National
Qualifications
2019

2019 Economics

Advanced Higher

Finalised Marking Instructions

General marking principles for Advanced Higher Economics

This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this paper. These principles must be read in conjunction with the detailed marking instructions, which identify the key features required in candidate responses.

(a) Marks for each candidate response must **always** be assigned in line with these general marking principles and the detailed marking instructions for this assessment.

(b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.

(c) If a specific candidate response does not seem to be covered by either the principles or detailed marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.

(d) For each candidate response, the following provides an overview of the marking principles. Refer to the detailed marking instructions for further guidance on how these principles should be applied.

(i) Questions that ask candidates to **Describe…**

Candidates must make a number of relevant, factual points which may be characteristics and/or features or a definition of an economic term, as appropriate to the question asked. These points may relate to a concept, process or situation.

Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question
- **1 mark** should be given for each relevant, accurate factual point
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(ii) Questions that ask candidates to **Explain…**

Candidates must make a number of relevant points that relate cause and effect and/or make the relationships clear. These points may relate to a concept, process or situation.

Candidates may provide a number of straightforward points of explanation or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question
- **1 mark** should be given for each accurate relevant point of explanation
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(iii) Questions that ask candidates to **Analyse…**

Candidates must demonstrate their ability to identify/describe/explain relevant parts and the relationship between the parts and/or the whole.

Candidates should be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question
- **1 mark** should be given for each accurate point of analysis
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(iv) Questions that ask candidates to **Discuss…**

Candidates must make a number of points that communicate issues, ideas, or information about a given topic or context that will make a case for and/or against. It is not always necessary to give both sides of the debate in responses.

Up to the total mark allocation for this question
- **1 mark** should be given for each accurate point of knowledge that is clearly relevant
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(v) Questions that ask candidates to **Compare…**

Candidates must demonstrate knowledge and understanding of the similarities and/or differences between things, methods or choices, for example. The relevant comparison points could include theoretical concepts.

Up to the total mark allocation for this question
- **1 mark** should be given for each accurate point of comparison

(vi) Questions that ask candidates to **Evaluate…**

Candidates must demonstrate the ability to make a reasoned judgement in terms of the effectiveness or usefulness of something based on criteria.

Candidates should be able to determine the value of something within context.

Up to total mark allocation for this question
- **1 mark** should be given for each accurate point of evaluation
- **1 mark** should be given for any further development of a relevant point, including exemplification and/or a conclusion when appropriate.

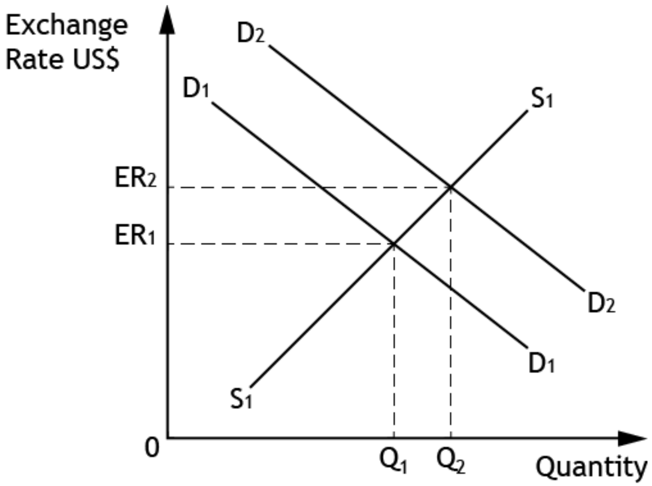
Marking instructions for each question

Section 1

Question			Expected response	Max mark	Additional guidance
1.	(a)		• tend to be rapidly growing economies based on the growth of manufacturing industries **(1)** • have high levels of capital investment which may be due to foreign direct investment (FDI) **(1)** • have improving human capital due to investment in education **(1)** • their growth may be export-led **(1)** • most of them are low/middle income economies based on GDP per capita **(1)**	**2**	Award **1 mark** for each valid description. Award **1 mark** for a valid development.
	(b)		• an economy is overheating when it is experiencing a high rate of economic growth **(1)** which is inflationary **(1)** • aggregate demand (AD) is rising at a faster rate than aggregate supply (AS)/output **(1)**	**2**	Award **1 mark** for each valid description. Award **1 mark** for a valid development.

