

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Pre-U Certificate

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## **MARK SCHEME for the May/June 2014 series**

### **9772 ECONOMICS**

**9772/03**

Paper 3 (Investigation), maximum raw mark 40

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, Pre-U, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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## 1 Transport and the Environment

**‘Airport expansion in the South-East is not the right thing for Britain’.**  
**UK Government Transport Secretary, Justine Greening, 2012**

**To what extent do you agree with this view? [40]**

Candidates should demonstrate that they understand the debate surrounding the airport expansion, both from a theoretical perspective and the practical issues. The quote is broad enough to allow a range of answers focussing on a breadth of issues, with room for original, innovative answers.

Whilst some candidates may focus on the South-East debate, the nature of the quote allows for answers about wider issues for Britain (in both aviation and transport more generally) to be rewarded.

Strong candidates will look at a variety of stakeholders, including consumers, government, taxpayers, tourists, London residents, firms, and airlines.

Candidates should demonstrate a good understanding of a range of issues associated with the issues in aviation – average candidates are expected to focus purely on the issue of alleviating capacity constraints, negative externalities of expansion and the financing/opportunity cost issues. Stronger responses will cover a wider range of issues, citing empirical evidence to support their points. These may include issues such as more monopoly power for Heathrow’s owners, the positive externalities of expansion, effects on consumers/government/firms/airlines and explicitly differentiating between the micro- and macro-economic impacts of such an expansion. Strong candidates will discuss the consequences for the South-East in the wider context of the consequences and issues for Britain – as the quote indicates – focussing on whether it is the right thing for Britain, and not just the South-East.

Candidates should demonstrate a clear understanding of the current issues relating to aviation. There should be a good balance of discussing the theoretical pros and cons of expansion, against both the theoretical and empirical limitations. The best responses will incorporate empirical evidence to support their arguments, whilst weaker responses will give more generic pros/cons of an expansion, more in line with a Paper 2 extended essay response. The Coalition government has proposed an Independent Review of the airport expansion issue in the UK and strong candidates may be able to make reference to this.

Where the international comparisons are used, they should be rewarded as a high level analysis – for example the Dubai International airport in 2011/12, or European city airport expansions (e.g. Madrid).

Candidates should reach a clear and well-supported conclusion on the extent to whether the airport expansion is the right thing for Britain.

Most candidates are likely to focus primarily on Heathrow and conclude that whilst the expansion will encourage employment, tourism, FDI and positive multipliers, it will create negative externalities and be expensive.

Stronger responses will be expected to go further and point out, for example, that the airport expansion on Heathrow only helps alleviate London-centric issues, and may divert resources/tourists/FDI from other major cities like Birmingham.

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The strongest candidates will discuss a range of specific stakeholders and will come to a value judgement on whether the expansion is good, perhaps taking into account a time frame and value for money concept, with a Cost Benefit Analysis incorporated.

Most candidates are likely to focus on aviation, but a recognition that there are wider issues that need to be prioritised right now in the UK's transport industry, (including poor quality and expensive rail, polluting cars etc.) is a relevant argument, as well as a discussion about how aviation fits into the UK's wider integrated transport system.

Analysis is expected to be complemented by the use of diagrams, such as negative/positive externality diagrams; merit good diagrams, and AD/AS diagrams.

**Answers may include:**

Answers could argue for or against the quote in question as part of their analysis.

**Knowledge and understanding** of the transport sector and the issues in the aviation sector.

Examples:

- Capacity constraints in aviation
- Rising demand for air travel.

**Application** of airport expansion to empirical examples.

Examples:

- Heathrow third runway
- Thames Estuary airport – ‘Boris Island’
- International examples – Dubai International Airport
- Findings of the Independent Review investigation.

**Analysis** of the link between the expansion of airports and it being the right thing for Britain

Answers could discuss the pros/cons of the expansion with respect to various stakeholders, covering the following economic concepts.

