

**GCE**

**Economics**

**H060/02: Macroeconomics**

AS Level

**Mark Scheme for June 2022**

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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**MARKING INSTRUCTIONS****PREPARATION FOR MARKING****RM ASSESSOR**

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor Online Training*; *OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log-in to RM Assessor and mark the **required number** of practice responses (“scripts”) and the **number of required** standardisation responses.

YOU MUST MARK 6 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

**MARKING**

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or the RM Assessor messaging system, or by email.
5. **Crossed Out Responses**  
Where a candidate has crossed out a response and provided a clear alternative then the crossed out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed out response where legible.

**Rubric Error Responses – Optional Questions**

Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. Enter a mark for each question answered into RM assessor, which will select the highest mark from those awarded. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

**Multiple Choice Question Responses**

When a multiple choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).

**Contradictory Responses**

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

**Short Answer Questions** (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

**Short Answer Questions** (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

**Longer Answer Questions** (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there then add a tick to confirm that the work has been seen.
7. Award No Response (NR) if:
  - there is nothing written in the answer space.

Award Zero '0' if:

- anything is written in the answer space and is not worthy of credit (this includes text and symbols).















Team Leaders must confirm the correct use of the NR button with their markers before live marking commences and should check this when reviewing scripts.

8. The RM Assessor **comments box** is used by your team leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**  
If you have any questions or comments for your team leader, use the phone, the RM Assessor messaging system, or e-mail.

9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.
10. For answers marked by levels of response:
- To determine the level** – start at the highest level and work down until you reach the level that matches the answer
  - To determine the mark within the level**, consider the following:

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

## 11. Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet and on each page of an additional object where there is no candidate response.
	Correct – mark awarded
	Incorrect
	Benefit of doubt
	AO1 – Knowledge and understanding
	AO2 – Apply knowledge and understanding
	AO3 - Analyse
	AO4 - Evaluation
	Not answering question
	Noted but no credit given
	Too vague
	Own figure rule
	Confused
	Unclear

## 12. Subject Specific Marking Instructions

### INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

### Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section C.

If a candidate has written two answers for Section C, mark both answers and award the highest mark achieved.

### USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria. Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

**INSTRUCTIONS TO EXAMINERS:****A INDIVIDUAL ANSWERS**

- 1 The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Using 'best-fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
  - Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
  - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
  - Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline' but they have only achieved some of the qualities in the band descriptors.
- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

**B TOTAL MARKS**

- 1 The maximum mark for the paper is 60.
- 2 The quality of the extended response is assessed on this part of the question paper which is identified with the use of an asterisk (\*). The assessment of this skill is embedded within each of the levels of response and it must be considered when determining the mark to be awarded within the appropriate lev



Multiple Choice Questions	Answers
1	A
2	D
3	D
4	A
5	C
6	B
7	C
8	D
9	C
10	D
11	D
12	C
13	C
14	A
15	C

