GCE A LEVEL MARKING SCHEME

SUMMER 2017

A LEVEL (NEW)
ECONOMICS - COMPONENT 2
A520U20-1

INTRODUCTION

This marking scheme was used by WJEC for the 2017 examination. It was finalised after detailed discussion at the examiners' conference by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

GCE ECONOMICS

SUMMER 2017 MARK SCHEME

Question		Total marks
1 (a)	**Describe what is meant by an oil price of $12 in 1974 being equivalent to '$54 in today's terms'.** AO1: Award **1** mark for understanding that money today is worth less than money in the past (because of inflation). AO2 : Award **1** mark for appropriate use of the figures themselves **–** something along the lines of "$12 in 1974 has the same value as $54 today" or good application to the idea of real terms in this case.	**2** AO1: 1 AO2: 1

<table>
<tr><th>Question</th><th></th><th>Total marks</th></tr>
<tr><td>1 (b)</td><td>

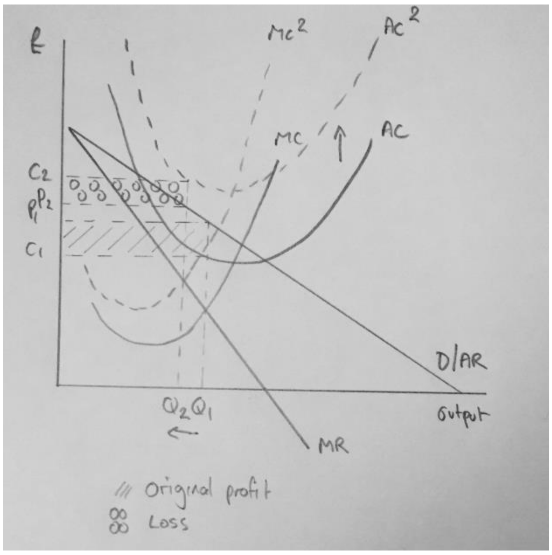
With the use of an appropriate cost and revenue diagram, describe how the events of the 1970s led to a collapse in company profits.

AO1:

Award **2 marks** for a correct diagram with no major errors – or two separate diagrams, one showing profit, the other showing loss/reduced profits.

Award **1 mark** for a mostly accurate diagram, but has a significant error (e.g. output not at MC=MR after the change).

Or a cost/revenue diagram that simply shows a loss rather than a change in profits/move to loss.



A diagram similar to the above (may show reduced profits rather than a loss. Candidate might argue that AR and MR also shift in due to recession. Either is fine as long as the diagram matches the explanation). Allow an increase in AC only.

AO2:

Award **2 marks** for a good application to context. Full marks can be gained here even if the diagram is wrong.

Rising oil and wage costs have been well linked to a rise in marginal and/or average costs – fall in profits has been explained – AR and AC closer together for a lower output.

Or the answer gives a strong contexualised explanation of why profits have fallen.

The key for two marks is that it is clear why profits have fallen via use of the diagram or the real world – not just that costs have risen.

</td><td>

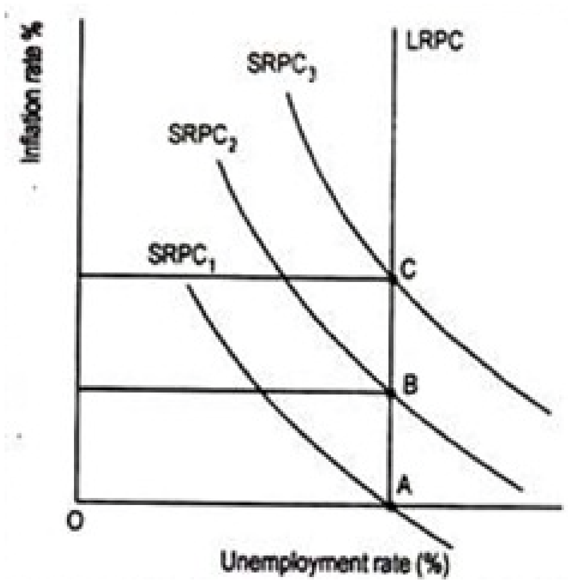
4

AO1: 2

AO2: 2

</td></tr>
</table>

	Award **1 mark** for limited application. Marks can be gained here even if the diagram is wrong. Rising oil and wage costs are linked to an increase in cost, but the link is not clear/fall in profits is shown but not explained. Wages and oil are both likely to be variable costs (although allow a very clear argument that they are fixed costs and that therefore only AC shifts) because they are likely to be linked directly to total output. As long as a clear link is made between the case and their diagram, allow any plausible explanation. **Or** the answer gives a weaker contexualised explanation of why profits have fallen, showing that costs have risen and why but not showing an understanding of why profits fell.	