Macroeconomic and microeconomics issues are likely to be discussed here:

**Economy**

- A discussion of the following: employment, tax revenue, FDI, trade, economic growth, and positive multipliers
- Loss of trade opportunities without expansion
- Capacity constraint issues:
  - Argument against quote: London flourishes because of its access to/from international markets, as a hub airport. Needs to grow to access BRICs/MINTs/Asia etc.
  - To maintain competition with rivals' expansion – Europe's competitors with bigger airports than London's
  - Arguments for quote: No immediate need for expansion – long run issue.
- Employment and positive multiplier impact on macroeconomy
  - Major investment and construction at Heathrow would create employment over a period of years on a significant scale.
- Impact on FDI, trade:
  - Lucrative destinations in China, India and Brazil are being cut off by the lack of runways.

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#### Consumers

- A discussion of the following: London residents, negative externalities, tourists, taxpayers
- Rising demand for air travel combined with capacity constraints is pushing prices up for consumers – expansion would offer more choice and lower prices for consumers.
- Negative externalities – noise, air, visual
  - Noise levels – Aircraft noise and added traffic congestion
  - Residents: Not In My Back Yard issues.

#### Firms

- A discussion of the following: complementary goods firms in the area, derived demand goods firms, airline companies, rival airports
- International competitiveness of London being harmed – and concomitant effects on FDI/trade
- Impact on tourism
- Owners of the airports e.g. BAA – cost issues? Public/private funding?
- Long term versus short term effects of an expansion –
  - Currently the UK may be fine but the long term effects on non-expansion could be detrimental to UK economy.

#### Other issues:

- Cost
  - Opportunity cost – how will the cost be split between private and public sector? Sale-and-leaseback? Public-Private partnership?
  - It is far simpler and cheaper to go for a third runway than to build Boris Island Airport.
- Efficiency
- Political will
- Theoretical versus practical success
  - Issue of where expansion should focus – Heathrow, new Estuary airport, Stansted, Gatwick? Or in North East?
- Over-optimistic forecasts of the benefits of expansion?
  - Flaws in the studies – estimation problems
  - Unanticipated modal shift?
  - The costs of the environmental downsides of aviation growth such as noise, community destruction and climate change may outweigh financial gains, or at least limit it?
- Cost-Benefit Analysis
- Analysis of alternative and/or complementary solutions – expansion of airports is not the only solution available to the UK government
  - Expansion in other airports: moving flights from London-area airports to the regional airports, making more slots available in the south-east for flights to the new market areas. At the same time, this would help to even out the growth rates, such as they might eventually be between the South-East and the other regions.
  - Improve Heathrow without expansion
  - Improved rail links (HS2) within UK to help alleviate domestic flights capacity issues

Candidates should be rewarded for supporting their analysis with *relevant* diagrams. This question is specifically about whether airport expansion is right for Britain. As such, both microeconomic and macroeconomics diagrams are expected, including perhaps:

- Negative/positive externality diagrams
- Over-capacity issues at Heathrow – excess demand diagram
- Monopoly/oligopoly diagrams – for BAA/London airports
- AD/AS diagram for impact on economic growth, supply-side LRAS, real GDP, employment, real incomes, multipliers

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For the higher empirical marks, candidates should be able to support their answer with relevant empirical evidence as to the aviation issues in the UK.

The following bullet points note examples of supporting analysis/application that *could* be used by candidates. Note, this is **not** an exhaustive list, nor is it what is required to do well, but rather it is an **indicative** list of the kinds of independent research that candidates could use to support their arguments.