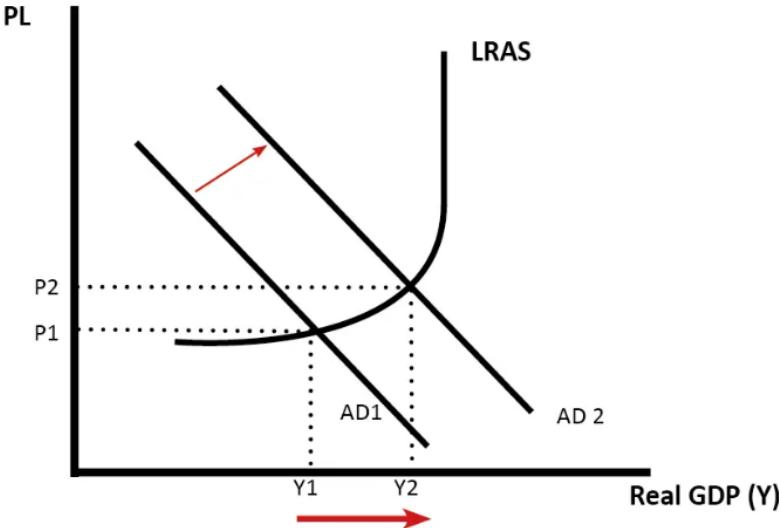
Question		Answer	AO	Quantitative skills
1	A	Rationale: A <b>Correct:</b> Injection B Leakage C Leakage D Leakage	1	
2	D	Rationale: A Currency and trade B Government spending and tax C Interest rates and money supply D <b>Correct:</b> Policies to increase competitiveness and market efficiency	1	
3	D	Rationale: A Price stability B Deflation C Disinflation D <b>Correct:</b> Definition of hyperinflation	1	
4	A	Rationale: A <b>Correct:</b> Exports more expensive and imports cheaper B Reduces demand for dearer imports C Imports relatively more expensive and exports relatively more competitive D Increased demand for more competitive exports	3	
5	C	Rationale: A More investment funds coming into the country than flowing out B Exports greater than imports C <b>Correct:</b> Government spending exceeds tax receipts due to changes in the economic cycle D Government spending exceeds tax receipts due to long term factors	1	
6	B	Rationale: A £275 - £950bn B <b>Correct:</b> £545 - £740bn C $(£545 + 950) - (£740 + £275)$ bn D £545 + £740bn	2	Yes
7	C	Rationale: A No effect on AD in short-run B No effect on AD in short-run C <b>Correct:</b> Less workers reducing potential output D Requires an increase in size of workforce, more immigration	3	

8	D	Rationale: A Recession/Slowdown B Possibly recovery C Unlikely to occur together D <b>Correct:</b> Boom	2	
9	C	Rationale: A $(3000 - 2500) / (30,000 - 25,000)$ and the average tax rate at £30,000 B Average tax rate at £35,000 to nearest whole number C <b>Correct:</b> $(4500 - 3000) / (35,000 - 30,000)$ D $(7000 - 4500) / (40,000 - 35,000)$	2	Yes
10	D	Rationale: A Component of AD B Component of AD C Component of AD D <b>Correct:</b> Not component of AD	1	
11	D	Rationale: A $\$2 \times 50\% \times £10,000$ B $150\% \times £10,000$ C $\$2 \times £10,000$ (how many dollars at start of year) D <b>Correct</b> $\$2 \times 150\% \times £10,000$	2	Yes
12	C	Rationale: A Financial account B Financial account C <b>Correct:</b> Current account D Financial account	1	
13	C	Rationale: A 108-120 B 120-108/120 C <b>Correct</b> 120-108/108 D 120-108	2	Yes
14	A	Rationale: A <b>Correct</b> Automatic stabilisers reduce fluctuations in the economy B Automatic stabilisers do not make matters worse C AD will fall D Automatic stabilisers impact AD	1	

15	C	Rationale: A 2019 nominal GDP 1500/1.03 B 1500 X 1.03 C <b>Correct:</b> Real GDP 1800/1.03 D 1800 X 1.03	2	Yes
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Question			Answer	Mark	Guidance
16	(a)	(i)	<p><b>Using Fig. 1, explain how the unemployment rate changed in Japan between 2015 and 2020.</b></p> <p>Unemployment has fallen (1)</p> <p>From 3.5% to 2.2% (1)</p> <p>By 1.3% (1)</p>	<p><b>2</b></p> <p>(AO2x2)</p>	<p>Allow a reasonable range</p> <p>The mark for the use of data must be for a sense of the whole time period from 2015 to 2020.</p> <p><b>Quantitative skills rewarded in this question</b></p>
16	(a)	(ii)	<p><b>Explain one supply side policy the Japanese government could implement to reduce the number of unfilled jobs?</b></p> <p>Subsidies to firms (1) which can be used to train workers with the relevant skills (1)</p> <p>Education (1) so that students acquire the knowledge and skills required (1)</p> <p>Improve labour market flexibility (1) which makes it easier for employers to employ workers with the correct skills (1)</p> <p>Reduce trade union power (1) which will allow firms to employ workers with the correct skills (1)</p> <p>Relax immigration rules (1) skilled labour can enter the country (1)</p> <p>Reduce benefits (1) encouraging an increase in labour supply (1)</p>	<p><b>2</b></p> <p>(AO1x2)</p>	<p>Award any appropriate supply side policy</p> <p>Specific policy (1)</p> <p>Correct explanation of policy with some reference to improving the lack of skills (1)</p> <p>Do NOT reward policies which are not clearly supply side ones</p>

