

*In addition to the assessment criteria use the paper-specific markscheme below. Award up to the maximum marks as indicated.*

**SECTION A**

**1. (a) (i) Define the term *current account deficit* indicated in bold in the text (paragraph ❶).** **[2 marks]**

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1	<i>Vague definition.</i> The idea that imports are greater than exports.	<b>1</b>
2	<i>Accurate definition.</i> An explanation that the value of imports of goods and services is greater than the value of exports of goods and services.	<b>2</b>

**(ii) Define the term *economic growth* indicated in bold in the text (paragraph ❷).** **[2 marks]**

Level		Marks
0	<i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1	<i>Vague definition.</i> The idea that it is an increase in the size of the economy.	<b>1</b>
2	<i>Accurate definition.</i> An explanation that it is the growth of real output in an economy.	<b>2</b>

(b) Using an appropriate diagram, analyse the effect of a “contraction in South Africa’s current account deficit” (*paragraph 1*) on the value of the rand.

[4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled diagram to show the foreign exchange market with a decrease in supply and/or an increase in demand for the rand, resulting in a higher value for the rand <b>or</b> an explanation that a smaller current account deficit is caused by a lower value of imports and/or a higher value of exports, causing lower supply of and/or greater demand for the rand – thus increasing the equilibrium value of the rand.	1–2
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled diagram to show the foreign exchange market with a decrease in supply and/or an increase in demand for the rand, resulting in a higher value for the rand <b>and</b> an explanation that a smaller current account deficit is caused by a lower value of imports and/or a higher value of exports, causing lower supply of and/or greater demand for the rand – thus increasing the equilibrium value of the rand.	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

(c) **Using an AD/AS diagram, explain why a strong rand might “reduce upward pressure on inflation” (paragraph 3).** **[4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram where AD shifts to the left and/or SRAS shifts to the right, thus reducing the average price level <b>or</b> for explaining that a strong rand will reduce the demand for exports (and/or increase the demand for imports) thus shifting AD to the left and/or a strong rand will make imported factors of production less expensive thus increasing SRAS. Either of these would reduce inflationary pressure.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled AD/AS diagram where AD shifts to the left and/or SRAS shifts to the right, thus reducing the average price level <b>and</b> for explaining that a strong rand will reduce the demand for exports (and/or increase the demand for imports) thus shifting AD to the left and/or a strong rand will make imported factors of production less expensive thus increasing SRAS. Either of these would reduce inflationary pressure.	<b>3–4</b>

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

- (d) **Using information from the text/data and your knowledge of economics, discuss the view that the South African Reserve Bank (central bank) should attempt to weaken the rand.**

*[8 marks]*

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level		Marks
0	The work does not reach a standard described by the descriptors below.	0
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	1–2
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

*Command term*

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- the rand has reached a near six-month peak (*paragraph 1*), which may inhibit growth
- the rand has appreciated 9% against the euro (*paragraph 1*) – thus making exports to South Africa’s main trading partners more expensive
- the current account deficit is likely to worsen if the rand continues to appreciate
- the current account deficit is already bad (7.4% of GDP last year (*paragraph 2*))
- a policy to weaken the rand might increase inflationary pressure
- local factories (*paragraph 3*) will benefit from such a policy as local exports will become more competitive
- buying foreign currency will avoid the need to lower interest rates too much (*paragraph 4*)
- another consumer boom (*paragraph 4*) may be avoided by purchasing foreign currencies

- the upcoming soccer World Cup (*paragraph 2*) will put upward pressure on the rand
- if the gold price resumes its upward trend (*paragraph 2*), there will be upward pressure on the rand
- some may argue that governments should not intervene in currency markets
- some may argue that the South African government has little power to influence the rand – market sentiment may be more powerful.

Any reasonable discussion.