- Heathrow generates 50% of the UK's aircraft emissions already, and now is surely a time to be reducing, not increasing, emissions.
- A report commissioned by airport owner BAA says the UK risks missing out on trade with developing countries worth £14bn during the next decade if Heathrow is not expanded.
- Air pollution – may end up exceeding EU limits. Unchecked growth in capacity at Heathrow and elsewhere would make it impossible for the UK to meet its target of reducing emissions by 80% by 2050. The government argues that cleaner planes will prevent this / tech change.
- New Economic Foundation report 2012 – “At present, the aviation industry is responsible for a high proportion (in the UK 13%) of harmful greenhouse gas emissions, and is estimated to be responsible for almost 5% of man-made climate change. In the UK aviation makes up a greater proportion of the country’s contribution to climate change than in any other major economy.”
- Reward discussions of the ETS including aviation as of 2012 – a carbon cap on aviation emissions will ensure that the use of spare capacity does not result in an increase in overall emissions.
- Community destruction – the Department for Transport accepts that around 700 homes (including the entire village of Sipson) will need to be demolished to make way for a 3rd runway and a 6th terminal.
- Research by the Aviation Environment Federation suggests that the UK already has sufficient airport infrastructure to meet the maximum levels of future demand that would be consistent with the limits on aviation growth recommended by the Climate Change Committee.
- London has better connections to the key business centres of the world than any other European city (All London’s airports had 1113 departure flights in the week studied to key business destinations, compared with Paris’s 499, Frankfurt’s 443, and Amsterdam’s 282).
- Government's own forecasts of air-traffic demand indicate that even if airport growth was allowed to continue free of environmental legislation, passenger demand in the South-East could be met solely via the existing infrastructure until almost 2030.
- For BAA/Ferrovial, Heathrow’s owners: R3 at Heathrow would be to the great financial benefit of the operator, BAA, and its shareholders including the main one, Ferrovial, which is a Spanish infrastructure group.
- Forecasts also overestimate demand by assuming that economic growth will pick up at around 2% or more every year – hardly likely in the current climate – and that there will be no increase in oil prices.
- The Government’s estimate that expansion at Heathrow will bring economic benefits of £5 billion (over 70 years).
- The aviation industry receives enormous fiscal and other economic advantages, which the government can use to ensure that there are direct flights to ‘emerging’ destinations to enhance economic links as necessary – c.75% of London’s demand is for leisure travel, and 25% for business, so there is room to ensure that business needs take priority where this is required (free up capacity for more intercontinental flights from key business destinations, particularly those in the fast-developing economies of Asia and South America) – and leisure travel involves a net financial outflow as more Britons holiday abroad than vice versa.

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- Paris and Amsterdam have increasing numbers of flights to such places, while Hong Kong, Dubai, Singapore want to take over London's position as a centre of international finance, and they have far better flight connections.
- Heathrow remains the third largest airport in the world in terms of passenger numbers, and with some 50% more passengers than New York.
- CBI is very much pro-expansion.
- Evidence from Coalition's Independent Review Panel into airport expansion.

**Evaluation** of the extent to which the airport expansion is the right thing for Britain.

At the lowest ends, the weakest candidates will, broadly speaking, accept the premise that airport expansion is not the right thing for Britain.

At the lower end, candidates will merely understand that there are issues on both sides, with no clear answer. Weaker candidates in this group will look simply at the issue of (opportunity) cost, and negative externalities of expansion versus the advantages of job creation and boosting economic growth. Stronger candidates in this group will look at empirical evidence to support their points. However in this group of candidates, candidates focus almost exclusively on the externalities failure in the transport industry.

A weak candidate would merely offer the need of a cost-benefit analysis to be done, whilst stronger candidates would go further, perhaps discussing the lack of perfect information in valuing projects such as the expansion of Heathrow airport, and issues over discount rates – with benefits and costs incurred over a long time frame.

The strongest pupils will evaluate the above more explicitly, as well as focussing on the clear lead in the quote – discussing the issue of the project's viability for being the 'right' thing for Britain which depends on which stakeholders we look at. Weaker responses here will merely posit the proposition, whilst stronger responses will attempt to discuss a value judgement on which stakeholders may benefit/lose out more than others.

There may be an attempt to propose alternatives to airport expansion that are better for Britain, e.g. improved rail links to better regional airports/links. Some responses may even propose that the market failure in aviation is so large that it should actually be treated as a demerit good and government policy should be moving it in the opposite direction – e.g. Air Passenger Duty, Emissions Trading Scheme etc.

The best responses will make reference to the government failure risk in assessing whether the quote is valid or not – perhaps with a focus on policy myopia, time frames and political priorities.

