price levels and shift the demand curve to the right.</li> <li>• Advertising may make the demand curve more price inelastic by improving brand image in the mind of the consumers.</li> <li>• This means they are less likely to choose a substitute holiday and be less sensitive to price increases.</li> <li>• However, as holidays are a normal luxury, income may affect demand more than advertising.</li> <li>• Price may be more important than promotion for some types of holidays.</li> <li>• Impact will depend upon many factors such as freedom of movement between countries, currency changes.</li> </ul> | (8)  |



| Level   | Mark | Descriptor                                                                                                                                                                                                                      |
|---------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | A completely inaccurate response.                                                                                                                                                                                               |
| Level 1 | 1–2  | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.                                            |
| Level 2 | 3–5  | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted.                                                                         |
| Level 3 | 6–8  | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments. |

### **Demonstrating application (AO2) in responses**

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

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| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 1(f)            | <p><b>Knowledge/understanding 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"> <li>• China can be seen as an emerging market; characteristics include: rising GDP and per capita GDP, rising disposable incomes, unsaturated markets, changing visa regulations.</li> <li>• Attractive market for UK tourist industry as China is an unsaturated market.</li> <li>• YED may be elastic (<math>&gt;1.0</math>) therefore rising incomes may see proportionately greater increase in demand.</li> <li>• Spending by Chinese tourists in UK creates multiplier effect, increasing employment, AD and economic growth.</li> <li>• However, it may be more costly than anticipated for the UK tourist industry.</li> <li>• Cultural differences and consumer tastes may require the product (UK tourist experience) to be modified which can increase costs for industry.</li> <li>• Marketing needs to be appropriate for the emerging Chinese market.</li> <li>• Lack of language skills and education in UK labour force to take advantage of opportunity.</li> <li>• May be vulnerable to changes in restrictions on movement of people and money into and out of China and UK.</li> <li>• A large increase in Chinese tourists may create negative externalities such as pollution and congestion.</li> <li>• While it may be a huge opportunity, other European countries may be better placed to take advantage of the increasing number of Chinese tourists.</li> </ul> | (10) |

| Level   | Mark | Descriptor                                                                                                                                                                                                                                                                                                                    |
|---------|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0    | A completely inaccurate response.                                                                                                                                                                                                                                                                                             |
| Level 1 | 1–2  | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.                                                                                                                                          |
| Level 2 | 3–4  | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.                                                                                                      |
| Level 3 | 5–7  | Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.                                                             |
| Level 4 | 8–10 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments. |

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| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Mark        |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>1(g)</b>     | <p style="text-align: center;"><b>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Exchange rate is the value of one currency expressed in terms of another.</li> <li>• Value determined by demand for and supply of the pound on international foreign exchange markets.</li> <li>• Depreciation of pound means that the currency loses value in relation to other currencies.</li> <li>• For example, before BREXIT £1=\$1.50 and after BREXIT £1=\$1.20.</li> <li>• Makes UK more price competitive for international tourists.</li> <li>• Lower prices for visitors to UK may mean increase in demand for UK tourist sector e.g. 37% increase in demand from Chinese visitors.</li> <li>• More expensive overseas foreign holidays for UK citizens may increase demand for 'staycations'.</li> <li>• However, weaker pound may increase costs of imported goods, including food and energy, so may be passed on in form of higher prices by tourist sector.</li> <li>• Not good for airlines, tour operators, overseas rental sector as may see fall in demand from UK citizens.</li> <li>• May see more takeovers of UK travel and hotel firms with assets priced in pounds.</li> <li>• The depreciation may be short-term and thus benefits may be short-term.</li> <li>• Impact will depend upon PED for UK tourism: if PED inelastic then little impact upon demand.</li> </ul> | <b>(12)</b> |

| Level   | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                    |
|---------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                             |
| Level 1 | 1–2   | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.                                                                                                                                          |
| Level 2 | 3–5   | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.                                                                                                      |
| Level 3 | 6–9   | Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.                                                             |
| Level 4 | 10–12 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments. |

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| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Mark        |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>1(h)</b>     | <p><b>Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Supply of labour is the willingness and ability of workers to offer themselves for employment at all wage levels.</li> <li>• Demand for labour is the willingness and ability of firms to employ workers at all wage levels.</li> <li>• Equilibrium/market wage is determined by the interaction of supply and demand in a specific industry/sector.</li> <li>• Surplus of labour tends to force down wages.</li> <li>• Shortage of labour tends to force up wages.</li> <li>• The wages and conditions in the London Hotel sector can be seen as the outcome of the surplus of low-skilled workers available in the sector.</li> <li>• Plentiful supply of cheap labour, derived from free movement within EU, has forced down wages.</li> <li>• However, lack of regulation e.g. zero hours contracts; lack of trade union recognition; long hours without breaks also contributes to the conditions.</li> <li>• The low pay and poor conditions can be seen as labour market failure.</li> <li>• High costs for firms of London location (property expensive) means variable costs have to be reduced to maintain profit margins.</li> <li>• The powerful employers are exploiting this situation in order to maximise their profits.</li> <li>• Lack of choice of employment means employees are price takers and firms price makers.</li> <li>• Pay and conditions can only be improved through government intervention in the labour market.</li> </ul> | <b>(12)</b> |

| Level   | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                    |
|---------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                             |
| Level 1 | 1–2   | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.                                                                                                                                          |
| Level 2 | 3–5   | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented but with limited attempt to address the question. Comparisons and judgements may be attempted.                                                                                                      |
| Level 3 | 6–9   | Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, clear chains of reasoning, with well developed arguments. An awareness of the significance of competing arguments is present although this may lack balance.                                                             |
| Level 4 | 10–12 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen, logical, coherent chains of reasoning, showing full understanding of the question. Arguments are developed and evaluated. A full and balanced awareness of the validity and significance of competing arguments. |