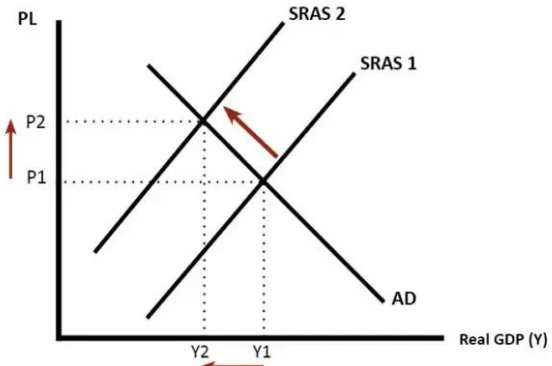
Question			Answer	Mark	Guidance
16	(b)	(i)	<p><b>Using Fig. 2, state what has happened to Japan's interest rate between 2017 and 2019?</b></p> <p>Remained unchanged (1)</p> <p>Stays at -0.1% (1)</p>	<p><b>1</b></p> <p>(AO2x1)</p>	<p>Negative sign required if data is quoted for 1 mark</p> <p><b>Quantitative skills rewarded in this question</b></p>
16	(b)	(ii)	<p><b>Other than interest rates, explain one expansionary monetary policy that Japan's central bank could use.</b></p> <p>Quantitative easing (1) where the central bank purchases assets/bonds from commercial banks (1)</p> <p>Money supply (1) where the central bank increases the quantity of money that is in circulation in the economy (1)</p> <p>Inflation rate targets (1) set by the government so the central bank relaxes spending controls (1)</p>	<p><b>2</b></p> <p>(AO1x2)</p>	<p>Identification of monetary tool (1)</p> <p>Brief explanation of monetary tool which must show it is <u>expansionary</u> (1)</p> <p>Allow exchange rates as a monetary policy</p> <p>Do NOT reward interest rates unless mentioned in the context of inflation rate targets</p>

Question			Answer	Mark	Guidance
16	(c)		<p><b>The case study refers to the Tokyo Olympics.</b></p> <p><b>Using a diagram, explain what impact holding the Olympics is likely to have on economic growth in Japan.</b></p> <p><b>Up to 2 marks for a diagram:</b></p> <ul style="list-style-type: none"> <li>• Accurate labelling of axes and curves (1)</li> <li>• A rightward shift in AD (1)</li> <li>• Correct equilibriums (1)</li> </ul> <p><b>Up to 2 marks for explanation:</b></p> <ul style="list-style-type: none"> <li>• Japanese consumer and business confidence is expected to increase causing spending both by consumers and firms to increase <b>OR</b> Expenditure to host the Olympics <b>OR</b> Spending by visitors and athletes to the Olympics games (1)</li> <li>• leads to a rise in economic growth (1)</li> </ul> <p>A simple statement that AD will shift to the right <u>if already drawn</u> does not gain a mark. An explanation is required.</p>	<p><b>4</b></p> <p>(AO1x2 AO2x2)</p>	<p>Accept (real) national output on the X-axis instead of real GDP</p> 
16	(d)		<p><b>Using information from the case study, explain how the change in consumption tax (value added tax) have affected unemployment in Japan in 2014.</b></p> <p>Value added tax has increased (1) OR from 8% to 10% (1) OR by 2% (1).</p> <p>Consumption tax (value added tax) has increased (1) price of most products may have risen (1) aggregate demand may have fallen / output may have declined (1) unemployment would be expected to increase (+1).</p>	<p><b>4</b></p> <p>(AO1x2 AO2x2)</p>	<p>Reference to <b>increase</b> in VAT from the context (1)</p> <p>Explanation of consumption tax impact on price/cost/real income (1)</p> <p>Effect on AD /AS/output (1)</p> <p>Impact on unemployment (+1)</p>