We would expect candidates to mention that it is not an 'all or nothing' issue. Aviation policy should look to adopt a multi-modal approach, using a combination of policies – sustainable transport infrastructure projects – larger rail investment, for example, both in new high speed routes that obviate the need for domestic air travel and enhance access to the rest of the country, and in upgrades to existing routes and facilities.

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### Theory and Analysis

Level 4 (18 – 22 marks) Mid mark 20	In this level, distinctions are made between a range of pros/cons as well as a range of stakeholders discussed, with both a micro and macro awareness. Critical awareness should be strong, understanding the economic consequences of action and inaction. Alternatives may be put forward, with value judgements as to their suitability. At the top end of this level, development of points is thorough and detailed, with supporting evidence and data, incorporated within an answer with strong economic foundations. The use of theory and analysis is comprehensive, with an almost flawless integration of the two into a clearly flowing essay.
Level 3 (12 – 17 marks) Mid mark 15	In this level, a clear attempt is made to answer the specific question set on whether they agree/disagree with the quote. Links between the question being asked and the perspective being put forward are clear. At the top of this level, there is a solid understanding of a range of issues in UK aviation, with relevant supporting data; with a range of stakeholders covered. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times, but which do not detract from the overall answer. At the middle of this level, a good range of pros/cons are discussed beyond the standard externalities/opportunity cost arguments. A range of perspectives are discussed but may lack critical awareness at times. At the bottom of this level, either the range of issues or stakeholders discussed is narrow.
Level 2 (6 – 11 marks) Mid mark 9	At the top end of this level, a generalised attempt to answer the question on transport has been made, but candidates fall short on critical awareness or the current context. In this level they may make only a superficial attempt to answer the specific question set – perhaps focussing exclusively on externalities/opportunity cost in a theoretical Paper 2 framework. Points made may be generalised to the whole of aviation whilst simultaneously being narrow in their analysis. There may be oversimplifications made which exhibit a naiveté in the candidate's answer.
Level 1 (1 – 5 marks) Mid mark 3	There is a lack of understanding of how airport expansion can be used, or is being used, to address issues in the aviation industry.

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### ***Evaluation***

Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels.

Issues include:

- There is no "right", self-evident, politically safe answer – Boris Island is vastly expensive and will take a very long time to execute; neither Gatwick nor Stansted are easy to expand; and Heathrow would be a big political U-turn, probably causing resignations.
- How feasible is expansion at Heathrow, Gatwick, Stansted or RAF Northolt?
- Should aviation policies encourage more use of *regional* under-utilised airports?
- What about weighing up alternatives such as much greater investment in the railways to curb domestic flights?
- Risks of government failure in executing such expansion policies?
- Short term versus long term: A discussion of the time frame for addressing problems in the aviation industry.
- Depends on whose perspective the quote is considered from: Significance of different stakeholders – political versus economic considerations, electoral votes to win, rail industry, residents concerns, monopoly power etc.
- Regulatory capture risks
- Cost benefit analysis required, with correct discount rates?
- Are there more viable solutions to address the market failures in the aviation industry?
- Does a combination of solutions offer a more viable answer?
- Challenging the question – should aviation be discouraged, rather than encouraged?

Level 3 (13 – 18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this Level, there will be signs of real in-depth research and/or originality. In all cases there will be a clear conclusion/value judgement drawn at the end that relates specifically to the set question, which is backed by some valid justification.
Level 2 (7 – 12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas unexplored and conclusions may lack any rigorous justification. The conclusion is a generic pros/cons conclusion, that does little more than sit on the fence.
Level 1 (1 – 6 marks) Mid mark 4	Some of the issues that could be open to evaluation may be introduced into the discussion but there is no attempt to go further than to show an appreciation of the issue, rather than develop judgements – for example, 'there are pros and cons to airport expansion, with the pros outweighing the cons'. There is no attempt to draw together the relevant issues in a conclusion.