Question		Total marks
1 (c)	**Using a diagram, explain how the oil shock in the early 1970s might have caused the Phillips curve trade-off to become significantly less favourable.** **AO1:** Award **2 marks** for a correct diagram with no major errors. SRPC shifts vertically at given unemployment rates. If learner argues that supply side problems shift the LRPC rightwards, this should be fully credited. There is no requirement for the LRPC to be shown. Award **1 mark** for a diagram that has an upward shift in SRPC, but is poorly labelled and confusing – it is not clear that inflation has increased at a given level of unemployment.  **AO2:** Award **2 marks** for good use of the data. The answer uses the case well arguing that the oil shock created cost-push pressures in the economy, which then led to rising wage claims because of inflationary expectations. Award **1 mark** for answers that contains one but not both elements of the 2 mark response (cost-push pressures, inflationary expectations).	**6** AO1: 2 AO2: 2 AO3: 2

	AO3: Award **2 marks** for a clear explanation as to why the trade-off has worsened. Because of higher inflationary expectations, even if unemployment increases, inflation will not fall back to its original level because the wage-price spiral is locked in at a higher level of wage and price inflation. Or A clear understanding that both unemployment and inflation are higher and that therefore any trade-off is now less favourable. Award **1 mark** for a brief explanation of the SRPC shifting vertically because of inflationary expectations. Inflation is therefore higher at any given level of unemployment, but does not directly explain the sense in which the trade-off has actually worsened. Or A clear understanding that both unemployment and inflation are higher/ use of diagram to show new equilibrium above the original equilibrium. Accept any other relevant points such as deterioration in the NAIRU as a result of deteriorating industrial relations etc. 1 for the point and another for the link back to worsening trade-off.	

1 (d)	**With reference to Figure 2, discuss the possible relationship between oil prices and Eurozone inflation. [6]**	**Total marks**
	AO2: 2 marks **2 marks** Good use of the data, identifying correctly and accurately the links between oil prices and inflation using the raw data effectively. The full time period is considered. **1 mark** Limited use of the data, identifying some links between oil prices and inflation. The answer may focus only on a narrow range of years or cover the whole period with only limited understanding. **Indicative content:** The link seems to be quite strong - the collapse in oil prices in 2008 from \$140 to \$40 is correlated with sharply falling inflation in 2008 and deflation in 2009. The recovery in oil prices from 2009 -11 is correlated with a rise in inflation to around 3%. The slump in oil prices between 2014 and 2015 also leads to falling inflation and then deflation. **AO3: 2 marks** **2 marks** Clear causal chain is made linking the fall in oil prices to a fall in inflation (or a rise to a rise), with a clear understanding as to why inflation will be reduced. **1 mark** Answer explains that falling oil prices will reduce inflation (or rising oil prices cause rising inflation) and a chain of reasoning is present, but it is not completely clear why inflation falls/becomes negative – not enough reference to the **rate of change** of final products – may imply that falling oil prices and falling inflation are basically the same thing rather than oil prices reducing the rate of growth of prices in the economy. **Indicative content:** Falling oil prices reduce firms' costs, reducing the upward pressure on inflation, but when oil prices recover, the reverse will be true. Simultaneously, household bills such as petrol and energy are reduced, meaning that there is less upward pressure on inflation (and vice versa for rising oil prices). Therefore inflation will fall as prices rise more slowly and may eventually turn negative if oil prices fall far enough and for long enough to actually reduce the overall level of prices in the economy. This is most likely in a period of slow/no growth when prices of other goods and services are relatively static. The reverse applies with rising oil prices.	**6** AO2 2 AO3 2 AO4 2

