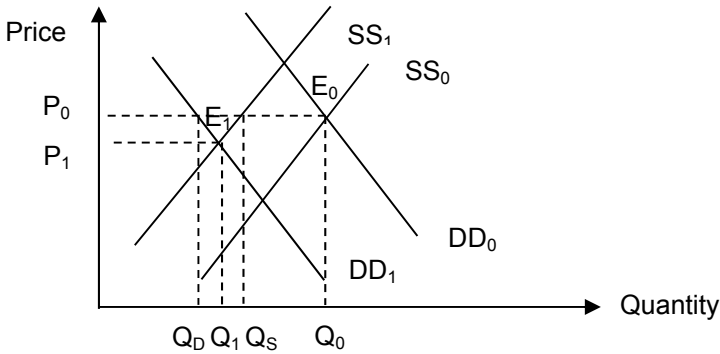


Question 1

Paper and bookstore industries in China

Suggested Answers

(a)	(i)	Compare China's and the world's consumption of paper and paperboard between 2008 and 2012 in Table. [2]
		<p>Similarity: Both China's and the world's consumption of paper and paperboard between 2008 and 2012 increased. [1m]</p> <p>Difference: However, China's consumption increased at a faster rate (25.14%) than that of the world's (2.33%). [1m]</p> <p>OR: However, China's consumption consistently increased while the world's consumption fell in 2009 and 2012. [1m]</p>
	(ii)	Account for China's trend in part (a)(i). [2]
		<p>China's demand for paper and paperboard increases due to rising exports/ greater domestic consumption that require packaging. Hence as demand for exports/ domestic goods increases, derived demand for packaging increases, leading to increasing consumption of paper and paperboard. Evidence: Extract 1 "China, as one of the world's largest exporters, has seen a surge in demand for packaging paper" or "greater domestic consumption".</p> <p>OR: Evidence: Extract 1 "rises in per capita demand" or "rising incomes and the burgeoning middle class". When income increases, demand for paper and paperboard increases as they are normal goods with income elasticity of demand greater than zero/ positive income elasticity, hence consumption increases.</p>
(b)	With reference to Tables 1 and 2,	
	(i)	explain whether China is a net importer or exporter of paper in 2012. [1]
		In 2012, China is a net exporter of paper and paperboard as production of paper and paperboard is more than consumption .
	(ii)	use a diagram to explain how world price of paper and paperboard might have changed between 2008 and 2009. [3]
		 <p>1m for diagram</p> <p>Between 2008 and 2009, world production (supply) decreased by 19.2 million tonnes while world consumption (demand) decreased by 21.7 million tons. This is shown by a leftward shift in supply curve and demand curve from S_0 to S_1 and D_0 to D_1 respectively. [1m]. The decrease in demand is more than the decrease in supply hence price would likely decrease to P_1. [1m]</p>

(c) Discuss how the plans by the Chinese government to consolidate the paper manufacturing firms might affect consumers and producers. [8]

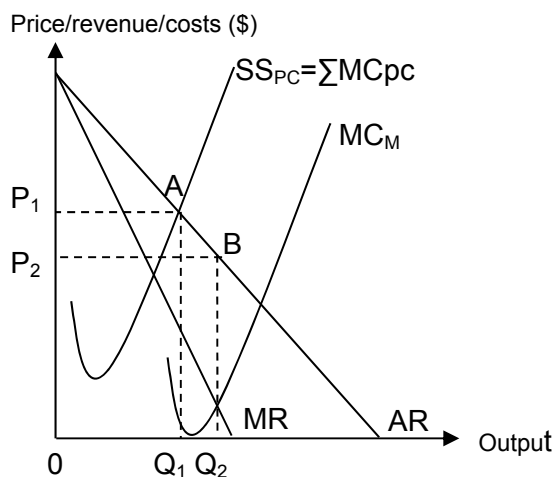
Introduction

- The Chinese government plans to consolidate the paper manufacturing industry by shutting down outdated paper and pulp equipment nationwide and persuading smaller, older manufacturers to reduce capacity.
- I shall be discussing why the Chinese government is encouraging consolidation in the paper manufacturing industry and explaining how this might affect consumer and producer welfare.