Question			Expected response	Max mark	Additional guidance
2.			• lower sales of cars will reduce carmakers revenue and profits **(1).** They may need to cut output by cutting capacity **(1).** Jaguar in the UK has gone to a 4-day week **(1)** • to cut output and costs they may shed workers, which will raise global unemployment **(1)** increasing government spending **(1)** • lowering incomes and standards of living causing a negative multiplier effect **(1)** • lower economic growth due to lower output and global demand **(1)** • falling car sales globally will lower exports **(1)** which will worsen the exporting countries balance on the trade in goods **(1)** and could worsen the deficit on the current account of the Balance of Payments **(1)** • some carmakers may lower prices to stimulate demand but this could lead to a price war **(1)** • global over supply could put downward pressure on car prices **(1)** • may cut back on research and development (R&D) which may slow the development of electric cars **(1)**	6	Candidates must explain the impact on carmakers and the global economy to gain full marks. Award **1 mark** for each valid explanation. Award up to **4 marks** for development.
3.			• investment is a component of aggregate demand (AD), and a fall in the value of a component lowers the rate of economic growth **(1)** • investment is an injection into the circular flow of income and, therefore, if an injection decreases the rate of economic growth falls **(1)**. This can lead to a negative multiplier effect **(1)** • investment in capital/technology raises the productive potential of the economy by raising output and productivity **(1)** and, therefore, in the long run (LR) lower investment will lead to lower potential output **(1)** • lowers productivity so cost per unit goes up **(1)** • lower foreign direct investment (FDI) could lower technology transfer **(1)**	4	Candidates must describe at least 2 reasons to gain full marks. Award **1 mark** for each valid description. Award **1 mark** for each valid development.

Question			Expected response	Max mark	Additional guidance
4.			• Chinese exports become cheaper in the US so they should sell more **(1)** improving the balance of trade/current account/balance of payments **(1).** Higher output leads to higher employment **(1).** The rate of economic growth will increase **(1)** • the US has accused China of being a Currency Manipulator, which gives it an unfair advantage in international trade **(1)** • imports from the USA into China will become relatively more expensive and less competitive in the Chinese market **(1).** This could lead to higher inflation in China **(1)** • the impact on the balance of payments depends on the price elasticity of demand for imports and exports **(1)** • it makes it harder for China to service its debt borrowed in US$ because it has to sell more Yuan to buy a given amount of US$ **(1)**	**6**	Award **1 mark** for each valid point of discussion.

Question			Expected response	Max mark	Additional guidance
5.			 **Diagram** • increase in demand shown **(1)** • correctly labelled diagram, including new higher equilibrium price/exchange rate shown **(1)** **Explanation** • rising interest rates in the US attracts hot money/speculative flows into the US **(1),** which increases demand for US$ in the foreign exchange markets **(1).** This increase in demand shifts the demand curve to the right, and results in a higher equilibrium exchange rate **(1)**	4	Award a maximum of **2 marks** for diagram showing an increase in demand for the US$. Award a maximum of **3 marks** for explanation.