	AO4: 2 marks **2 marks** Developed counterargument based either around: (i) Very effective use of the data (showing periods when correlation is weak). **And/or** (ii) A clear questioning of the causation e.g. 2008 – recession could have caused both falling oil prices and falling inflation. **And/or** (iii) A clear explanation that other factors can affect inflation apart from oil prices, developed and explained, but these need to be specific. **1 mark** Evaluation is present in one of the forms identified for 2 marks, but the data use/reasoning is not fully convincing or the questioning of the causation is not fully developed. **Indicative content:** There are a number of reasons that the relationship might not be this clear: (i) Direction of causation – certainly in 2008-09 there is an argument that the global financial crisis reduces AD and the derived demand for oil, hence causing the slump in oil prices. (ii) Between 2011 and 2014 oil prices are fairly static, but inflation slowly falls as a result of other factors influencing inflation such as changes in the money supply, fiscal policy and features of aggregate demand. (iii) Although oil prices fall continuously through 2014 and 2015, inflation actually recovers from deflation to inflation towards the end of the period, again suggesting that other factors are at work. Accept any other relevant points.	

1 (e)	**Discuss whether the lower oil prices since 2014 are likely to be beneficial for the UK economy. [10]**		
Band	**AO2**	**AO3**	**AO4**
	2 marks	4 marks	4 marks
	Is the data well used on at least one side of the case?	*Is there a strong argument for one side of the debate?*	*Has the argument been fully discussed with a strong counterargument?*
		4 marks Excellent analysis. One side of the debate has a convincing, well-developed chain of reasoning covering a couple of issues in the indicative content. The key is that there is strong relation to the question and one side of the debate is fully reasoned.	**4 marks** Excellent evaluation. An excellent critical evaluation of how beneficial a fall in oil prices will be. The answer demonstrates an appreciation of both the advantages and disadvantages of lower oil prices and evaluates between them using economic theory and the context as justification.
2	**2 marks** Good application. Context has been well used – the answer feels like it is talking about this case and uses the context at most opportunities.	**3 marks** Good analysis. One side of the debate has a convincing, well-developed chain of reasoning covering a couple of issues in the indicative content (although one may be more in-depth than the other).	**3 marks** Good evaluation. A good discussion of how beneficial a fall in oil prices will be. The answer demonstrates a developed contextualised appreciation of both the advantages and disadvantages of lower oil prices.
1	**1 mark** Limited application. There is reference to some evidence from the case, but this is only occasional and indirect – perhaps one or two "e.g.….".	**1-2 marks** Limited analysis. Answers in this band may have decent range, but lack the analytical depth needed to reach band 2 – points are insufficiently developed.	**1-2 marks** Limited evaluation. Answer makes counterarguments, but these are not always well developed or evaluation is developed but narrow and not really centred on oil prices.
0	**0 marks** No valid application.	**0 marks** No valid analysis.	**0 marks** No developed evaluation.

Indicative content:

AO2 may include (but credit other contextualisation):

UK households' real incomes are 6% lower than in the financial crisis.

Households benefit through 'cheaper petrol and other fuels'.

Damage to the UK oil and gas sector.

Data talks about risks of deflation.

Second round deflationary effects can be averted if central banks continue to support demand.

Oil exporters such as Russia are damaged – same may be true to a lesser extent for the UK.

Problem likely to be more serious in the Eurozone where there is low growth, deflationary pressure and zero interest rates. Not so much of an issue in the UK where the economy has been growing reasonably well.

High oil prices in the 1970s contributed to the destruction of the UK's manufacturing base.

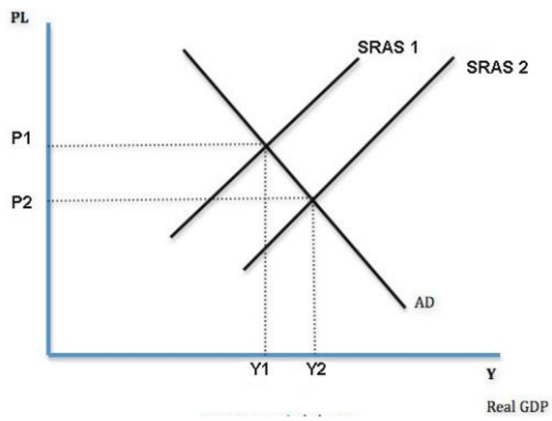
High oil prices in 1970s led to greater energy efficiency – low oil prices today might do the reverse?

Understanding of present UK situation.