Body

Thesis 1 – Positive impact on consumer welfare

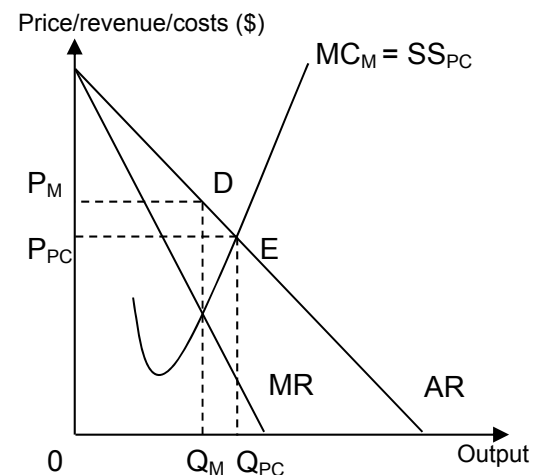
- By encouraging consolidation, the bigger firms could use modernized equipment to increase capacity (Extract 1) to reap substantial EOS, i.e. the lowering of unit cost of production as scale of production increases.
- Using the monopoly and PC industry diagram as a **benchmark**, the substantial EOS enjoyed by bigger firms may lead to lower prices (P_1 to P_2) due to lower cost of production (MC_M) compared to smaller firms ($\sum MC_{PC}$) who are unable to enjoy EOS due to smaller scale of production and less efficient machines.



- Output may increase from Q_1 to Q_2 .
- **Consumer surplus increases** by P_1ABP_2 , leading to improvement in consumer welfare.
- Extract 1 also mentioned about 'new products' that could be created with modernized equipment. Hence, there might be better quality and more variety of paper products, which will improve consumer welfare.

Antithesis 1 – Negative impact on consumer welfare

- Assuming constant costs (or EOS is not substantial enough), by encouraging consolidation, it may lead to higher prices (P_{PC} to P_M) and lower output (Q_{PC} to Q_M).
- **Consumer surplus falls** by P_MDEP_{PC} , leading to worsening in consumer welfare.



Thesis 2 – Positive impact on producers

When a paper manufacturing firm grows in size, it will enjoy greater cost and revenue advantages. With greater economies of scale (lower unit costs as scale of production increase), greater market shares and/or invention of new products (Extract 1: new products), AR increases and AC and MC fall, leading to higher profits.

Antithesis 2 – Negative impact on producers

Firms that are too small and needed to be shutdown would leave (Extract 1: small mills have to shut down if they are not making money).

Stand

- Given that the paper manufacturing industry in China is fragmented and burdened with outdated mills, consolidation might be beneficial since modernized equipment could be used to increase capacity, possibly leading to lower prices and better quality of goods for consumers.
- The increased efficiency leading to increased scale of production will also make China less dependent on imports of both pulp and recovered paper (Extract 1), hence consumers will benefit as China will be less vulnerable to fluctuations in world economic conditions.
- Moreover, since the consolidation is encouraged by the government, the government will likely monitor the situation to prevent dominant firms from abusing their monopoly power to exploit consumers.

Mark Scheme

L3 (7-8)	Excellent explanation with economic analysis using diagrams where appropriate. Balance view and synthesis. Justified conclusion.
L2 (4-6)	Show understanding of consolidation and explain why it could either raise or lower consumer welfare and producer welfare.
L1 (1-3)	Show understanding of consolidation but only explain one possible outcome in terms of consumer welfare and/or producer welfare.

(d) Explain how “increasing competition from online booksellers and rising cost” (Extract 2) has affected the survival of traditional bookstores. [4]

Increasing competition → Falling demand/ AR as “consumers are switching to buying online” due to the “lower prices” (substitutes).

Rising cost → AVC increases (rising employees’ salaries, printing costs, papers price, utilities etc.) and/or AC increases (rising AVC, rental, fixtures, etc.).

As revenue falls and cost increases, there is an **erosion of profits/ a traditional bookstore makes losses** and will not survive/ will shut down. [2m]

If its **total revenue is unable to cover total variable cost (or $AR < AVC$)**, the bookstore will shut-down in the SR to minimize loss. [1m]

And if its **total revenue is unable to cover total cost (or $AR < AC$)**, the bookstore firm will exit the industry in the LR. [1m]

(e) Discuss the strategies that could be adopted by the traditional bookstores in response to the competition from online bookstores and consider whether the government should ‘adopt measures to save traditional bookstores’ (Extract 2). [10]

Introduction

Given the increasing competition from online booksellers and rising cost, the traditional bookstores could adopt strategies that will increase the demand for their products and/or reduce the costs of production in order to survive.