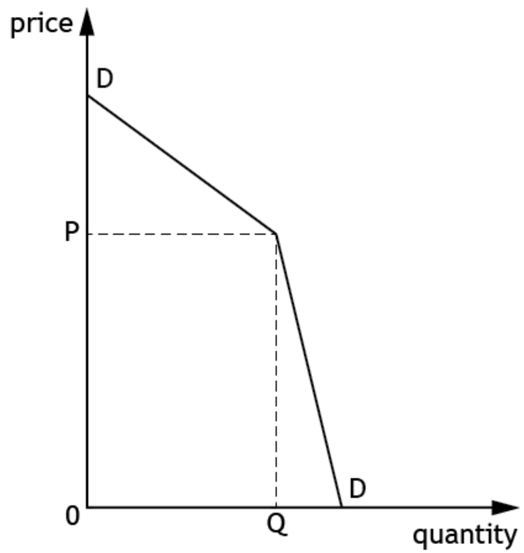
<table>
<tr><th colspan="3">Question</th><th>Expected response</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>6.</td><td></td><td></td><td>Credit discussion of any relevant point.

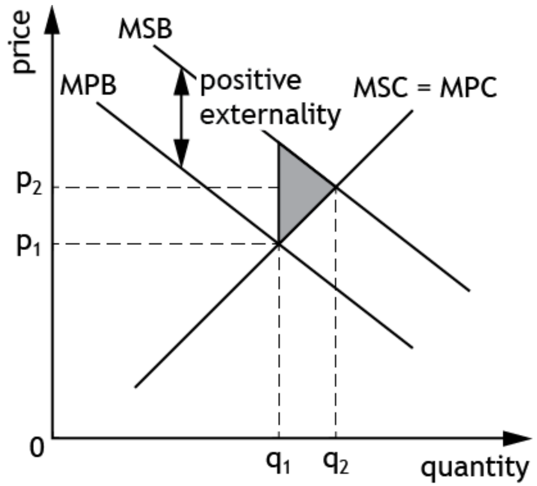
For
• still has huge workforce, large potential market and growing middle class
• growing investment in technology and moving into more sophisticated products
• Yuan still undervalued which promotes export-led growth
• investment in human capital will raise productivity
• returns on investment in Africa
• government infrastructure spending
• returns on Belt and Road Initiative
• injection of money by the Chinese Central Bank
• the end of one child policy

Against
• asset-bubbles
• banking crisis
• tariffs/trade war
• population/demographic issues
• pollution/climate change
• rising wages have made China less competitive
• the middle-income trap. A country in the middle-income trap loses its competitive edge in the export of manufactured goods because of rising wages. As a result they get stuck at middle-income
• public sector/private sector indebtedness
• rising inflation
• reshoring of manufacturing to US-Europe</td><td>6</td><td>Award 1 mark for each valid discussion point.

Award 1 mark for each valid development.</td></tr>
</table>

Section 2

Question			Expected response	Max mark	Additional guidance
7.	(a)		**Kinked-demand curve theory** • firms in oligopoly markets do not usually compete on prices because prices are 'sticky' **(1).** This is because the oligopolistic firm basically faces a kinked demand curve, which is elastic above the kink **(1)** and inelastic below the kink **(1).** If a firm increases its price above P, then its rivals will not follow **(1)** leading to a more than proportionate reduction in quantity demanded than the proportionate change in price **(1)** leading to lower revenue **(1)** and if it lowers its price below P, then there is a less than proportional response because its rivals will follow **(1)** leading total revenue to fall **(1)** in either case total revenue falls making price competition harmful **(1).** Thus non price competition is often used in these markets **(1)** **Collusive theory** • firms collude together to agree on price or output **(1)** in order to make monopoly profits **(1).** Groups which collude are called cartels **(1).** Forming a cartel is a criminal act under the 2002 Enterprise Act **(1)** • credit examples of formal or informal collusion for example electricity boards, the big six **Game theory** • credit use of prisoner's dilemma/Nash equilibrium to exemplify reasons for collusion and cheating	**8**	Award a maximum of **2 marks** for a diagram.  **Diagram** • clearly showing sticky price and corresponding quantity at the kink in the demand curve **(1)** • clearly showing the demand curve as elastic above the kink and inelastic below the kink **(1)**

Question			Expected response	Max mark	Additional guidance
	(b)		• marketing barriers • legal barriers • technical barriers • economies of scale • control over supply and distribution • resource ownership	4	Candidates must describe at least 2 barriers to gain full marks. Award **1 mark** for each valid description. Award **1 mark** for each valid development.
	(c)		 **Diagram** • MSB above MPB shown **(1)** • both original and new equilibrium point shown **(1)** • potential welfare gain shaded **(1)**	7	Award a maximum of **3 marks** for diagram. Award a maximum of **4 marks** for explanation.

