

<b>(a)</b>	<b>(i)</b>	<p>Using Table 1, compare the change in General and Food prices between 2011 and 2014.</p> <ul style="list-style-type: none"> <li>- Both GPL and Food prices increase from 2011 to 2014. (1)</li> <li>- food prices fell in 2014. (1)</li> </ul>	[2]
	<b>(ii)</b>	<p>With reference to Extract 1 and Table 1, explain the likely value of PED for food.</p> <ul style="list-style-type: none"> <li>- PED value is likely to be one [1] as a change in food prices bring about a proportionate change in quantity demanded.(1)</li> </ul>	[2]
	<b>(iii)</b>	<p>Using the data provided, account for the difference between UK food and UK general household spending from 2013 to 2014.</p> <ul style="list-style-type: none"> <li>- UK food expenditure remained constant and UK general household increased.</li> <li>- General household spending increased due to : From Extract 1, UK households are experiencing increased incomes. (1)</li> <li>- OR From Extract 1, an increase in recreation and transport spending. (1)</li> <li>- AND</li> <li>- Food expenditure remaining static due to: From Extract 1, there was a reduction in food prices due to increased competition. (1)</li> </ul>	[2]
<b>(b)</b>		<p>Using extract 2, comment on whether the pricing decision made by the Big 4 is consistent with the aim of profit-maximisation.</p> <p>From extract 2, Big 4 have been forced to cut prices. The Big 4 has assumed PED to be greater than 1 where a fall in price leads to a more than proportionate increase in quantity demanded assuming ceteris paribus. This increases TR for the Big 4.</p> <ul style="list-style-type: none"> <li>- Might not be achieving the traditional aim of profit maximisation as a price cut might not lead to an increase in TR as there are other factors. Therefore TR might not increase as ceteris paribus assumption does not hold.(1)</li> </ul> <p><u>Synthesis</u></p> <ul style="list-style-type: none"> <li>- Big 4 might be desperate to retain its market share/prevent consumers from leaking away.</li> </ul>	[5]
<b>(c)</b>		<p>Explain how hidden costs as mentioned in Extract 5 could result in a misallocation of resources in the market for agricultural products.</p> <ul style="list-style-type: none"> <li>- The hidden costs as mentioned in Extract 5 refers to the negative externalities such as environmental and social costs accompanying intensive agriculture.</li> </ul> <p>Include a diagram</p> <ul style="list-style-type: none"> <li>- With reference to Figure 1, producers in a perfectly competitive market for agricultural products maximise their profits.</li> <li>- 0Q units of agricultural products however is not the socially optimal level of output.</li> <li>- The firm has not considered the external costs such as the loss of wild biodiversity as it produces the agricultural products.</li> <li>- Assuming that the external benefit (MEB) in the private exchange of agricultural products is negligible, then <math>MSB=MPB+MEB</math> and <math>MEB=0</math>; <math>MSB=MPB</math>.</li> </ul>	[6]