Thesis – Explain strategies that can be adopted	Anti-thesis – Evaluate strategies
1) To increase demand + reduce PED & CED <ul style="list-style-type: none"> • The traditional bookstores could undertake non-price competition to increase demand to gain higher revenue. • At the same time, it reduces magnitude of PED and if it is price inelastic, any rise in price by traditional bookstores due to rising cost, will only lead to a less than proportionate fall in output. • Besides, it will reduce magnitude of CED and when online bookstores reduce price, a less than proportionate of consumers will 	However, <ul style="list-style-type: none"> • the strategies might not work. Extract 2: O2 Sun Bookstore failed to raise revenue as “customers began coming to the bookstore only to enjoy the pleasant atmosphere and did not purchase any books”. Hence, even though the bookstore managed to attract more customers, they did not buy any books hence demand did not increase. • the increase in revenue might not be enough to offset the increase in costs (purchase of furniture, free Wi-Fi, promotional effects).

<p>turn away from traditional bookstores. E.gs:</p> <ul style="list-style-type: none"> • Product development such as providing space for relaxation, coffee and socializing, free Wi-Fi (Extract 2: strategies are adopted by Apodon), early opening and late closing hour, sale of complementary goods like stationary. • Product promotion such as using banners and flyers as form of advertisement. • Illustrate with a price-setter diagram – initial position is subnormal profits and after a rise in AR/MR, the firm earns normal and a little supernormal profit. 	<p>Hence, the traditional bookstores will still shut down in the LR if $AR < AC$.</p> <ul style="list-style-type: none"> • the strategies will not help to change the fact that it is more convenient and there are enormous choices (Extract 2) available online. Hence demand might not increase due to consumers' existing preferences for online bookstores.
<p>2) To reduce costs of production</p> <ul style="list-style-type: none"> • According to extract 2, rent and employees' salaries account for half of the total cost of a traditional bookstore. Hence, the bookstore could try to reduce costs of production by hiring less workers or negotiating for lower prices of books with the publisher (to survive in the SR where $AR \geq AVC$) and/or shifting to another location with lower rent (to survive in the LR where $AR \geq AC$). • Illustrate with a price-setter diagram – initial position is subnormal profits and after a fall in AC/MC, the firm earns normal and a little supernormal profit. 	<p>However,</p> <ul style="list-style-type: none"> • given the existing stiff competition, it is likely that the bookstores are already hiring the minimal number of workers to ensure the bookstores remain operational/ functional (i.e. there is little X-inefficiency) and ability to cut costs further is very limited. • Extract 2 mentions that big online booksellers can negotiate with publishers and secure an advantage (i.e. lower prices) because they are backed by abundant capital, hence they could bulk purchase and enjoy marketing economies of scale. Traditional bookstores, on the other hand, are not as big and many are small enterprises. Hence, there is little room for negotiation for lower prices as their orders will not be as large as the online booksellers. • additional cost (e.g. renovation, logistics) will be incurred when they shift to a new location. Hence, the firm will need to weigh whether the cost savings from rental is substantial enough to warrant the shift. Moreover, they may lose their current customers and have to build up a new clientele base.
<p>Synthesis</p> <p>Given that the strategies that the traditional bookstores could adopt are of limited effectiveness, it might be inevitable that many smaller bookstores would be forced to shut down. For bigger bookstores that have many outlets, they might want to consider closing down most of their outlets and maintain a few outlets in strategic locations to maintain their market presence and switch to sell their books online. This way, they will save on rents and employees' salaries and have bigger rooms to slash prices to be more competitive.</p>	
<p>Should the government 'adopt measures to save traditional bookstores' (Extract 2)?</p>	
<p>Government should only intervene and adopt measures to save traditional bookstores when the free market fails to allocate resources efficiently and equitably to maximise society's welfare and/or when the economy fails to achieve the four macroeconomic goals.</p> <p>In this case, Extract 2 mentions that the demand for books remains strong and consumers are only switching from buying books from bookstores to buying online. Hence, there is no indication that there is underconsumption of books (if the government deems it to be a merit good) and the government should not intervene.</p> <p>Or: Government intervention is required as there is external benefits from having traditional bookstores (e.g. preserving the cultural and heritage aspects of bookstores). Hence, there is underproduction of bookstores and government should intervene, e.g. by exempting them from income tax, providing subsidies for expenses for the computer facilities (Extract 2 last paragraph).</p>	

However, it is difficult to estimate the EMB and hence the level of intervention.