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## 2 China and the Global Economy

**To what extent do you agree that it is both inevitable *and* desirable that China's influence over the global economy will increase?** [40]

Candidates should demonstrate their understanding of China's position in the global economy and its potential for this influence to grow. Its influence on both developed and developing nations will form a key part of this discussion. They should illustrate their answer with specific examples relating to a range of variables. They should use appropriate analytical tools and data to support their arguments. The best candidates will discuss the full extent of the question, looking at both inevitability, and desirability, across a range of different stakeholders (e.g. EU/Africa/Firms/Consumers/Environment). They will understand that 'influence over the global economy' can take many forms, and not just trade but influence via institutions and FDI/commodities. They should be able to come to a clear and well-supported conclusion on the extent to which it is both inevitable and desirable that its influence over the world economy will increase. Weaker candidates will focus purely on achievements to date, and will often conflate growth and influence, without being able to show an understanding of how this influence manifests itself; whilst stronger candidates will exhibit a clear understanding of what China's influence is, and will be explicitly forward-looking in their response. Weaker candidates may distort the essay to answer the inevitability of China's growth, rather than the inevitability of China's influence, whilst stronger candidates will make the link to influence more explicit. Analysis may be assisted by the use of diagrams.

**Answer may include:**

**Knowledge and understanding of** China's position in the global economy and its potential for influence to rise.

Examples:

- China's position in the global economy – potential variables could be:
  - GDP
  - FDI
  - Trade
  - Energy
  - FX reserves
- Knowledge of influence over the global economy – Factor product markets, WTO, IMF, trade blocs
- Superpower (may be implicit)
  - A dominant position in the international system which has the ability to influence events and its own interests and project power on a worldwide scale to protect those interests

**Application of** these variables in a Chinese context

- Figures on GDP, FDI, Trade, Energy, Minerals, FX reserves
- Examples of China's global influence

**Analysis of** the influence of China's position on developed and developing economies

*Inevitability:*

- Shifting of balance of global economic power towards Asia/China
- GDP growth will continue and so will eventually overtake the U.S as largest economy in the world
- FDI (both corporate and government) growth to date and in future
- Role of Chinese aid and loans in helping MEDCs/LEDCs
- Role in global institutions
- Untapped factors of production/resources internally still

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*Desirability:*

- Trade: use of unfair anti-competitive methods such as exchange rate, labour laws, and copyright infringements.
- Opportunity: Trade/FDI for both LEDCs/MEDCs
- The rising middle class in China allows for important growth markets for the rest of the world (e.g. aviation/pharmaceuticals/luxury goods).
- Role/ability to help preventing global crises and depressions.
- Currency: On the path to try to make the Yuan/RMB the world's reserve currency.
- All G8 members originate from the developed, industrialised world. The G8 excludes China and India, despite their rapid economic growth, and fails to represent countries in Africa and Latin America. This has led to accusations that the G8's priorities fail to represent the majority of the developing world.
- Economic policy should not be dictated by developed countries when the balance of power is shifting towards the developing/emerging markets such as the BRICs.
- China's role in Africa being very desirable for the standard of living improvements provided there
- China's role in promoting a new economic model – state-sponsored capitalism, rather than the Washington consensus/unfettered capitalism that has failed much of the developed world.

Candidates should be rewarded for supporting their analysis with diagrams. For example, when discussing desirability, diagrammatical analysis may be offered in the form of AD/AS diagrams to show the benefit, for example, of Bulgaria receiving FDI; the benefits for the UK/EU of having a fast-growing middle-class in China for an export market; the benefits of technology transfer for LEDCs; negative externalities of the nature of China's economic growth.

For the higher analytical marks, candidates should be able to support their answer with relevant data, on for example, the track record of China with respect to specific variables.

The following bullet points note examples of supporting analysis/application that *could* be used by candidates. Note, this is **not** an exhaustive list, nor is it what is required to do well, but rather it is an **indicative** list of the kinds of independent research that candidates could use to support their arguments.