AO3/AO4:

Beneficial

In theoretical terms, falling oil prices are supply side deflation, therefore we would expect the primary impact to be expansionary:



Falling oil prices lead to an immediate increase in real incomes (as the price of petrol, energy and so on falls), hence supporting growth rather than reducing it – *as long as deflationary expectations do not become established.* In the UK this is seen as important in a world in which real household incomes are 6% lower than they were 8 years ago.

The reduction in fuel/energy costs will make the most difference to low-income households, especially those in fuel poverty and may therefore have an impact in terms of reducing inequality.

Energy costs for many firms will fall, reducing costs and boosting profitability in the short run, possibly stimulating investment.

Low oil prices are a one-off – unless they continue to fall, there will not be a lasting effect on inflation.

Not beneficial:

Falling oil prices may create deflationary expectations (so-called ‘second round effects), creating the risk of a deflationary spiral. In such a spiral:

- Consumers may defer spending expecting lower prices in the future
- The real value of debt rises, meaning that individuals may seek to pay debt off faster rather than consume
- Real interest rates start to rise creating an incentive to save and a reduced incentive to invest

These factors may all lead to a downward spiral of falling prices and demand.

North Sea oil may become non-viable, increasing the UK’s dependency on energy from abroad/reducing energy security.

Falling oil prices will damage the UK oil and gas sector, with firms such as Shell and BP facing falling profits, cutting investment. Impact may be felt disproportionately in Scotland.

Tax revenue from oil production in the UK is negatively affected. Effects on the Scottish economy related to the independence debate.

Damage to UK oil exports?

Falling prices of fossil fuels may reduce the incentive to invest in renewables, which may therefore have longer term environmental consequences, but may delay the development of the fracking industry which some argue to be environmentally damaging.

It depends:

Probably likely to be beneficial as long as second round effects can be avoided.
Oil less significant today than it was in the 1970s.
Risks more significant in the Eurozone than the UK.
How long oil prices stay low – can’t be forever.

Accept any other relevant points.

1 (f)	**Discuss whether it is right to suggest that "the European Central Bank and the Bank of Japan should continue expanding their programmes of quantitative easing".** **[12]**		
Band	**AO2**	**AO3**	**AO4**
	4 marks	4 marks	4 marks
	Has the case been well used and linked to the ECB & BoJ?	*Has a good analysis of the process of asset purchases been given?*	*Has the proposition been fully discussed?*
	4 marks Excellent application. Context has been well used– the answer feels like it is talking about this case and feels well embedded in the scenario.	**4 marks** Excellent analysis. A thorough explanation of asset purchase schemes and their supposed positive impact on the economy has been given – the answer shows a clear understanding of the channels through which QE style policies operate through asset purchases – depth of explanation is the key although not all channels need to be shown.	**4 marks** Excellent evaluation. An excellent critical evaluation of QE. The answer demonstrates an appreciation of both the advantages and disadvantages of an expansion of QE and evaluates between them using economic theory and/or real-life context as justification for a reasoned judgement of the issue.
2	**3 marks** Good application. There has been well-developed use of the context in at least one place.	**3 marks** Good analysis. A good explanation of asset purchase schemes and their supposed positive impact on the economy has been given – the answer shows a clear understanding of the channels through which QE style policies operate although some detail may be lacking.	**3 marks** Good evaluation. A strong two-sided response which considers both the strengths and weaknesses of asset purchase schemes with well-developed counter-arguments.
1	**1-2 marks** Limited use of context. There is reference to some evidence from the case, but this is only occasional and indirect – perhaps one or two "e.g.….".	**1-2 marks** Limited analysis of QE. Explanation of asset purchase schemes is more limited, probably equating them with printing money, and the channels through which the real economy will be impacted are explained only superficially.	**1-2 marks** Limited evaluation of the proposition. Limited or brief evaluation of the benefits of an expansion of the QE scheme. Answer has counterarguments, but these are limited in depth and extent – lacking rigorous theoretical underpinnings and application to the case. There is a lack of depth of development and/or a failure to make a judgement.
0	**0 marks** No valid application.	**0 marks** No valid analysis.	**0 marks** No developed evaluation.

Indicative content:

AO2:

The BoJ and ECB are facing a situation where deflationary pressure is a risk, therefore they need to try to support AD. Conventional policy options are limited with base interest rates close to zero and fiscal options limited by high levels of debt, QE looks like the main option at this point.

Demand in the Eurozone is currently very weak therefore asset purchases are needed to support AD and close the output gap.

Figure 2 shows clear risk of deflation.