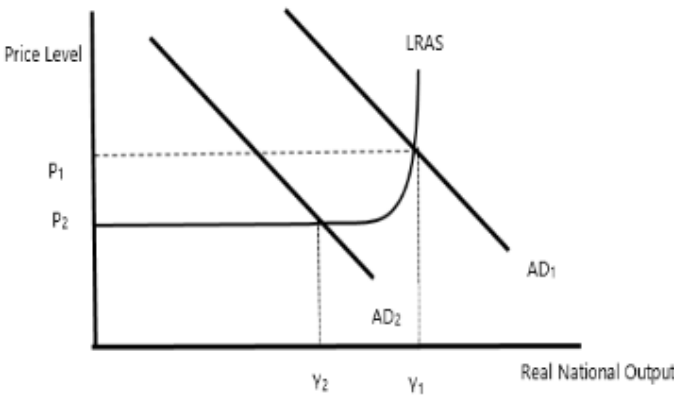
Question		Answer	Mark	Guidance
16	(e)	<p><b>Evaluate the consequences of negative economic growth for Japan.</b></p> <p><b>Level 3 (7-10 marks)</b>  <b>Good – strong</b> analysis of the consequences of negative economic growth. Good analysis will be in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis. <b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Good - strong</b> evaluation of the consequences of negative economic growth. Strong evaluation should include a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (4-6 marks)</b>  <b>Reasonable</b> analysis of the consequences of negative economic growth. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of the consequences of negative economic growth</p>	<p><b>10</b></p> <p>(AO2 x1 AO3 x4 AO4 x5)</p>	<p>The consequences of negative economic growth to Japan are that production will fall. This means that there will be an increase in unemployment, as firms require less workers. The unemployed will have a lower income and will therefore reduce their consumption of goods and services. As unemployment starts to rise, those in employment will feel less secure in their jobs and consumer confidence will fall, also reducing consumption of goods and services. This will mean aggregate demand will fall in the economy and lead to more jobs being lost. With less goods and services being purchased, business confidence will also be low and so investment by firms might fall.</p> <p>Government spending is currently very high at 240% of GDP, with rising unemployment this is likely to increase further as the government may provide welfare payments to the unemployed.</p> <p>Inflation is currently at 0.8% and if demand falls further there is a danger that it may lead to deflation.</p> <p>Exports by firms may not be impacted if there is strong economic growth in their trading partners. As investment falls, over the long run this may have a negative impact on exports as goods from other countries may be more innovative.</p> <p>However, with negative interest rates, some consumers may decide to draw on their savings and continue spending. Therefore, the negative impact on aggregate demand may be less than expected. Consumer spending may fall on imported goods and therefore have a positive impact on the trade balance.</p> <p>If negative economic growth only occurs for a short period, it is unlikely to be a big concern. The Tokyo Olympics in 2021 are likely to bolster economic growth. However, if negative economic growth does continue over a longer period, the country will be in a recession and this can have far bigger negative consequences for Japan and would require more government expenditure to try and encourage economic growth.</p> <p>Better answers may consider the short run against the long run consequences of negative economic growth.</p>