- China is the 2<sup>nd</sup> largest economy since 2011. It is greater than Italy, Canada, and France combined yet it has no seat on the G8.
- Danny Quah – Shifting Centre of Economic Gravity: "The world's economic centre of gravity has been moving East, and has gone from the mid-Atlantic in 1980 to Bucharest in 2008, and by 2050 will be between India and China.
- GDP growth to take it to being the #1 economy by 2020 according to IMF research.
- Vast oil resources currently untapped; renewable energy: largest exporter of solar panels (though with vast state-aid, now bankruptcy looms and excess capacity); 1/6<sup>th</sup> of world's population, near-monopoly over rare earth minerals.
- Largest net investor in Europe, and Africa – China Investment Corporation SWF
- Large current account surplus, trading links with Africa, Asia, APEC, ASEAN, WTO
- Highest FX reserves of any country – \$3.8 trn
- Largest holder of U.S Treasuries
- Asia's mega-regional RTA: The Regional Comprehensive Economic Partnership – a regional trade agreement with negotiations that began in 2013, to conclude by 2015. Led by ASEAN, the negotiations will include all ASEAN members and its six FTA partners: i.e. Japan, China, South Korea, India, Australia, and New Zealand. Successfully concluding this trade deal would create the world's largest free-trade bloc with profound economic implications for members and for the world economy.

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- China's notable exclusion from TPP and TTIP – the Trans-Pacific Partnership (Asia + US) and the Trans-Atlantic Trade and Investment Partnership (EU and US).
- BRICS summit meeting in China in 2012: the BRICs statement said that international institutions should "reflect the changes in the world economy, increase the voice and representation of emerging economies and developing countries".
- Chinese FDI has doubled between 2002–2010. China's focus has increasingly turned towards EU assets with discount prices and strong yuan, away from U.S assets (e.g. China's Geely bought Volvo in 2010; In 2012, Chinese conglomerate Wanda acquires U.S AMC cinema chain).
- China buying up expertise in Germany *Mittelstand* family-owned automotive/machinery related businesses.
- UK and Germany are the biggest recipients in EU. China now does more FDI into Africa than Africa receives in aid from the World Bank (notably Sudan is a big beneficiary). The same is true of China FDI into LatAm.
- China helping to fund US and EU current account deficits, and budget deficits, with financial flows.
- Sovereign Wealth Fund – CIC: Largest investor in Europe, buying up distressed assets for past few years including Portugal: Energias de Portugal; UK: Thames Water, Heathrow; Weetabix; UK Student Housing; Spain: Telefonica's electricity business; USA: U.S financial subsidiary; Singapore: Singapore Petroleum. During financial crisis of 2008–11, China FDI bought up stakes in Barclays; Morgan Stanley; BP.
- FDI: Clear 'Go Out' policy from Chinese 12<sup>th</sup> Five Year Plan. Gives influence in EU and Africa. Majority of FDI/M&A in resources/chemicals/manufacturing sector.
- China's role as a member of UN Security Council, IMF, WTO etc.
- In 2012, the Great Wall Motor company became first Chinese carmaker to open car assembly plant in EU (Bulgaria). Huawei opened a logistics supply centre in Hungary.
- China's influence in Africa: Road access to port for land-locked Zambia/Ethiopia; provided much needed infrastructure (Angola 3G telecoms); technology transfer for poor countries; land grab accusations; effect on commodities and net exporters.
- Membership of WTO in 2001 – trade between Asia, Europe and US has rocketed – China is EU/US' fastest growing export market.
- During both the 1997–99 Asian financial crisis and 2008–2010 global financial crisis, China's role in preventing a world depression was important.
- FX reserves – has used its FX reserves to support Euro crisis – would help maintain a firewall and buffer further crises if it became the largest economy in the world.

**Evaluation** of the extent to which it is both inevitable and desirable that China's influence over the global economy will increase.

At the lower end, candidates may offer a simplistic conclusion that China's influence around the world will rise, and should rise, based on its economic track record. References may be made to specific examples China's track record, but of a narrow scope, primarily on economic growth. There is not likely to be an explicit recognition, at this level, of the dynamic nature and uncertainty regarding the future of China.