Falling oil prices may in fact stimulate AD all by themselves and therefore there is a risk that QE may be unnecessary and counterproductive – the US has recently increased interest rates to prevent rising inflation and has completed its ‘tapering’ programme of QE.

But the US is raising rates to forestall inflationary expectations.

AO3:

Asset purchase schemes involve central bank purchases generally of government securities. The effect is to increase the prices of such assets, depressing bond yields. This simultaneously increases the wealth of asset holders and also puts downward pressure on borrowing costs for both firms and households. All of this should stimulate AD.

Secondly, there is more money in the financial system as a whole. This may also lead to further asset purchases by private financial institutions and the general increase in liquidity may also support bank lending.

Thirdly, there is an impact on inflationary expectations which may help to stave off a deflationary spiral and encourage households and firms to bring forward purchases.

AO4:

QE is potentially risky in the sense that it may be creating inflationary pressure in the future through the growth in the money supply and is also creating distortions in asset markets, arguably creating an entirely new bubble that will be hard to unwind. Neoclassical economists would argue that we are simply sowing the seeds for the next crisis by making credit artificially cheap resulting in mal-investment. The long term effects of QE are as yet unknown.

QE may not actually be having much impact as a result of imperfections in the banking system and the fact that asset purchases are focused on a fairly narrow sector – the impacts on the real economy have been argued to be limited.

QE is holding down bond yields and savings rates generally. Hence the incentive to save has been reduced, annuity rates on pensions are very low, making it very hard for savers and those aiming to retire, again introducing distortions into the market.

What is the long term plan for the purchased bonds? (selling them back to the markets? write-off?).

Accept any other relevant points.

Q 2 (a) (i)	**Describe how the Human Development Index (HDI) is calculated. [4]**
Band	**AO1**
	4 marks
2	**3-4 marks** Good understanding of how the HDI is calculated 4 Marks: Understands that it is an index on a scale of 0-1 and is worked out using an average of GNI/capita (average income), life expectancy and years of schooling. 3 marks: Understands that it is an index on a scale of 0-1 and measures income, health and education or knows precise elements but not that it is an index on a scale of 0-1.
1	**1-2 marks** Limited understanding of how the HDI is calculated 2 marks: Understands that it an index on a scale of 0-1 and has an understanding of at least two of the components. **Or** understands that it measures income, health and education, but not that it is an index on a scale of 0-1. 1 mark: knows of at least 2 of the broad components (income, health and education)
0	**0 marks** No understanding of HDI is shown.

Indicative content:

The HDI is made up of three sub-indices – health, income and education (each scaled 0-1).

The health index is based around life expectancy at birth relative to an absolute target.

The income index is based on logs of GNI/capita at PPP and is calculated relative to an absolute target.

The education index is based on the mean of expected years of schooling for children entering education and mean years of schooling (for over-25s), again relative to an absolute target.

A geometric mean of the three sub-indices is calculated to find the final composite index.

HDI is ranked on a scale of 0-1 overall (Very high 0.8+, High 0.7-0.8, Medium 0.55-0.7, low <0.55).

<table>
<tr><td>Q2 (a) (ii)</td><td colspan="3">With the aid of the data discuss the extent to which the HDI can be said to be an accurate measure of economic development in a country. [8]</td></tr>
<tr><td rowspan="2">Band</td><td>AO2</td><td>AO3</td><td>AO4</td></tr>
<tr><td>2 marks</td><td>2 marks</td><td>4 marks</td></tr>
<tr><td></td><td>Has the case been well used to illustrate the value or otherwise of the HDI?</td><td>Has the HDI been linked to economic development?</td><td>Has the value of HDI been evaluated?</td></tr>
<tr><td></td><td></td><td></td><td>4 marks
Excellent evaluation.
A critical evaluation which considers the advantages and disadvantages of HDI as a measure of economic development and evaluates between them answering the question directly.
The evaluation is well-supported by reference to the context and has good depth of explanation of the evaluative points.</td></tr>
<tr><td>2</td><td>2 marks
Good application of HDI to context.

Answer is well-contextualised with strong use of the context, making good use of the case of Rwanda throughout.</td><td>2 marks
Good analysis of the value of HDI.

Clear analysis of the data explaining how HDI can show the level of economic development in an economy. A well-developed chain of reasoning is present.</td><td>3 marks
Good evaluation.