	<ul style="list-style-type: none"> <li>- The socially optimal level of agricultural production would actually be where <math>MSB=MSC</math> at the level of 0R units.</li> <li>- The free market has actually resulted in an <b>overproduction</b> of agricultural products.</li> <li>- The welfare loss to society due to the overproduction is thus represented by area <math>E_1AE_0</math> in figure 1 above. To achieve allocative efficiency, output should be reduced to 0R units.</li> </ul>	
<b>(d)</b>	<p>With the help of a diagram, use supply and demand analysis to explain the possible change in world food prices by the year 2050.</p> <p><u>Demand</u></p> <ul style="list-style-type: none"> <li>- From Extract 3, it is mentioned that there is growing explosion of affluence in Asia.</li> </ul> <p><u>Supply</u></p> <ul style="list-style-type: none"> <li>- From Extract 4, Intensive agriculture and modern agriculture has resulted in higher yields which will increase supply of food by the improvement of technology in farming which reduce cost of farming.</li> </ul> <p><u>Price mechanism</u></p> <ul style="list-style-type: none"> <li>- At the current market price of <math>P_0</math>, the quantity demanded exceeds the quantity supplied and this results in a <b>shortage</b>.</li> <li>- As long as the shortage exists in the market, there will be an <b>upward pressure on prices</b> until a new market equilibrium <math>E_1</math> is achieved where <math>Q_D = Q_S</math> where Price is <math>P_1</math> and output <math>Q_1</math></li> </ul> <p><u>Extent of shifts</u></p> <ul style="list-style-type: none"> <li>- The increase in supply is likely to be insufficient to meet the increased demand.</li> </ul> <p><u>Well-drawn Figure</u></p>	[5]
<b>(e)</b>	<p>Extract 3 explains how the UK is overly reliant on international markets for food. Discuss the case for protectionism in such circumstances?</p> <p>Introduction:</p> <ul style="list-style-type: none"> <li>- Protectionism in Extract 5 include OECD providing subsidies for their own farmers AND block market access for growers from poor countries.</li> </ul> <p><u>Thesis: case for protectionism</u></p> <ol style="list-style-type: none"> <li>1. <u>Protect the employment of local farmers</u> <ul style="list-style-type: none"> <li>- From extract 3, Farmers are forced out of trade due to low prices paid to farmers, forcing them to be making small profits. The direct payments made to farmers reduced the cost of production and therefore increase internal supply of food.</li> <li>- <b>Evaluation:</b> However, it depends on how these direct payments are allocated among farmers.</li> <li>- <u>Reduce the Risk of Imported inflation</u></li> <li>- From extract 4, UK is vulnerable to excessive price excesses due to an increasing demand from growing middle class in China.</li> <li>- increase in imported prices lead to a less than proportionate fall in imported food as the value of PED of food is likely to be less than 1.</li> </ul> </li> </ol> <p><u>Anti-Thesis: case against protectionism</u></p> <ol style="list-style-type: none"> <li>1. <u>Lower global output and consumption</u></li> </ol>	[8]

	<ul style="list-style-type: none"> <li>- Countries can gain from trade by specialising in those goods in which they have comparative advantage based on their relative opportunity costs of producing the goods. This would therefore determine the types of goods and services a country would export and import. UK does not have comparative advantage in agricultural products as farming is a largely labour intensive industry.</li> </ul> <ol style="list-style-type: none"> <li>2. Greater inefficiency</li> <li>3. UK farmers are shielded from competition from growers from poor countries due to the protectionist measures.</li> <li>4. Reduced consumer choice</li> </ol> <ul style="list-style-type: none"> <li>- Protectionist measures reduces not only the amount of food imports UK and also the choice of food imports citizens enjoyed.</li> </ul> <p>Overall conclusion:</p> <ul style="list-style-type: none"> <li>- The purpose of implementing protectionist measures is to ensure self-sufficiency and improve standard of living for both UK farmers and UK citizens.</li> </ul> <p><b>Mark Scheme</b></p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 15%;">Level</th> <th>Descriptors</th> </tr> </thead> <tbody> <tr> <td>Level 3 5 – 6</td> <td> <ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Excellent depth in analysis.</li> <li>➢ Excellent breadth in analysis: Addresses both positive and negative effects of protectionism.</li> </ul> </li> </ul> </td> </tr> <tr> <td>Level 2 3 – 4</td> <td> <ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Good depth in analysis.</li> <li>➢ Good breadth in analysis: Addresses both positive and negative effects of protectionism.</li> </ul> </li> </ul> </td> </tr> <tr> <td>Level 1 1 – 2</td> <td> <ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Insufficient depth in analysis. Inaccurate <u>and/or</u> inadequate use of economic concepts and analysis in explanation (e.g. explanations are mostly descriptive).</li> </ul> </li> </ul> </td> </tr> </tbody> </table> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 15%;">Level</th> <th>Descriptors</th> </tr> </thead> <tbody> <tr> <td>E2 2</td> <td> <ul style="list-style-type: none"> <li>• For a well-supported judgement.</li> </ul> </td> </tr> <tr> <td>E1 1</td> <td> <ul style="list-style-type: none"> <li>• For an unexplained judgement.</li> </ul> </td> </tr> </tbody> </table>	Level	Descriptors	Level 3 5 – 6	<ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Excellent depth in analysis.</li> <li>➢ Excellent breadth in analysis: Addresses both positive and negative effects of protectionism.</li> </ul> </li> </ul>	Level 2 3 – 4	<ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Good depth in analysis.</li> <li>➢ Good breadth in analysis: Addresses both positive and negative effects of protectionism.</li> </ul> </li> </ul>	Level 1 1 – 2	<ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Insufficient depth in analysis. Inaccurate <u>and/or</u> inadequate use of economic concepts and analysis in explanation (e.g. explanations are mostly descriptive).</li> </ul> </li> </ul>	Level	Descriptors	E2 2	<ul style="list-style-type: none"> <li>• For a well-supported judgement.</li> </ul>	E1 1	<ul style="list-style-type: none"> <li>• For an unexplained judgement.</li> </ul>	
Level	Descriptors															
Level 3 5 – 6	<ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Excellent depth in analysis.</li> <li>➢ Excellent breadth in analysis: Addresses both positive and negative effects of protectionism.</li> </ul> </li> </ul>															
Level 2 3 – 4	<ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Good depth in analysis.</li> <li>➢ Good breadth in analysis: Addresses both positive and negative effects of protectionism.</li> </ul> </li> </ul>															
Level 1 1 – 2	<ul style="list-style-type: none"> <li>• For an answer that exhibits:               <ul style="list-style-type: none"> <li>➢ Insufficient depth in analysis. Inaccurate <u>and/or</u> inadequate use of economic concepts and analysis in explanation (e.g. explanations are mostly descriptive).</li> </ul> </li> </ul>															
Level	Descriptors															
E2 2	<ul style="list-style-type: none"> <li>• For a well-supported judgement.</li> </ul>															
E1 1	<ul style="list-style-type: none"> <li>• For an unexplained judgement.</li> </ul>															
[Total: 30]																