Question			Expected response	Max mark	Additional guidance
			Explanation • in this case the Positive Externalities occur when the consumption of Higher Education leads to positive impacts on 3rd parties **(1)**, which leads marginal social benefit to be greater than marginal private benefit **(1)**. This leads the good to be undervalued and underconsumed **(1)**. This underconsumption leads to a potential welfare gain (shaded area in diagram) **(1)**. The socially optimum allocation of resources occurs when MSB = MSC **(1)**. In the diagram the initial equilibrium is at p_1q_1 but the social optimum occurs at p_2q_2 **(1)** because this takes the benefits to 3rd parties into account/reflects the full benefit and cost to society of consuming Higher Education **(1)** • the benefits of having a more highly educated workforce might include higher productivity **(1)** more transferable skills/flexible labour force **(1),** lower unemployment **(1),** higher incomes and tax revenues etc **(1).** The private benefits include higher incomes **(1)** higher employability **(1),** social networking opportunities etc **(1)**		

Question			Expected response	Max mark	Additional guidance
	(d)		**Arguments for continuing free tuition in Scotland** • graduates may be more productive/earn higher income **(1)** and therefore pay more tax over their working lives **(1)** • some will work in public sector and contribute as NHS staff/teaching etc **(1)** • graduates are more likely to be employed and less likely to claim benefits **(1)** • reduces inequality, gives opportunities to all. Fairness but also maximising use of all human resources **(1)** • improves social mobility and inclusion; a Merit Good **(1)** • other options such as a graduate tax or a system of student loans may put poorer students off taking advantage of Higher Education, which is a loss for them but a potential loss for the economy **(1)** **Arguments against continuing free tuition in Scotland** • it is unaffordable at time of high budget deficit **(1)** • high opportunity cost **(1)** • leads to unfairness in that taxpayers, many of whom are relatively poor and have never been to university, are subsidising many students who can afford to contribute towards their tuition **(1)** • the private benefits are high for the individual, and if they earn a high income they should pay for the private costs of their education **(1)**	**6**	Candidates must discuss arguments for and against to gain full marks. Award **1 mark** for each valid point of discussion. Award **1 mark** for each valid development. Award a maximum of **4 marks** if only one side covered.

Section 3

Question			Expected response	Max mark	Additional guidance
8.	(a)		• credit the cause – ageing population and rising demand • cost of medication technology keeps rising faster than inflation **(1)** • funding to increase by £20·5 billion by 2023 **(1)** • NHS funding has risen by 3·7% a year in real terms **(1)** • in 2017 health funding accounted for 7·3% of gross domestic product (GDP) **(1)** • other government department budgets (defence, education, etc) may be cut to fund spending on health **(1)** • taxes (both direct and indirect) may have to go up to pay for funding **(1)** • credit discussion of tax options – income tax, inheritance tax, reducing personal allowance, fuel duty, 'dementia tax' • tax increases may reduce consumer spending, particularly given stagnation in wage growth **(1)** • there may be the need for a hypothecated tax aimed at increasing NHS spending **(1)** • NHS may not be free at the point of use – patients may be charged for a doctor's appointment **(1)** • NHS may have to deliver productivity gains (it currently employs 1·5m people) **(1)** • some economists argue that the NHS is a monopsony and requires reforms to create an 'internal market' **(1)** • government borrowing may be used to fund NHS, thus government may not achieve a budget surplus. Resulting in increased interest payments of debt **(1)** • some economists argue the NHS is faced with unlimited demand **(1)** • there may be no 'Brexit dividend' to fund additional spending **(1)**	**8**	Candidates must discuss at least 2 implications to gain full marks. Award **1 mark** for each valid point of discussion. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics.