At higher levels, candidates will recognise that this issue is more complex and has a global dimension as well as a dynamic aspect to it. Examples of relevant arguments will include:

- China's GDP versus GDP per capita achievements – China is still a poor country with GDP per capita below Algeria and Angola.
- China's HDI ranking is still low by developed countries' standards.
- China's stellar growth has come from a low starting point and with growth stuttering, China's global influence may not be inevitable in the future (Japan's fate in the 1980s from the property bubble; middle income trap: Brazil/Argentina/Philippines/some Middle East states).

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- The inevitability of China's influence is debated – especially if its economic bubble pops (unbalanced growth model, dependent on investment, housing market, local government debt, poverty, social unrest, environmental crisis e.g. lack of water).
- Challenging whether it is desirable: China has poor institutions including: governance, civil rights record, property rights – corruption, lack of accountability, weak rule of law, food (milk) scandals.
- China's pollution record both domestic and abroad (20 of the 30 most polluted cities are in China; lack of respect for the environment – very poor air quality especially in January 2013), has consequences for neighbours, especially Japan and Vietnam
- Still a long way to go before China should be allowed to dictate global economic policy on G8 issues – market liberalisation needed, capital controls need to be lifted, middle income trap needs to be avoided.
- China's growth has been achieved by unfair anti-competitive trade policies and so it is not desirable to give them more global influence since this would send mixed signals to the rest of international community and rising LEDCs.
- What does global influence mean? Soft power? What would more global influence look like: Does membership of the G8 achieve anything of note? Or are the powerful supranational institutions the WTO, Security Council, UN, G-20, of which China is already a member.
- Should China be more focussed on the "Economic Five" and BRICS union, to rival G8?
- Neo-colonialist argument

In an evaluation, the demonstration of critical awareness of China's achievements will be key. In particular, the stronger candidates will make some assessment of China over the next decade or so, for example their role in Africa or Latin America, with respect to trade, FDI, and policy influence. Some may criticise the role of China abroad, or indeed praise it. Candidates should not generalise China's influence abroad, but may come to the conclusion that its inevitable/desirable influence will vary across different regions/stakeholders.

Candidates may challenge the time-frame for the word 'inevitability' and the ambiguity (for whom?) under 'desirability'. The best candidates will understand that whether China's influence is inevitable or desirable very much depends on how the next Five Year plan's objectives pan out and the Third Plenum (e.g. on income inequality, currency reform etc.).

Strong candidates will also discuss both an inward and outward perspective – namely not only the role of China abroad but the role China's economy has to play for the growth of the international economy such as market size, potential growth markets, size of consumer middle class etc.

The best responses will discuss the different ways in which 'global influence' may manifest itself – with the standard response focussing on trade, but the more advanced responses will look at institutions or other facets such as FDI and commodities. Evaluation could be in the form of challenging what global influence really means.

Candidates may make a case for another economy in the world to have a bigger case to be the next global influence e.g. India/Brazil.