Developed evaluation which considers the advantages and disadvantages of HDI as a measure of economic development.

The evaluation has good depth of explanation of at least one of the evaluative points.</td></tr>
<tr><td>1</td><td>1 mark
Limited application of HDI to the context.

Some references to the context, but these are not well-developed or embedded in the answer.</td><td>1 mark
Limited analysis of the data.

An attempt is made to explain the usefulness of the HDI when measuring economic development, but the chain of reasoning is not well-developed.</td><td>1-2 marks
Limited or brief evaluation of the importance of HDI as a measure of economic development. Answer makes counterarguments, there is a lack of development.</td></tr>
<tr><td>0</td><td>0 marks
No valid application.</td><td>0 marks
No valid analysis.</td><td>0 marks
No developed evaluation.</td></tr>
</table>

Indicative content:

AO2 and AO3

Learner shows an understanding of economic development - an improvement in the economic well-being and quality of life for a society. An improvement in economic and social conditions in society – use of data on reductions in mortality and increase in education provision.

HDI accurately measures economic development:

Rwanda is clearly a country with low living standards. 63% of Rwandans live on less than $1.25 per day and inequality is high. This is reflected in its HDI which is 163/188 countries.

The inclusion of education and health indicators is a sign of successful government policies in providing access to important merit goods such as health care, sanitation and education – important indicators of economic development.

- Increased national income (part of HDI) has allowed free universal primary education and better access to health care.
- Rwanda spends 24% of GDP on health and 17% on education. This has been associated with reductions in child and maternal mortality.
- This has been reflected in its HDI rising far more quickly than that of neighbouring countries (Figure 1)

GDI per capita alone is too narrow an indicator of economic development HDI gives a broader picture of well-being and welfare.

- Rwanda’s HDI ranking is 20 places above its GDP ranking.

AO4

HDI takes no account of income distribution**.** If income is unevenly distributed, then GNP per capita will be an inaccurate measure of the monetary well-being of the people. Inequitable development is not human development.

There is often a wide HDI divergence within countries. For example, countries like China and Kenya have widely different HDI scores depending on the region in question (e.g. North China is poorer than the south east).

HDI reflect long-term changes (e.g. life expectancy) and may not respond to recent short-term changes.

Higher national wealth GDI may not necessarily increase economic welfare, it depends on how it is spent.

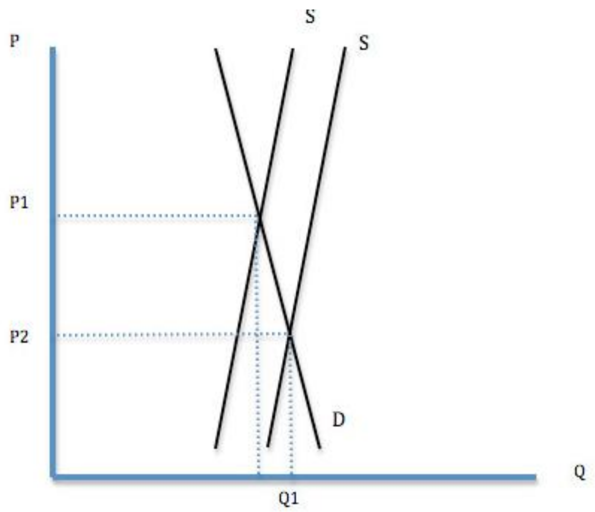
Also higher GDI per capita may hide widespread inequality within a country. Some countries with higher real GDI per capita have high levels of inequality (e.g. Russia, Saudi Arabia) – inequality is still a problem in Rwanda (the top 10% of the population earned 43% of national income).

Economic welfare depends on several other factors, such as threat of war, levels of pollution, access to clean drinking water, political freedom (which has been falling in Rwanda) etc.

Accept any other relevant points.