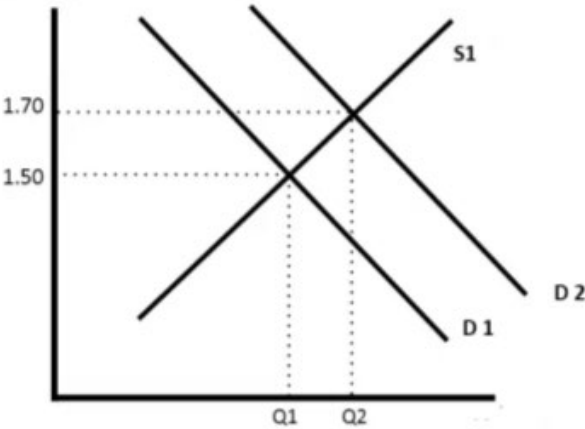
Question			Answer	Mark	Guidance
			<p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 1 (1-3 marks)</b>  <b>Limited</b> analysis based on application of knowledge and understanding of the consequences of negative economic growth. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. Any relevant diagram(s) may not be present or are incorrectly labelled.</p> <p><b>Limited</b> evaluation of the consequences of negative economic growth or <b>no</b> evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		
Descriptor				Award mark	
Consistently meets the criteria for this level				At top of level	
Meets the criteria but with some slight inconsistency				Above middle and either below top of level or at middle of level (depending on number of marks available)	
Just enough achievement on balance for this level				Above bottom and either below middle or at middle of level (depending on number of marks available)	
On the borderline of this level and the one below				At bottom of level	

Question	Answer	Mark	Guidance
17*	<p><b>Evaluate, using an appropriate diagram(s) whether international trade is more beneficial to a developing country than a developed country.</b></p> <p><b>Level 4 (16-20 marks)</b>  <b>Good</b> knowledge and understanding of how international trade may be beneficial.</p> <p><b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong</b> evaluation of whether international trade is more beneficial for developing or developed countries, weighing up both sides/comparing alternatives and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b>  <b>Good</b> knowledge and understanding of how international trade may be beneficial.</p> <p><b>Good</b> analysis of how international trade affects developed and/or developing countries. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p>	<p><b>20</b></p> <p>(AO1*3 AO2*4 AO3*6 AO4*7)</p>	<p>Developing countries tend to have low incomes, as the economy tends to be based around primary sectors. Being able to trade with other countries allows firms to access more markets to sell their goods as the size of the home market tends to be small. This may allow firms to benefit from economies of scale and therefore sell at a cheaper price becoming more competitive abroad. Increasing derived demand for labour.</p> <p>Domestic consumers benefit from lower prices, increasing purchasing power, improving standards of living.</p> <p>However, as the economy opens to international competition, domestic firms maybe unable to compete with imported goods and therefore demand for their products may fall. Some businesses may close or reduce the size of their workforce. As output falls the AS curve shifts left to AS2. This means the country may have lower growth Y1-Y2.</p>  <p>However, consumers would have benefitted from a wider variety of cheaper products and perhaps more superior, innovative products.</p> <p>Developing economies tend to be lower skilled economies not benefitting from machinery and technology. Trade provides access to machinery and technical expertise from developed countries. This could then help them to produce more higher value manufactured goods, which do not suffer the price volatility of primary commodities. As the economy diversifies this will help economic growth.</p>