Or: If there is consumers' exploitation due to **market dominance** leading to an inefficient allocation of resources and equity issues, the government should intervene. For e.g., in Extract 2 last paragraph, the Japanese and South Korean government have adopted policies to establish fair competition between traditional bookstores and online retailers. However, in China, there is intense competition and no indication of consumers' exploitation, hence the Chinese government should not intervene.

Or: The government should intervene if the sudden closures of many traditional bookstores is going to result in massive unemployment and/or contribute to greater income disparity. However, this is unlikely to be the case as bookstores is just one of the many retailing industries in most countries, e.g. China, and does not contribute significantly to its GDP.

Mark Scheme

L3 (7-8)	Excellent explanation of strategies using economic analysis, data and diagram(s) in an appropriate manner. Good analysis of the limitations of the strategies. Good consideration on whether the government should or should not intervene based on economic analysis.
L2 (4-6)	Explain using economic analysis the strategies the bookstores could adopt. Consideration of the limitations of the strategies might not be comprehensive enough Consideration on whether the government should or should not intervene might not be based on economic analysis and might be more descriptive in nature.
L1 (1-3)	Able to give describe the strategies without much economic analysis. Limited or no consideration of the limitations of the strategies. Weak consideration of government intervention.
E2 (2)	Judgment based on analysis (justified conclusion).
E1 (1)	Mainly unexplained judgments.

Question 2

The New Normal for China: Internal and External Shifts

Suggested Answers

(a)	Describe the trend in real Gross Domestic Product for China from 2010 to 2012.	[1]
	<i>The real Gross Domestic Product increased from the first quarter of 2010 to the fourth quarter of 2012. [1m]</i>	
(b)	Explain the statement that ‘the Chinese leadership decided that anything below 8 percent would put job creation in jeopardy’.	[2]
	<p><i>The rise in AD leads to actual growth in the economy. As output increases, firms would demand for more factors of production including labour. [1m]</i></p> <p><i>According to the Chinese leadership, with an economic growth of at least eight percent, the increase in output in the economy would be able to create enough jobs sufficiently for an expanding labour force in China. [1m]</i></p>	
(c)	Account for the ‘barely growing’ labour force in China.	[2]
	<p><u><i>Explain the meaning of labour force</i></u></p> <p><i>Labour force represents the group of people of legal working age, who are either employed or unemployed (available and actively looking for work).</i></p> <p><u><i>Provide a possible reason for the slow growth of labour force</i></u></p> <p><i>Reason with reference to Extract 1:</i></p> <p><i>Demographic change in China – As the population starts to age, more people in the labour force are reaching the retirement age. With the one-child policy, the number of people entering the labour force is increasing at a slower rate than the people leaving the labour force, hence there is a slow growth in the labour force in China.</i></p> <p><i>Reason with reference to Extract 2:</i></p> <p><i>The people in China could have abandoned the hope of finding jobs, especially the college graduates. As the number of people who are actively looking for work decreased, it could possibly lead to a slow growth in the labour force in China.</i></p> <p><i>Either one reason – 2 marks.</i></p>	