Question		Total marks
2 (b) (i)	**Calculate the population of Rwanda in 2015.** Award **2** marks for correct answer (allow 11.28m to 11.3m) Award **1** mark for use of correct data with incorrect answer (or right answer for wrong year 2014 = 11.23m, 2013: 11.16m) **$20.32 billion/$1800 = 11.29m**	**2** AO2: 2

Question		Total marks
2 b (ii)	**What is meant by 'GDP at purchasing power parity'?** Award **2** marks for a full and clear understanding. **Indicative content:** Understands that a country's GDP is converted into a common base currency using an internationally comparable basket of goods and services, hence allowing for volatilities in market exchange rates to be ignored and the real spending power of a country's income to be shown. Award **1** mark for a brief and limited understanding. **Indicative content:** An idea that GDP is somehow adjusted for costs of living, but the answer lacks detail on how this might be done. Accept an answer using examples.	**2** AO1: 2

Question		Total marks
2 (c)	**With the aid of a diagram explain why exports for Rwanda such as coffee and tea are subject to significant price volatility.** **AO1**: Award **2 marks** for an accurate diagram that forms part of an explanation of price volatility – diagram contains at least: (a) Volatile supply and inelastic demand or (b) Volatile demand and inelastic supply and matches the analysis in the answer EG  Learner demonstrates good knowledge and understanding of price elasticity of demand and supply applying it to agricultural goods such as coffee and tea. Award **1 mark** for a diagram that focuses only on supply volatility, failing to make reference to elasticity. Diagram is correct but contains major labelling errors. Learner demonstrates limited knowledge and understanding of elasticity and its relevance to the prices of agricultural goods such as coffee and tea. **AO3**: Award **2 marks** for a **good** explanation of price volatility dealing with at least one set of the (a) and (b) pairs above. Award **1 mark** for a **limited** explanation of volatility probably just focussing on supply volatility and/or failing to deal properly with elasticity. Award **0 marks** for an answer that just describes the diagram (but award AO1).	**4** AO1: 2 AO3: 2

Indicative content:

Recognition that demand and supply are price inelastic in the short run.

Demand inelastic because the products are necessities and have no substitutes.

Demand may be volatile as a result of speculative activity.

Supply inelastic because of fixed supply due to growing season and perishability.

Supply affected by weather/disease shifts supply curve to the left/right causing price volatility.
Correctly labelled valid diagram.

Accept any other relevant points.

<table>
<tr><td>Q2 (d)</td><td colspan="3">Using the data evaluate the view that further industrialisation will be beneficial for Rwanda's economic development. [8]</td></tr>
<tr><td rowspan="2">Band</td><td>AO2</td><td>AO3</td><td>AO4</td></tr>
<tr><td>2 marks</td><td>2 marks</td><td>4 marks</td></tr>
<tr><td></td><td>Has the context of Rwanda been well used?</td><td>Have the benefits (or costs) of industrialisation been analysed?</td><td>Has the value of industrialisation been evaluated?</td></tr>
<tr><td></td><td></td><td></td><td>4 marks
Excellent evaluation.

A critical evaluation which considers both the benefits and drawbacks of industrialisation for Rwanda and evaluates between them, answering the question directly.

The evaluation is well-supported by reference to the context and has good depth of explanation of the evaluative points.</td></tr>
<tr><td>2</td><td>2 marks
Good application.

Context has been well used – the answer is rooted in the case of Rwanda, using the context at most opportunities.</td><td>2 marks
Good analysis.

Good analysis of the case for industrialisation in LEDCS, showing good depth of explanation – at least one line of argument has been fully developed with some shorter supporting evidence.</td><td>3 marks
Good evaluation.

Developed evaluation which considers both the benefits and drawbacks of industrialisation for Rwanda.

The evaluation has good depth of explanation of at least one of the evaluative points.</td></tr>
<tr><td>1</td><td>1 mark
Limited application to case.

Some references to the context, but these are not well-developed or embedded in the answer.</td><td>1 mark
Limited analysis of the case.

Analysis is weaker, showing decent awareness of some of the key issues but lacking a really well justified line of argument supporting industrialisation.</td><td>1-2 marks
Limited evaluation.

Limited or brief evaluation of the benefits of industrialisation to Rwanda. Answer makes counterarguments, but these are not always well developed. There is a lack of development in counterarguments and/or a failure to judge.</td></tr>
<tr><td>0</td><td>0 marks
No valid application.</td><td>0 marks
No valid analysis.</td><td>0 marks
No developed evaluation.</td></tr>
</table>

Indicative content:

In LEDCs with heavy dependence on agriculture, some of it subsistence, the process to industrialisation/growth of manufacturing is seen as the next stage of development.

Dependency on products that are volatile in price and supply will not provide a stable base for growth.

Over time the terms of trade of primary-product dependent countries are likely to deteriorate, meaning that they need to move up the value-added chain.