Case study 2:

<b>(a)</b>	<b>(i)</b>	Compare the change in the United Kingdom's balance of trade in goods and services with that of United States between 2011 and 2014.	<b>[2]</b>

		<p>Similarity: Both countries' balance of trade are in deficits from 2011 to 2014.</p> <p>Difference: UK's balance of trade is worsening whereas US's balance of trade is improving from 2011 to 2014.</p>	
<b>(a)</b>	<b>(ii)</b>	With reference to the data in Table 2 and Table 3, explain the effect of the United Kingdom's growth rates on the United Kingdom's balance of trade between 2011 and 2014.	<b>[2]</b>
		With reference to Table 3, UK's growth rate increases between 2011 and 2014, which explains for the increase in demand for imports due to the rising income assuming $YED > 0$ for imports/import goods are normal goods. The increase in import expenditure will lead to a fall in net exports, assuming ceteris paribus, hence explaining for the worsening in UK's BOT observed in Table 2.	
<b>(b)</b>		Explain the advantages of the 'changing business relationship between China and the West' on China's economy.	<b>[3]</b>
		<p>The changing business relationship refers to the increasing number of Chinese firms acquiring foreign firms in China and/or acquiring foreign firms overseas.</p> <p>Therefore, there is an increase domestic investments by domestic firms in China. Hence, China's AD and LRAS is likely to increase thus promoting economic growth in China. In addition, there might be lesser income outflow in terms of profit remittance hence China's balance of payments/capital-financial account is likely to improve.</p>	
<b>(c)</b>		Using a diagram, explain how 'structural reforms, combined with fiscal austerity, push economies into a deflationary tailspin'.	<b>[5]</b>
		<p>Structural reforms refer to efforts to decrease government/public expenditure on infrastructure and increase private consumption expenditure. Fiscal austerity as suggested refers to a policy of reducing government/public spending and raising taxes. An increase in personal income tax is likely to decrease consumers' disposable income and hence consumption expenditure. An increase in corporate tax will reduce investment expenditure.</p> <p>Hence it would lead to a fall in consumption and investment expenditure as well as fall in government expenditure, which in turn would lead to a decrease in AD. The fall in AD leads to a fall in real national and GPL. (diagram to illustrate)</p>	
<b>(d)</b>		'TTIP is an excellent idea, say its champions, because it will be a magical GDP bonanza for both economic blocs' (Extract 6). Using your own knowledge and the data where relevant, assess the validity of this statement.	<b>[8]</b>
		<b>Introduction:</b>	

- TTIP is an excellent idea according to its champions due to its perceived benefits. However it is likely to bring about problems that will affect both macro and micro aims.