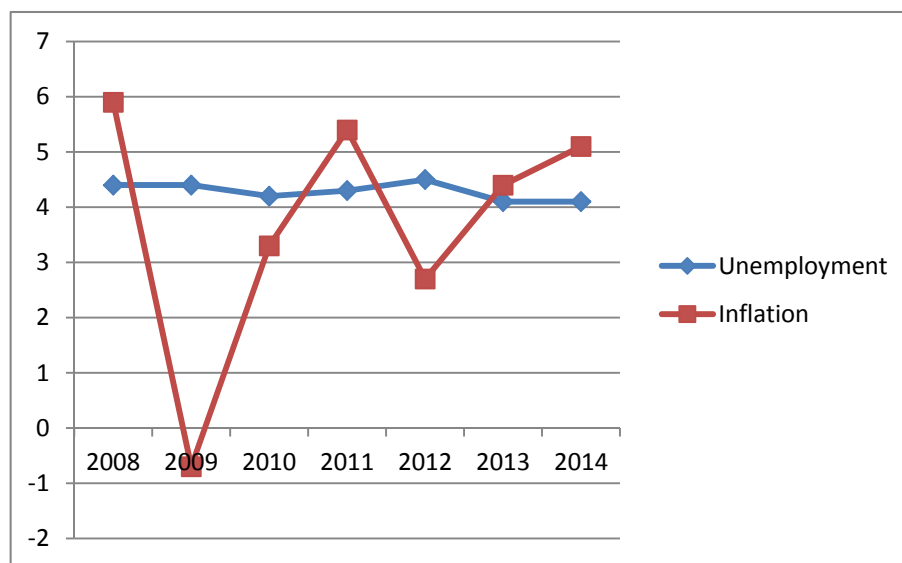
(d)	Explain why there is 'less urgency for the Chinese government to subsidise the cost of electricity, water and oil for producers'.	[2]
	<p><u>Higher cost of production affect output and general price level</u></p> <p>A higher cost of production at all levels of output in the economy will result in a fall in the SRAS, causing a rise in general price level and a fall in real national output. The rise in general price level will lead to inflation while the fall in real national output will lead to lower growth rate. [1m]</p> <p>Alternative explanation:</p> <p>A higher cost of production at all levels of output in the economy will result in a fall in the SRAS, causing a rise in general price level and a fall in real national output. The rise in general price level will lead to inflation. In addition, with a higher cost of production in the economy, firms will cut back on their production level, leading to retrenchment of workers. [1m]</p> <p><u>This is less urgency for the Chinese government to subsidise cost of electricity, water and oil for producers.</u></p> <p>Since the Chinese government is allowing for a slower growth rate and for a higher inflation rate of around 5 percent, there is no urgent need for the government to subsidise the cost of electricity, water and oil for firms to reduce the fall in SRAS. [1m]</p>	
(e)	(i) Explain the possible tradeoff between inflation and unemployment and comment whether it is shown in Table 3.	[3]
	<p><u>Tradeoff: A rise in AD will lead to a rise in inflation and fall in unemployment</u></p> <p>The increase in AD will lead to a rise in both real national output and general price level. As the level of output increases, firms would employ more factors of production, including labour. However the competition for resources (factors of production) would drive up the costs (movement along the upward sloping nature of the AS), increasing the general price level. Hence during periods of economic growth, cyclical unemployment rate decreases, while demand-pull inflation rate increases, and vice versa. This explains the inverse relationship between inflation and unemployment. [1m]</p> <p>[Note: Tradeoff refers to an improvement in one macroeconomic objective that leads to a worsening of another macroeconomic objective.]</p> <p><u>Table 1 did not show an inverse relationship between inflation and</u></p>	

unemployment

Table 1 shows that the unemployment rate doesn't seem to change much over the period 2008-2014 while the inflation rate ranges from -0.7% to 5.9%. Table 1 did not demonstrate such a link for China hence it suggests that unemployment and inflation are unrelated. [1m]

[Note: Do not accept inverse relationship that holds for one year. It should be for the entire time frame. Candidates should realise that unemployment had barely changed over the period. Can refer to the diagram below.]

The diagram shown below is only for your information, not required to draw this in the answer.



Comment on possible explanation of the data

Fall in SRAS will lead to a rise in both inflation and unemployment. The rise in AD and fall in SRAS could occur concurrently hence Table 1 did not demonstrate an inverse relationship between inflation and unemployment. [1m]

(ii) Discuss whether unemployment or inflation might be a concern for China as she enters the 'new normal' decade.

[8]

Introduction

As China enters the 'new normal' decade, China has to grapple with particular sources of unemployment and inflation.

Information from the case material suggests that unemployment (in general) might not be a concern in China

Unemployment as a whole may not be a major issue. Table 3 shows that unemployment rate is around 4% from 2008-2012 and is also projected to be around 4% in 2013 and 2014. Moreover, there is a shortage of labour in

some provinces in China. This implies that the labour market in general could be very tight and unemployment may not be a major issue. Furthermore, as the Chinese economy achieves actual growth due to the rise in AD, more jobs would be created, leading to a rise in demand for labours, hence maintaining a low unemployment rate of around 4%. This imply that majority of the labour force are being employed and are able to maintain a minimum standard of living. Therefore unemployment might not be a concern in China.