Question			Expected response	Max mark	Additional guidance
	(b)		**Arguments for** • Heathrow is already close to full capacity and is unable to cope without a third runway **(1)** the airport is at 99·2% capacity **(1)** • £70 billion in additional total national income by 2050 **(1)** • a third runway would boost the UK economy **(1)** • thousands of jobs would be created in construction (short term) and tourism (long term) **(1)** 60,000 new jobs would be created **(1)** • lack of expansion would threaten London's position as a major financial trading city **(1)** • adoption of new technology will address pollution concerns **(1)** • international flights would go elsewhere, so overall emissions would not be reduced globally **(1)** **Arguments against** • air pollution (negative externality). Particular health costs to Londoners **(1)** • noise pollution **(1)** • new runway would bring many transit passengers, spending very little in London/UK. This would only boost airline profits **(1)** • future demand for flying is predicted to drop, some economists argue **(1)** • poor infrastructure around Heathrow would lead to further heavy congestion in the area **(1)** • greenbelt land would have to be utilised to build runway **(1)** • alternative airport in the Thames estuary could reduce externalities associated with Heathrow. Flying over water reduces noise pollution. Can operate 24 hours a day **(1)** • critics argue that a further runway at Heathrow would contribute to a further North/South economic divide **(1)**	**8**	Candidates must explain at least one argument for and one against to gain full marks. Award **1 mark** for each valid explanation. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics.

Question			Expected response	Max mark	Additional guidance
	(c)		**Disadvantages** • national debt would increase, possibly as a percentage of gross domestic product (GDP) **(1)** • this would result in higher debt interest payments **(1)** currently £35bn per annum approximately UK **(1)** • there would be a risk of a credit rating downgrade **(1)** • may cause crowding out and higher bond yields, if close to full capacity **(1)** • there is the risk of a potential sovereign debt crisis **(1)** • intergenerational unfairness – future higher taxes and less government spending **(1)** • interest rates may increase to attract investors to buy government debt **(1)** • crowding out – less money to invest in private sector projects **(1)** more likely during a recession **(1)** no evidence in the UK that crowding out has actually happened **(1)** • Office for Budget Responsibility warned that present trajectory of the public finances is 'not sustainable' **(1).** Public debt relative to the size of the economy could rise to 283% by 2067 **(1)** **Advantages** • there may be an increase in Aggregate Demand **(1)** often the only effective policy during a recession **(1)** • possible increase in public sector investment **(1)** • unemployment may decrease **(1)** • inequality may decrease if spending is targeted at those on low incomes – state benefits **(1)** • productivity may increase if spending is targeted on infrastructure **(1)** wage increases and possible future increase in tax take **(1)**	**9**	Candidates must describe at least one advantage and one disadvantage to gain full marks. Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics.

<table>
<tr><th colspan="3">Question</th><th>Expected response</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>9.</td><td>(a)</td><td></td><td>Inflationary
• unemployment is at a 40-year-low – may result in rising labour costs (1)
• wages rising by 3·1%, the fastest in nearly a decade (1)
• energy suppliers pushed up their prices (October 2018) (1). Credit increase in crude oil price
• falling pound post-Brexit vote resulted in increased import prices (1). Time lag. Credit mention of John Lewis

Deflationary
• cut price Internet retailing – the ‘Amazon effect’ (1)
• globalisation – cheap manufactured imports from China etc (1)
• lower prices for food and non-alcoholic drinks (October 2018) (1)
• real wage growth has been either very marginal or negative (1)
• consumer/business confidence is low due to Brexit uncertainty (1)
• sluggish economic growth, low aggregate demand (1)
• investment is low (1)</td><td>9</td><td>Candidates must describe at least one inflationary and one deflationary pressure to gain full marks.