**Body 1: TTIP is an excellent idea**

- Increase in trade thus for both US and EU thus leads to an increase in net exports for both Eu countries and US. Coupled together with the increase in FDI, this will increase AD and hence real national output. The increase in FDI can also lead to an increase in LRAS, bringing about potential growth. This is supported with Extract 6 that quoted how TTIP will be a magical GDP bonanza for both economic blocs, which will result in an improvement in material SOL of the citizens in both countries.
- TTIP increases the amount of imports and therefore the choice of goods and services available to consumers. The reduction of non-tariff barriers means that exporters may increase their products to the importing country, which results in an increase in consumer choice, which has a positive impact on consumer welfare.

**Body 2: TTIP is not an excellent idea due to its limitations**

- Loss of jobs and increased unemployment – With increased restructuring of economies according to CA (as mentioned earlier), there might be prolonged and substantial dislocation of jobs under TTIP.
- TTIP’s biggest threat to the citizens is its inherent assault on democracy. As mentioned in Extract 6, one of the main aims of TTIP is the introduction of Investor-State Dispute Settlements (ISDS), which allow companies to sue governments if those governments’ policies cause a loss of profits. Hence this could imply a decrease in those annoying profit-blocking rules erected by governments to stop their citizens being poisoned or killed, or to prevent rampant pollution.
- TTIP could bring about an enormous transfer of power from public to private hands as mentioned 6, since private companies will be allowed to sue national governments for doing things that harm their bottom line.

**Synthesis:**

- Indeed TTIP is an excellent idea, because it will be a magical GDP bonanza for both economic blocs. However TTIP can be an excellent idea due to its other benefits.
- Hence the pros and cons of TTIP must be carefully considered and weighed before coming to a stand that TTIP is an excellent idea because it will a magical GDP bonanza for both economic blocs.

**Mark Scheme**

Level	Descriptors
-------	-------------

		<p><b>Level 2</b> 4 – 6</p> <p>For an answer that exhibits:</p> <ul style="list-style-type: none"> <li>➤ <b>Good</b> depth in analysis. <ul style="list-style-type: none"> <li>✓ Accurate, precise and clear use of economic concepts and analysis in <b>all</b> explanations. Answer shows <b>good</b> knowledge of effects of TTIP.</li> </ul> </li> <li>➤ <b>Good</b> breadth in analysis: <ul style="list-style-type: none"> <li>✓ Addresses <u>both</u> positive and negative effects of TTIP</li> </ul> </li> </ul>							
		<p><b>Level 1</b> 1 – 3</p> <p>For an answer that exhibits:</p> <ul style="list-style-type: none"> <li>➤ <b>Insufficient</b> depth in analysis. <ul style="list-style-type: none"> <li>✓ Accurate and clear use of economic concepts and analysis in <b>some</b> explanations. Answer shows <b>insufficient</b> knowledge of effects of TTIP.</li> </ul> </li> <li>➤ <b>Insufficient</b> breadth in analysis: <ul style="list-style-type: none"> <li>✓ Addresses positive <u>and/or</u> negative effects of TTIP</li> </ul> </li> </ul>							
		<table border="1"> <thead> <tr> <th>Level</th> <th>Descriptors</th> </tr> </thead> <tbody> <tr> <td><b>E2</b> 2</td> <td> <ul style="list-style-type: none"> <li>• For a well-supported judgement with good consideration criteria/situations on the overall effects of TTIP.</li> </ul> </td> </tr> <tr> <td><b>E1</b> 1</td> <td> <ul style="list-style-type: none"> <li>• For an unexplained judgement on the overall effects of TTIP.</li> </ul> </td> </tr> </tbody> </table>	Level	Descriptors	<b>E2</b> 2	<ul style="list-style-type: none"> <li>• For a well-supported judgement with good consideration criteria/situations on the overall effects of TTIP.</li> </ul>	<b>E1</b> 1	<ul style="list-style-type: none"> <li>• For an unexplained judgement on the overall effects of TTIP.</li> </ul>	
Level	Descriptors								
<b>E2</b> 2	<ul style="list-style-type: none"> <li>• For a well-supported judgement with good consideration criteria/situations on the overall effects of TTIP.</li> </ul>								
<b>E1</b> 1	<ul style="list-style-type: none"> <li>• For an unexplained judgement on the overall effects of TTIP.</li> </ul>								
<b>(e)</b>		Using the evidence in the data, discuss whether China's slowdown will be the biggest worry to European Union countries.	<b>[10]</b>						
		<p><b>Introduction:</b></p> <p>A slowing China could be a worry to EU countries, however it may not be the biggest worry as the weakening of US and the domestic problems in EU countries could be a bigger worry to them.</p> <p><b>Thesis: China's slowdown will be the biggest worry to EU countries</b></p> <ul style="list-style-type: none"> <li>• A slowing China means that income will be rising at a slowing rate and hence this will lead a slowdown in demand for imports by the Chinese if <math>YED &gt; 0</math> for these imports. This is equivalent to a slowdown in demand for EU exports. CA and BOP of EU countries will worsen, assuming ceteris paribus.</li> <li>• The fall in EU countries' net exports will also lead to a fall in AD and real national output. Hence cyclical unemployment will increase due to the fall in production which results in a fall in demand for labour since labour is a derived demand.</li> <li>• Slowdown in the inflow of FDI will lead to a slower increase in AD and a increase in real national output.</li> </ul> <p><b>Anti-thesis : There are other worries to EU countries</b></p> <p>(1) Weakening US:</p>							