Structural unemployment might be a concern in China

However there could be structural unemployment in China as the skills of the graduates may not be relevant to the needs of the industries in China. The number of college-educated (or university graduates) labours has increased tremendously from 1998 to 2012 due to the government decision to expand the higher-education system in 1999. However these university courses may not produce the necessary knowledge and skills that are specific to the industries, leading to high unemployment among them.

In addition, structural unemployment due to geographical immobility also present in China.

There could be government failure in identifying the relevant courses to meet the industry needs. If this is not resolved structural unemployment could persist and become a major issue.

Evidence: “A full quarter of recent college graduates in China are unemployed... And many of those who are employed end up working in jobs that are nothing near what they have studied in their undergraduate days.”

Frictional unemployment might be a concern in China

Furthermore, with more jobs being created in the economy, it does not mean that most of the workers would be employed. This is due to imperfect information, leading to frictional unemployment in China.

Evidence: “being a large country like China, it is common that some graduates are unwilling or do not possess the necessary information to land them their first job in other parts of the country”.

Economic Implication: This is because having a large number of unemployed graduates would mean that **resources are not being utilised, leading to a loss in output**. In addition, if these workers are not employed for a long period of time, they will need to seek help from the government for financial assistance, which is a **strain on the Chinese government’s budget**. Besides, there could be **social problems** associated with the high level of unemployment among the graduates. The structural unemployment could be worsened in view that China is a very big country and there is geographical immobility of labours. Therefore a high level of structural unemployment might be a concern for China.

Information from the case material suggests that inflation (in general) might

be a concern in China

Table 3 shows that the inflation rate in China is maintained at around or below 5% from 2008-2011 and is projected to be 4.4% in 2013 and 5.1% in 2014. From Extract 3, the inflation rate is also expected to average around 5% over the next decade. Investors could be concerned if inflation rate is at a relatively 'high level' of 5% per year. They may need to have higher returns to obtain better real incomes.

Cost-push inflation might be a concern in China

The Chinese government has decided to remove the subsidy on electricity, water and oil for producers thus the cost of production at all levels of output in the economy would increase, leading to a fall in SRAS hence cost push inflation in China.

The inflationary pressure could be higher as there is implementation of minimum wages in some provinces, and the higher wages may not be offset by a rise in productivity.

Evaluations: However, the rise in general price level would be less substantial if the subsidy is removed gradually. This is because producers would be given ample time to develop new methods of production to cushion the rise in cost when the government removes the subsidy. Moreover, if there are appropriate policies in place to raise the labour productivity in China, such that it exceeds the rise in cost of production at all levels of output, cost-push inflation would not be a concern in China.

Economic implications: If the pressures from the cost side lead to a high inflation rate, which is higher than China's trading partners, China will lose her **export competitiveness**. Furthermore, if increase in wages does not match increase in inflation, **real income for households may fall**.

Conclusion

In conclusion, whether unemployment or inflation might be a concern for China depends on the extent of the consequences of structural unemployment or cost-push inflation and what policies the government can implement to address these problems.

	L3	Good discussion on the types of unemployment and inflation with sufficient or good implications to the economy. Provided good evaluations and sound judgment.	7-8
	L2	Able to explain the types of unemployment and inflation in the data with little or no implications to the Chinese economy. Little or no attempt at evaluating the material.	4-6
	L1	Weak attempt in answering the question requirement. Major conceptual errors were evident. Either unemployment or inflation is discussed, a maximum of 3 marks is awarded.	1-3
(f)	(i)	Explain how the change in the exchange rate of Yuan in Figure 2 affects China's Real Effective Exchange Rate (REER) in Figure 3.	[2]
	<p><i>REER is a trade weighted exchange rate of the country with major trading partners having a large weighting in the computation of the REER. US is a major trading partner of China (and vice versa) (Extract 5)</i></p> <p><i>Thus when China appreciated against US\$ in Figure 2 and US is a major trading partner, the REER would therefore also show an appreciation (of about 25% from 2006 to 2012), ceteris paribus.</i></p> <p><i>[Identify that US is a major trading partner of China and using Figure 2 to show that Yuan appreciating against USD and thus REER is also appreciating - 2m]</i></p>		
	(ii)	Discuss whether the external value of the Yuan is the major reason behind China's growing trade imbalance with the United States.	[10]
	<p><u>Introduction</u></p> <p><i>China has enjoyed a trade surplus against the United States (US) from 2005 to 2012, with reference to Figure 4.</i></p> <p><u><i>Information from the case material suggests that Chinese yuan may be undervalued hence this is the reason behind China's growing trade imbalance with the United States</i></u></p> <p><i>There is a common sentiment among the producers in the US to request for a major revaluation of the Yuan. This suggests that the Yuan could be undervalued against the US dollar. This would make Chinese exports relatively cheaper in terms of US dollar, while US imports relatively more expensive in terms of Chinese Yuan. Therefore a cheaper Yuan against the</i></p>		