Question	Answer	Mark	Guidance
	<p><b>Good</b> evaluation will weigh up both sides/comparing alternatives but without reaching a supported judgement.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6-10 marks)</b>  <b>Reasonable</b> knowledge and understanding of how international trade may be beneficial.</p> <p><b>Reasonable</b> analysis of how international trade affects developed and/or developing countries. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of whether international trade is more beneficial for developing or developed countries</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1-5 marks)</b>  <b>Limited</b> knowledge and understanding of how international trade may be beneficial.</p> <p><b>Limited or no</b> analysis of how international trade affects developed or developing countries. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.</p>		<p>However, these countries are unlikely to have as much money to invest in education and training. Therefore, it is likely that developing countries will struggle to compete with more developed and emerging countries. TNCs from developed economies may be willing to invest in developing economies, providing capital, employment, building infrastructure and provide tax income to the government.</p> <p>Trade in services seems to be increasing and accounts for nearly a quarter of all trade in 2018 which often excludes developing nations.</p> <p>Developed countries benefit from trade as it provides them with access to resources they do not have, such as primary commodities like oil and agricultural products. However, there are dangers in being so heavily reliant on other countries. Hostilities between nations for example could have a severe impact with little home supply of these products.</p> <p>Consumers in developed countries tend to have higher purchasing power which may be spent on imports. This increased competition from trade encourages home producers to continue to innovative and produce better quality products.</p> <p>However, some products, can be made far cheaper abroad. Consumers will therefore purchase more imports, leading to businesses closing and an increase in structural unemployment. This would lead to AD shifting inwards to AD2 and output falling to Y2 in developed countries. This is likely to lead to a worsening balance of payments situation.</p>

Question	Answer	Mark	Guidance
	<p><b>Limited</b> evaluation of the impact of international trade on a country, in the form of an unsupported statement or no evaluation.</p> <p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		 <p>As developing economies become wealthier, they are likely to purchase luxury products and more services. Some developed countries may benefit more than others.</p> <p>Whether developing countries benefit more than developed countries depends on the amount of trade they do, the goods they are able to trade and the number of trading partners they have.</p>

Descriptor	Award mark
Consistently meets the criteria for this level	At top of level
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Meets most of the criteria with some inconsistencies	Middle of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
On the borderline of this level and the one below	At bottom of level

Question	Answer	Mark	Guidance
18*	<p><b>Evaluate, using an appropriate diagram(s), whether it is beneficial for the Bahamas to operate a fixed exchange rate system.</b></p> <p><b>Level 4 (16-20 marks)</b>  <b>Good</b> knowledge and understanding of the benefits of a fixed exchange rate system.</p> <p><b>Strong</b> analysis will have <b>consistently</b> well-developed links through a <b>coherent</b> chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis. Any diagrams must be integral to the analysis.</p> <p><b>Strong</b> evaluation of the extent to whether a fixed exchange rate system is beneficial and reaching a supported judgement.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11-15 marks)</b>  <b>Good</b> knowledge and understanding of the benefits of a fixed exchange rate system.</p> <p><b>Good</b> analysis of whether a fixed exchange rate system is beneficial. There is correct analysis in the form of developed links. These links are developed through a chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct and linked to the analysis.</p> <p><b>Good</b> evaluation will weigh up whether a fixed exchange rate system is beneficial but without reaching a supported judgement.</p>	<p><b>20</b></p> <p>(AO1*3 AO2*4 AO3*6 AO4*7)</p>	<p>With fixed exchange rates the currency value is maintained at a specific rate or managed within a specific band relative to another currency like the US\$.</p> <p>One of the advantages of fixed exchange rates for The Bahamas is that there is reduced uncertainty over fluctuations of the exchange rate for firms that export and import. With higher business confidence, firms that export goods and services, particularly to the USA, are more likely to invest and expand their business.</p> <p>Under a floating exchange rate system, exchange rates are left to market forces, and this can cause exchange rates to be volatile, particularly over the short term and therefore lead to uncertainty for firms and unpredictable profits. If there is an increase in demand for the Bahamian Dollar from D1 to D2 as shown in the chart this causes the Bahamian Dollar to appreciate. This means exports from The Bahamas are now more expensive abroad and potentially more difficult to sell, therefore negatively impacting firm's profits.</p> <p>BS\$:US\$ exchange rate</p>  <p>Quantity of BS\$</p>