Rwanda has a small manufacturing sector and a large agricultural sector – some of it subsistence thus workers could be more productively employed in manufacturing.

Rwanda imports manufactured goods that it may be able to produce itself.

Rwanda has many on low wages which would make manufactured goods competitive.

The new railway line will make it easier to export manufactured goods.

Reference to the Lewis model Rostow’s Model and/or Prebisch-Singer should be fully credited but are not required.

BUT:

Rwanda may be better specialising in service industries where it has a comparative advantage – use of the data.

Due to current infrastructure issues and geographical location Rwanda may not have a cost advantage in manufactured goods compared to other economies. Mention of other newly industrialised economies in Asia e.g. Cambodia, Vietnam.

Industrialisation may come in the form of FDI, which is not always wholly beneficial (e.g. Chinese consortium mentioned in the case).

Poor transport infrastructure may mean that a manufacturing sector will struggle to compete – use of data on relative costs.

Accept any other relevant points.

The logic of the answer is reversible

<table>
<tr><td>Q2 (e)</td><td colspan="3">To what extent might a monetary union within the East Africa Community (EAC) benefit Rwanda? [12]</td></tr>
<tr><td rowspan="2">Band</td><td>AO2</td><td>AO3</td><td>AO4</td></tr>
<tr><td>4 marks</td><td>4 marks</td><td>4 marks</td></tr>
<tr><td></td><td>Has the context of Rwanda been well used?</td><td>Have the theoretical strengths and weaknesses of monetary union been analysed?</td><td>Has the extent to which monetary union will be beneficial been evaluated in this case?</td></tr>
<tr><td></td><td>4 marks
Excellent application.
Context has been well used – the answer is rooted in the case of Rwanda, using the context at most opportunities to support the case for or against monetary union.</td><td>4 marks
Excellent analysis.
Good analysis of the advantages or disadvantages of monetary union.
At least 2 key issues are likely to have been identified with good depth of analysis of both of them.</td><td>4 marks
Excellent evaluation.
A critical evaluation of the benefits of a monetary union to Rwanda. The answer has a clear view as to the benefits and drawbacks of monetary union in Rwanda and evaluates between them, answering the question directly.
The evaluation is well-supported by reference to the context and has good depth of explanation of the evaluative points.</td></tr>
<tr><td>2</td><td>3 marks
Good application.
There has been developed use of the context in the answer, where the case of Rwanda has been explained as support for the arguments being made for or against currency union.</td><td>3 marks
Good analysis.
Good analysis of the advantages or disadvantages of monetary union.
At least 2 key issues are likely to have been identified with good depth of analysis of one of them.</td><td>3 marks
Good evaluation.
Developed evaluation of the benefits of a monetary union to Rwanda.
The evaluation has good depth of explanation of at least one of the evaluative points.</td></tr>
<tr><td>1</td><td>1-2 marks
Limited application.
The answer refers to Rwanda, but often in passing.
Some references to the context, but these are not well-developed or embedded in the answer.</td><td>1-2 marks
Limited analysis.
A limited explanation of how monetary union might affect Rwanda .
The answer may be rather narrow in focus with few factors identified or may be broader in scope with limited depth of development.</td><td>1-2 marks
Limited evaluation.
A basic attempt is made to show that monetary union may face difficulties in Rwanda.
Answer makes counterarguments, but these are not always well developed.
There is a lack of development in counterarguments and/or a failure to judge.</td></tr>
<tr><td>0</td><td>0 marks
No valid application.</td><td>0 marks
No valid analysis.</td><td>0 marks
No developed evaluation.</td></tr>
</table>

Indicative content:

Benefits of monetary union:

Reduction in transaction costs.

Facilitates trade between member states – important as infrastructure improves.

Price transparency.

No exchange rate volatility between members and probably reduced external currency volatility.
Job creation and investment from greater certainty over exchange rates/inflation.
Better economic discipline – devaluation is not an option.

Rwanda well-positioned to take advantage of such an arrangement given its strong growth and institutional strength.

BUT:

Loss of economic sovereignty-control over interest rates/need for a fiscal union.

Dealing with asymmetric shocks.

Is the EAC an optimal currency area?

Short term changeover costs.

Political and social differences between members.

Weak physical infrastructure may make Rwanda uncompetitive leading to a Spain/Greece style scenario in which Rwanda can't devalue its way out of economic difficulties.

Accept any other relevant points.