US dollar will allow China to enjoy a balance of trade surplus against the US. This is evident as shown in Figure 4, China's trade surplus against US would continue to increase.

The Chinese Yuan has appreciated since 2005 hence this is not the reason behind China's growing trade imbalance with the United States

However the Yuan had appreciated against the US dollar by almost 30 percent since 2006 (in Figure2). This implies that the Yuan may not be too undervalued against the US dollar. Instead, Chinese exports have increasingly become more expensive in terms of US dollar hence the exchange rate movement is not the reason behind China's growing trade surplus against the US.

In addition, Figure 3 shows that the REER for Chinese Yuan has increased from 2003 to 2012 while Figure 4 shows that China's balance of trade deficit with the world excluding US has increased from 2005 to 2012. This shows that the Chinese Yuan is relatively more expensive vis-à-vis other currencies and the trade deficit with the world excluding US will therefore increase. This shows that China's Yuan may not be undervalued and the growing trade imbalance with the US may not be due to the exchange rate movement.

Other reasons to explain China's growing trade imbalance with the United States – US's high level of consumption of imported goods

There could be other reasons for China's growing trade imbalance with the US. The trade imbalance could be caused by US's high level of consumption and the use of China as a production base.

The US government has implemented expansionary fiscal policy and monetary policy through Quantitative Easing(QE). The expansionary fiscal policy is implemented via a rise in government's expenditure, leading to a rise in AD, resulting in a rise in real national output in the US. The rise in the output has increased the demand for factors of production including labour, leading to a fall in the level of unemployment. As mentioned in Extract 5, the US economy has grown for more than three years and unemployment rates had been falling. The consumers in US are very optimistic that the economy would continue to grow and thus the level of consumer expenditure is likely to rise.

This might lead to a rise in import expenditure from other countries such as China. The two rounds of QE would also encourage the US consumers to purchase more consumer durable goods such as cars, electronic goods and household appliances which are imported from China. Hence this will increase the export revenue of China, at the expense of US, creating China's growing trade imbalance with the US.

Evaluation: However the US government may decide to scale back the fiscal expansion, halt further QE policies and possibly raise the interest rates in the latter half of 2012. This would slow down the rise in the income level of the US consumers, and reduce the consumption of imported goods from China.

Hence this might reduce US's trade deficit with China.

Other reasons to explain China's growing trade imbalance with the United States – China as an export centre

China entered the World Trade Organisation in 2001 and soon became the assembly plant for the world. With abundant supply of labour that process high level of productivity, China has a comparative advantage in the production of manufactured goods, especially goods which are labour intensive. Hence many multinational companies have moved their production plants to China and use China as an export centre to export goods to the rest of the world such as the US. As China exports more goods to US, the trade surplus against US would rise, resulting in China's growing trade imbalance with the US.

Evaluation: As wages rise in China, its role as a production base for East Asia might diminish if firms decide to relocate to another place in Asia such as Vietnam or Indonesia.

Conclusion

In conclusion, it is unlikely that the external value of the Yuan is the major reason behind China's growing trade imbalance with the United States as the Yuan has appreciated against the US dollar since 2005. The trade imbalance is more likely to be caused by the rising import expenditure by the US residents and the establishment of production plants in China due to her comparative advantage.

L3	Balanced and well developed economic analysis, based on the case material. Good economic analysis of how the 3 factors attribute to the changes in trade imbalance.	7-8
L2	Some balance in answer. Able to give some economic analysis in the 3 factors to explain the trade imbalance between China and US.	4-6
L1	Descriptive answer without much reference to economic analysis. Good explanation centered on exchange rate alone, max 3 marks	1-3
E2	Provide good synthesis and a reasoned conclusion.	2
E1	Attempts to synthesize	1