- As mentioned, bad inflation in US where companies are charging more for goods with price inelastic demand in an attempt to offset low sales volumes shows signs of profit price-push inflation in US, illustrating stagflation in US which will lead to a fall in external demand in EU countries.

(2) Domestic problems in EU countries:

- Debt problem. The axing of government spending on projects and the bolstered taxes that have throttled public and private investment across southern Europe has also not helped. And even if fiscal austerity proves less damaging in 2014 than in 2013, European growth will be crimped by the disastrous state of France's economy where taxes weigh too heavily on income and moves to rein in public spending are coming far too late.
- EU countries tend to be slower in adopting new technology and hence face a relatively slower productivity growth compared to US due to a slower increase in LRAS. This might hinder EU countries in achieving high and sustainable economic growth.

**Synthesis:**

- Whether or China's slowdown is the biggest worry to EU countries depends on how dependant EU countries are on China for trade.

**Mark Scheme**

Level	Descriptors
<b>Level 3</b> 7 – 8	For an answer that exhibits: <ul style="list-style-type: none"> <li>➤ <b>Excellent</b> depth in analysis.               <ul style="list-style-type: none"> <li>✓ Accurate, precise and clear use of economic analysis in <b>all</b> explanations.</li> </ul> </li> <li>➤ <b>Excellent</b> breadth in analysis: Contains               <ul style="list-style-type: none"> <li>✓ <b>Excellent</b> knowledge of the reasons why China's slowdown will be a worry to EU countries and other factors that are a worry to EU countries.</li> </ul> </li> </ul>
<b>Level 2</b> 4 – 6	For an answer that exhibits: <ul style="list-style-type: none"> <li>➤ <b>Sufficient</b> depth in analysis.               <ul style="list-style-type: none"> <li>✓ Accurate use of economic concepts and explanations i.e. some explanations are described.</li> </ul> </li> <li>➤ <b>Good</b> breadth in analysis: Contains               <ul style="list-style-type: none"> <li>✓ <b>Good</b> knowledge of the reasons why China's slowdown will be a worry to EU countries and other factors that are a worry to EU countries.</li> </ul> </li> </ul>
<b>Level 1</b> 1 – 3	For an answer that exhibits: <ul style="list-style-type: none"> <li>➤ <b>Insufficient</b> depth in analysis.               <ul style="list-style-type: none"> <li>✓ Inaccurate or insufficient use of economic analysis in most explanations.</li> <li>✓ Conceptual errors in analysis.</li> </ul> </li> <li>➤ <b>Insufficient</b> breadth in analysis: Contains               <ul style="list-style-type: none"> <li>✓ Lack of knowledge of the problems</li> </ul> </li> </ul>

Level	Descriptors
<b>E2</b> 2	<ul style="list-style-type: none"> <li>• For a well-supported judgement with good consideration of why China's slowdown will be the biggest worry to EU countries.</li> </ul>
<b>E1</b> 1	<ul style="list-style-type: none"> <li>• For an unexplained judgement on whether China's slowdown will be the biggest worry to EU countries.</li> </ul>