2. (a) (i) **Define the term *recession* indicated in bold in the text (*paragraph 1*).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>Vague definition.</i> The idea that the economy gets smaller.	<b>1</b>
2 <i>Accurate definition.</i> An explanation that it is two consecutive quarters of negative economic growth.	<b>2</b>

(ii) **Outline *one* objective of the World Trade Organization (WTO) (*paragraph 4*).** [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is limited understanding.</i> The idea that one of the following needs to be addressed: <ul style="list-style-type: none"> <li>• to promote trade</li> <li>• to reduce barriers.</li> </ul>	<b>1</b>
2 <i>There is clear understanding.</i> A clear understanding demonstrated of one of the following: <ul style="list-style-type: none"> <li>• to promote free trade among member countries by reducing trade barriers</li> <li>• to administer WTO trade agreements</li> <li>• to be a forum for trade negotiations</li> <li>• to handle trade disputes among member nations</li> <li>• to monitor national trade policies</li> <li>• to provide technical assistance and training for developing countries</li> <li>• to cooperate with other international organizations.</li> </ul>	<b>2</b>

**(b) Using a tariff diagram, explain how the revenues of Polish and German candle makers will change as a result of the tariff on candles. [4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>There is a correct diagram <b>or</b> an accurate written response.</i> For drawing a clearly labelled tariff diagram showing the imposition of a tariff, with a higher price and increased output for domestic producers <b>or</b> for explaining that the imposition of a tariff will increase the price of candles and increase the sales of domestic producers, therefore increasing their revenue.	<b>1–2</b>
2 <i>There is a correct diagram <b>and</b> an accurate written response.</i> For drawing a clearly labelled tariff diagram showing the imposition of a tariff, with a higher price and increased output for domestic producers <b>and</b> for explaining that the imposition of a tariff will increase the price of candles and increase the sales of domestic producers, therefore increasing their revenue.	<b>3–4</b>

Candidates who incorrectly label diagrams can be rewarded with a maximum of **[3 marks]**.

**(c) Explain why an EU spokesperson “insisted that the anti-dumping measures actually promote free trade” (paragraph 5). [4 marks]**

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	<b>0</b>
1 <i>The written response is limited.</i>	<b>1–2</b>
2 <i>The written response is accurate.</i> For explaining that even though “anti-dumping measures” are barriers to trade, they are intended to tackle the protectionist measure of dumping. Dumping is the selling of goods in overseas markets at a price which is below cost, or significantly below the price in domestic markets – possibly as a result of subsidies, and so in themselves are anti-free trade. Hence a measure to tackle dumping is actually supporting free trade.	<b>3–4</b>

- (d) **Using information from the text/data and your knowledge of economics, evaluate the claim that the EU is “committed to free trade” (paragraph 5).** [8 marks]

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

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Level		Marks
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1	Few relevant concepts are recognized. There is basic knowledge/understanding.	1–2
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*Command term*

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations.

Responses **may** include:

- the EU has been accused of going back on a promise to avoid making the global recession worse by imposing new restrictions on free trade (paragraph 1)
- even though at the G20 meeting world leaders agreed to refrain from doing so (paragraph 1)
- a tax of up to 60 % on candles will be imposed (paragraph 2) this will protect Polish and German candle makers (paragraph 2)
- British retailers will be affected – might cost up to an extra UK£10 million. (paragraph 2)
- loss of comparative advantage (paragraph 2)
- the EU has also imposed a range of taxes on other products
- these taxes will protect EU jobs, which may be seen as more important in times of recession
- the EU might argue that they are a defence against dumping, so in defence of free trade (paragraph 5)
- the EU is also turning to non-tariff barriers (paragraph 4)
- it is not only the EU which is imposing barriers (Table 2) – EU barriers might be justified in this way – it is not the worst offender

- the trade commissioner appears to contradict the actions of the EU – committed to multilateralism and the benefit of developing countries (*paragraph 5*)
- the economies of countries such as Brazil, China and Armenia may suffer
- foreign producers may face huge commercial losses (*paragraph 4*)
- barriers limit the advantages which may be gained from free trade
- the imposition of barriers may be politically advantageous, especially in times of recession.

Any reasonable evaluation.