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## Section B

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Mark        |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| 2               | <p style="text-align: center;"><b>Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Inflation defined as a sustained increase in the average price level.</li> <li>• Inflation may be measured by CPI or RPI.</li> <li>• Low and stable inflation is one of the government macroeconomic objectives.</li> <li>• Inflation may be cost-push or demand-pull.</li> <li>• In this case inflation is cost-push – rising import prices due to depreciation of UK pound, increase input prices for firms such as <i>Britvic</i>.</li> <li>• Higher input costs may mean costs have to be reduced elsewhere in the firm e.g. wages, investment, marketing/advertising, product development.</li> <li>• Higher input costs may force firms to increase prices to maintain profitability.</li> <li>• Lower wages and investment may reduce productivity further increasing costs.</li> <li>• Inflationary spiral, where higher costs lead to higher prices and higher wage demands.</li> <li>• Higher costs and higher prices may make goods less competitive internationally.</li> <li>• Inflation may reduce real incomes for consumers meaning they may reduce consumption of non-essential goods such as <i>Britvic</i> drinks.</li> <li>• Rising inflation may increase uncertainty for firms, causing them to postpone or cancel investment.</li> <li>• However, inflation can reduce the value of debts for firms providing an incentive to borrow and invest.</li> <li>• Inflation can reduce the value of savings providing an incentive to invest in product development and capital expenditure.</li> <li>• Those consumers who receive above inflation wage increases may increase demand for UK firms' products.</li> <li>• If firms increase prices due to inflationary pressures the impact on sales will depend on PED.</li> <li>• Competitiveness of UK firms will depend upon relative inflation rates in other countries.</li> <li>• For UK firms the increased costs may offset advantage of lower export prices.</li> <li>• Impact will depend upon magnitude of inflation (e.g. above Bank of England target of 2% +/- 1%) and time period of inflation.</li> </ul> | <b>(20)</b> |



| Level   | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | 0     | A completely inaccurate response.                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Level 1 | 1–4   | Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted, but fail to connect causes and consequences. Limited attempt to address the question.                                                                                                                                                                                                                                       |
| Level 2 | 5–9   | Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are presented, but connections between causes and consequences are incomplete. Limited attempt to address the question. Comparisons, judgements or conclusions may be attempted, but are unsupported or generic.                                                                                                                                            |
| Level 3 | 10–15 | Accurate knowledge and understanding, supported by use of relevant evidence to support the argument, developed chains of reasoning, showing understanding of connections between causes and consequences. Arguments are well-developed and partially evaluated. An awareness of the significance of competing arguments is present although this may lack balance. A conclusion may be attempted but may not show awareness of the significance of competing arguments. |
| Level 4 | 16–20 | Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen and fully integrated to support the argument, well developed and logical, coherent chains of reasoning, showing full understanding of the question. Arguments are fully developed and evaluated. A full awareness of the validity and significance of competing arguments, leading to nuanced and balanced comparisons, judgements or conclusions.          |

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## Section C

| Question Number |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Mark        |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>3</b>        | <p><b>Knowledge/understanding 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Specialisation is when an economy focuses resources in a specific industry or sector, such as agriculture or mining.</li> <li>• Factors of production and climate mean Madagascar can specialise in the production of valuable commodities such as nickel and vanilla.</li> <li>• Export of primary commodities may be an important source of foreign exchange and enable a country to pay for essential imports such as petrol and rice.</li> <li>• When prices of primary products are rising, then the exchange rate of the currency is likely to appreciate.</li> <li>• This appreciation of currency could make imports cheaper e.g. energy; capital goods.</li> <li>• Demand for some of Madagascar's primary products are likely to be income elastic (e.g. vanilla) so growth in export markets may increase demand and revenues for producers.</li> <li>• PED may be inelastic therefore high prices can be charged without quantity demanded falling very much.</li> <li>• Net exports are a component of AD thus contribute to economic growth, higher incomes and wealth.</li> <li>• Specialisation may facilitate economies of scale leading to competitive advantage.</li> <li>• However, price volatility makes it difficult for producers to plan investment and output.</li> <li>• Much of the 'value added' may take place in the export markets, reducing the impact upon AD.</li> <li>• Changing patterns of demand can significantly reduce market size and limit the growth of the economy.</li> <li>• If the price of vanilla is high then other countries may enter the market reducing prices and growth for Madagascar.</li> <li>• Development of substitute products may reduce the demand for a commodity reducing price and growth.</li> <li>• Lack of diversification so no balanced growth across the sectors of the economy leading to risk of unexpected events (e.g. failed vanilla harvest).</li> <li>• In the long-term, whilst specialisation may promote economic growth this is unlikely to be sustainable without diversification and structural change.</li> </ul> | <b>(20)</b> |

| Level   | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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