Award 1 mark for each valid description.

Award 1 mark for each valid development.

Award a maximum of 2 marks for any relevant statistics.</td></tr>
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Question			Expected response	Max mark	Additional guidance
	(b)		**Quantitative Easing was ineffective** • hard to measure **(1)** as no control group/a counterfactual **(1)** • cheap liquidity inflated asset prices – works of art, property etc **(1)** • since such assets are largely owned by the rich, the result has been a rise in wealth inequality **(1)** • encouraged risky borrowing **(1)** • developing countries gorged on cheap debt. This helped distort financial markets **(1)** • global growth became increasingly lopsided **(1)** • developed economies have not returned to sustainable growth **(1)** • QE money could have been directed towards a national investment bank that works with small and medium-sized enterprises **(1)** • banks did not lend their extra cash to boost consumer spending/investment **(1)** **Quantitative Easing was effective** • many economists agree that QE was successful in staving off a financial collapse **(1)** • the alternative of a long 1930s Depression would have been much worse **(1)** • European Central Banks (ECB's) reluctance to use QE, until debt crisis had fully developed, contributed to a greater slump with high levels of unemployment in southern European countries **(1)** • there was a lack of growth-boosting initiatives from the UK government, be that in the form of a fiscal stimulus or productivity-enhancing investment **(1)** • without QE, unemployment would have been significantly higher and economic growth weaker **(1)** • Bank of England paper on the distributional impact of QE suggests that real house prices would have been 20% to 25% lower. This could have led to a long legacy of negative equity **(1)**	**8**	Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics.

Question			Expected response	Max mark	Additional guidance
	(c)		• can result in deflationary pressure in the economy/falling aggregate demand (AD) **(1)** • can reduce the amount of credit **(1)** • higher mortgage interest payments for those on a variable rate mortgage (3·5m mortgages) – resulting in reduced discretionary income **(1)** • consumers may choose to increase their savings – leakage **(1)** • the exchange rate may appreciate due to hot money inflows, which may make imports cheaper **(1),** thereby helping reduce inflation **(1)** • tight monetary policy may not be effective in the short term, as it can take up to 18 months for interest rates to influence the rest of the economy **(1)** • if consumer confidence is high, tightening monetary policy may be ineffectual, as consumers will continue to borrow at higher interest rates **(1)** • businesses may reduce their borrowing from banks, resulting in a lack of capital investment **(1)** • tight monetary policy conflicts with other government macro-economic objectives, as it may cause unemployment to rise and/or economic growth to fall **(1)** • if inflation is cost-push due to rising import prices, then tight monetary policy may be ineffective in reducing inflation **(1)** • rates still at historic low, therefore further tightening could have only marginal impact **(1)** • negative effect on the housing market **(1)** and potential negative wealth effect **(1)**	**8**	Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics. Credit transmission mechanism of monetary policy.

Question			Expected response	Max mark	Additional guidance
10.	(a)		• growing economy since the end of the recession so firms increasing output employ more workers **(1)** • falling real wages has made labour relatively cheap **(1)** • zombie companies have survived due to low interest rates which has maintained employment **(1)** • public sector employment has been boosted by the Brexit process in government departments dealing with it **(1)** • many workers are only working part-time, therefore possible underemployment **(1)** • there has been a rise in self-employment and the gig economy (Uber etc) creating low skilled low paid jobs **(1)** • some employed workers are on zero-hours contracts (over 1m approx) **(1)** • female employment rate is at a record high; due to changes in the state pension more women in the 60–65 age group are staying in employment **(1)** • manufacturing sector expanded slightly in 2018; 2·6m employed directly in manufacturing, with 7·4m dependent on the sector **(1)** • many retail workers are being employed during 'fallow' opening hours – late night shopping, 24 hour supermarkets **(1)** • jobs have been created in construction, food services, transport and storage industries **(1)** • many new jobs are in low-earning, low-skilled service sector. Number of hairdressers had doubled since 2013 **(1)** • many EU workers have returned home creating employment opportunities **(1)**	**7**	Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics.