Question	Answer	Mark	Guidance
	<p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6-10 marks)</b>  <b>Reasonable</b> knowledge and understanding of the benefits of a fixed exchange rate system.</p> <p><b>Reasonable</b> analysis of whether a fixed exchange rate system is beneficial. There is correct analysis largely in the form of single links. These address the question <b>but</b> are not developed into a clear chain of reasoning. The relevant diagram(s), if present, may be imperfectly labelled or not linked to the analysis.</p> <p><b>Reasonable</b> evaluation of whether a fixed exchange rate system is beneficial.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1-5 marks)</b>  <b>Limited</b> knowledge and understanding of the benefits of a fixed exchange rate system.</p> <p><b>Limited or no</b> analysis of whether a fixed exchange rate system is beneficial. There is little evidence of reasoning that addresses the question asked. There is a lack of a clear structure. The relevant diagram(s) may not be present or incorrectly labelled.</p> <p><b>Limited</b> evaluation of whether a fixed exchange rate system is beneficial., in the form of an unsupported statement or <b>no</b> evaluation.</p>		<p>However, if firms make a unique product, or overseas customers (particularly those in the USA) recognise it is of higher quality, customers may continue to purchase the product. Higher inflation rates in the USA or other countries may also mean that despite an appreciation in the exchange rate, exports from The Bahamas remain competitive in those countries.</p> <p>Under a floating exchange rate system, firms may attempt to mitigate the exchange risk. Consequent costs do not need to be incurred under a fixed system. Alternatively, firms may choose to reduce their profit margins and not increase export prices if they believe the currency appreciation is only temporary.</p> <p>Tourism, one of the main sectors in The Bahamas may also be negatively impacted by the BS\$ appreciating under a floating exchange rate system, with fewer visitors from the USA and lower earnings from tourism. With a fixed exchange rate, The Bahamas is more likely to see stable number of American tourists.</p> <p>A floating exchange rate is better able to manage current account imbalances than a fixed exchange rate. If the Bahamas has a large current account deficit, its currency is likely to depreciate as demand for exports is lower. Exports will become cheaper abroad which may encourage foreign consumers including Americans to purchase Bahamian exports reducing the current account deficit.</p> <p>A benefit of floating exchange rates is that, as exchange rates are left to market forces, there is no need for frequent interventions from the central bank to maintain the exchange rate. With a fixed exchange rate, where the exchange rate is falling, to maintain its value the central bank may use its currency reserves to manage the exchange rate by purchasing the Bahamian Dollar. Therefore, there is a reduced requirement to hold currency reserves. Interest rates can also be used to maintain exchange rate. Rising interest rates will increase demand for the currency as hot money comes into the Bahamas to benefit from the higher return. This will increase the exchange rate however it may contradict other macroeconomic objectives. For example, at higher</p>

Question	Answer	Mark	Guidance
	<p><i>Information is basic and communicated in an unstructured way. The information is supported by limited evidence. The relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response worthy of credit</p>		interest rates, aggregate demand will fall in the economy which will reduce economic growth and increase unemployment. Whether any hot money flows in will depend on how high interest rates are in other countries.

Descriptor	Award mark
Consistently meets the criteria for this level	At top of level
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Meets most of the criteria with some inconsistencies	Middle of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
On the borderline of this level and the one below	At bottom of level

### Assessment Objectives Grid

Question	AO1	AO2	AO3	AO4	Total
<b>1 to 15</b>	7	6	2		<b>15 (4)</b>
<b>16(a)(i)</b>		2 (2)			<b>2 (2)</b>
<b>16(a)(ii)</b>	2				<b>2</b>
<b>(b)(i)</b>		1(1)			<b>1(1)</b>
<b>(b)(ii)</b>	2				<b>2</b>
<b>(c)</b>	2	2 (2)			<b>4 (2)</b>
<b>(d)</b>	2	2			<b>4</b>
<b>(e)</b>		1	4	5	<b>10</b>
<b>17 or 18</b>	3	4 (2)	6 (3)	7 (3)	<b>20 (8)</b>
<b>Total</b>	<b>18</b>	<b>18</b>	<b>12</b>	<b>12</b>	<b>60 (17)</b>

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