Question			Expected response	Max mark	Additional guidance
	(b)		• UK ranks low in gross domestic product (GDP) per hour worked – lower than USA, France, Germany and Canada **(1)** • UK productivity higher than Italy and Japan **(1)** • productivity growth has essentially fallen to zero since recession of 2007 – only 2% rise in total since 2007 **(1)** however, this is part of a general trend among developed countries rather than a problem unique to the UK **(1)** • UK government has set up a National Productivity Investment Fund in an attempt to close the UK's productivity gap with its competitors **(1)** £31bn over 5 years **(1)** • not all of UK suffers from low productivity – London has very high productivity levels **(1)** • significant increase in the number of low productivity service-sector jobs **(1)** • UK infrastructure suffers from uneven 'digitisation', which would greatly improve productivity **(1)** • financial services productivity has been falling in recent years **(1)** • the UK lags in robotics adoption **(1)** • some economists argue that the UK has too many 'zombie' companies **(1)** • some economists argue that long hours in retailing results in 'dead time': long periods when there is nobody in the store and very little productivity is being generated (David Smith – The Sunday Times) **(1)** • some economists argue it is very difficult to make productivity gains in an 'intangible economy' (Haskel and Westlake in *Capitalism Without Capital: The Rise of the Intangible Economy*) **(1)**	**10**	Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics. Credit productivity measurement – GDP per unit of labour employed. Credit mention of factors that may have contributed to low productivity in the UK • low levels of investment (lowest in G7) • poor management • poor infrastructure • low investment in training/vocational education • geographical immobility of labour • labour hoarding during the recession • large services sector (75% of economy) – difficult to make productivity gains

Question			Expected response	Max mark	Additional guidance
	(c)		• (Andy Haldane, chief economist of the Bank of England, has warned that) 'large swathes' of people could become 'technologically unemployed' **(1)** as Artificial Intelligence makes many jobs obsolete **(1)** • paper prepared by Oxford academics – The Future of Employment – predicts nearly half of jobs are at risk of automation **(1)** • 'hollowing out' of the jobs market could result in rising inequality **(1)** as automation may accelerate the 'hourglass economy' – increase in high-skill and low-skill jobs but a decrease in medium-skill jobs **(1)** • simple manual jobs may be more at risk **(1)** • new jobs may be created to replace those that disappear **(1)** • jobs that help build, maintain or collaborate with new technology could be created **(1)** • some economists argue that mundane and dangerous jobs should be done by robots **(1)** • jobs that require team-working, face-to-face interaction, creativity, and empathy are less at risk **(1)** • driverless vehicles may destroy jobs in transportation industry **(1)** • workers may need to re-train throughout their working lives – lifelong learning **(1)** • investment in automation may help boost productivity **(1)** • some economists predict mass unemployment in the future (Martin Ford in *The Rise of the Robots*) **(1)**	**8**	Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics. Credit 'robot tax' – argued by Bill Gates.

Question			Expected response	Max mark	Additional guidance
11.	(a)		**For** • to protect domestic jobs **(1)** 'America first' **(1)** • infant industry argument – developing countries may need to protect new industries **(1)** • tariffs on imports raise revenue for the government **(1)** • balance of payments – reducing imports can help current account **(1)** • to prevent dumping – other countries can sell goods below market price **(1)** credit examples – allegations of China and steel **(1)** • 'blue collar' manufacturing jobs in developed world have come increasingly under threat **(1)** • recent evidence for the US suggests that adjustment costs for those employed in sectors exposed to import competition from China are much higher than previously thought (World Bank) **(1)** • some economists argue that the benefits of free trade have been uneven across the world. 'Elephant graph' by World Bank economists suggests that the richest have grown richer and the low earners in developed economies have lost out, and the very poorest in developing economies have got no better off at all **(1)** • downward pressure of wages as firms aim to lower wage costs **(1)** **Against** • rising costs of imports including raw materials for businesses/finished goods for consumers **(1)** • reducing trade barriers leads to trade creation **(1)** • retaliation and trade wars **(1)** • less competition for domestic firms – less incentives to cut costs and improve efficiency **(1)** • many argue that free trade has a powerful role in creating jobs **(1)** specialisation leads to higher world output **(1)** • the restriction of trade can have a negative multiplier effect **(1)** • it is illegal under World Trade Organisation rules to impose trade barriers **(1)**	**10**	Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics. Credit theory of comparative advantage. Credit criticism of 'Washington Consensus'.

Question			Expected response	Max mark	Additional guidance
	(b)		• no access to single market **(1)** • UK no longer has to pay into the EU budget **(1)** • UK adopts trading terms with EU based on WTO rules **(1)** • UK can set its own policy for EU migrants **(1)** • no access to customs union **(1)** • hard border between Ireland and Northern Ireland **(1)**	**5**	Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **1 mark** for any relevant statistic.
	(c)		**Potential positive consequences** • the UK may have the ability to negotiate trade deals independently **(1)** • new treaties could be tailored more to UK interests, for example, financial services which could lead to higher economic growth **(1)** • UK would be able to develop its own employment legislation **(1).** This could increase UK international competiveness **(1)** • UK businesses would not have to adhere to costly regulation set by the EU **(1)** • controlling migration may lessen strains on some areas of the UK's public services **(1)** • UK may no longer need to pay in the EU budget **(1),** deliver a net £9bn saving **(1).** Although the UK would have to honour short term commitment of the 'divorce agreement' **(1)** • some economists such as Patrick Minford estimate that gains from a full Brexit will be £135bn - around a 7% boost to GDP **(1)** • when the UK leaves the EU, the UK's waters may exclusively become the UK's again **(1),** under the United Nations Convention on the Law of the Sea. The UK fishing industry argues that UK's fishing fleet is unfairly disadvantaged by the current Common Fisheries Policy and that taking back control of UK waters will deliver a boost to the fishing industry **(1)**	**10**	Award **1 mark** for each valid description. Award **1 mark** for each valid development. Award a maximum of **2 marks** for any relevant statistics

Question			Expected response	Max mark	Additional guidance
			Potential negative consequences • the UK has benefitted from substantial FDI due to its member ship of the EU **(1).** This may diminish in future years as foreign firms may choose not to locate in the UK because they may not benefit from access to EU market. **(1)** • it may make it more difficult for the UK to export into its biggest market **(1).** This would lower UK growth if nor replaced by exports to other markets **(1).** • Brexit 'fog' of uncertainty may result in lower investment by UK firms **(1),** as they may not want to commit funds until the long term impact becomes clear **(1).** This could further impact on UK productivity **(1)** • Brexit may lower the number of EU nationals moving to the UK to work **(1).** This may have a negative impact on a number of industries, such as construction and the hospitality sector **(1)** • Bank of England/Treasury have produced reports that suggest any form of Brexit will result in reduced economic growth **(1),** with worst case scenario being 8% reduction **(1)** • sterling may drastically fall in value making imports more expensive **(1).** This may result in higher inflation as the UK is a net importer **(1)** • MNCs may withdraw operations from the UK and set up in the EU (Panasonic to Holland etc) **(1)** • some UK farmers argue that that if Common Agricultural Policy (CAP) subsidies were withdrawn, many of them would go bankrupt **(1)**		

[END OF MARKING INSTRUCTIONS]