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### Theory and Analysis

<p>Level 4 (18 – 22 marks) Mid mark 20</p>	<p>In this level, there is a clear focus on all aspects of the quote, covering both the inevitability and desirability of China’s influence, as well as the nature this may take – e.g. WTO, BRICs, Africa, trade blocs etc. In this level, candidates will understand a range of ways in which China’s influence on the global economy may manifest itself. ‘Inevitability’ may be looked at from a dynamic time frame perspective, whilst ‘desirability’ may be looked at from the points of view of different stakeholders (e.g. EU/Africa/consumers/firms).</p> <p>At the top end of this level, development of points is thorough and detailed, with supporting evidence and data, incorporated within an answer with strong economic foundations. The use of theory and analysis is comprehensive, with an almost flawless integration of the two into a clearly flowing essay.</p>
<p>Level 3 (12 – 17 marks) Mid mark 15</p>	<p>In this level, a clear attempt is made to answer the specific question set on whether China’s dominance is inevitable and/or desirable. In this level, candidates are likely to focus on inevitability or desirability. Links between the question being asked and the perspective being put forward are clear. There is a solid understanding of a range of current achievements, with relevant supporting data, of a good range of issues such as GDP/FDI/Trade/Aid. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. A range of perspectives is discussed but may lack critical awareness at times. At the middle of this level, the discussion is focussed dominated by trade, rather than other influences such as FDI/commodities/institutions, whereas at the top of this level, candidates have a wider range of areas in which global influence is discussed. At the bottom end of this level, an attempt to discuss both issues in the question may be very limited and only a nod in the direction of ‘global influence’ is exhibited, with no clear understanding of what that means.</p>
<p>Level 2 (6 – 11 marks) Mid mark 9</p>	<p>At the top end of this level, a generalised attempt to answer the question has been made, but candidates fall short on critical awareness or current context. They may make only a superficial attempt to answer the specific question set, perhaps only discussing China’s achievements but not really linking it well to why this will lead to an inevitable global influence, or a desirable one. Candidates may conflate growth and influence with no discernible attempt to link the two. Points made may be focussed almost exclusively on a narrow range of Chinese achievements to date, such as GDP and FDI.</p>
<p>Level 1 (1 – 5 marks) Mid mark 3</p>	<p>There is a lack of understanding of whether China has any role to play in the global arena.</p>

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### ***Evaluation***

Here follows a re-cap of some of the areas that might be included, and a breakdown of what will be expected at the various Levels.

Issues include:

- Factors that will influence and change the 'inevitability' or 'desirability' of it e.g. economic policy domestically or abroad.
- Disaggregating China's influence in Africa, EU, LatAm.
- Is China's growth to date enough – limitations such as GDP/c still below Botswana.
- Is China's growth sustainable into the future – middle income trap etc.?
- Evaluation of the criteria for judging more global influence e.g. Should economic development dictate a seat at the G-8 or do other issues such as having 1/6<sup>th</sup> of world's population play a bigger role?
- Challenging the legitimacy of China's influence: China lacks many facets of the other countries with global influence – it has poor institutions including: democracy, protectionist regimes, corporate governance, corruption, civil rights record, lack of property rights.
- If China deserves more influence, who else should deserve more influence too – Brazil/India? Given democracy in India, is India's rise more inevitable/desirable?
- Does membership of G8 achieve anything of note? Or are the powerful supranational institutions the WTO, Security Council, UN, G-20, of which China is already a member.
- Should China be more focussed on the "Economic Five" and BRICS union, to rival G8?
- An alternative option to membership of existing 'Western-centric' bodies e.g. the creation of a development bank or an investment fund to boost co-operation among the BRICS.
- Candidates may make a case for another economy in Africa or Latin America to have a bigger case to be at the top table of the international community.

Level 3 (13 – 18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this Level, there will signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.
Level 2 (7 – 12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas unexplored and conclusions may lack any rigorous justification.
Level 1 (1 – 6 marks) Mid mark 4	Some of the issues that could be open to evaluation may be introduced into the discussion but there is no attempt to go further than to show an appreciation of the issue – for example, 'China will inevitably get more global influence because it is the 2 <sup>nd</sup> largest economy in the world, but there is too much concern about its political situation and so it is not desirable'. Candidates may focus more on evaluating China's economic growth, rather than its influence. There is no attempt to draw together the relevant issues in a conclusion.

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### 3 The Millennium Development Goals

The original Millennium Development Goals (MDGs) were **created in 2000**, to end in 2015.

Given the aims and achievements of the MDGs, to what extent do you agree that future global economic development strategy should simply extend **the original MDG goals** into the future? [40]

Weak candidates will give a historical account of the MDGs ignoring the specific part of the question which leads candidates to put forward a judgement on future development strategy and **whether the old MDGs are sufficient or a new set of MDG-like goals are needed**. Candidates should demonstrate a **clear understanding of the MDGs** and both **their** aims and **achievements** to date. Weaker candidates will adopt a list-like approach of each target, but stronger **candidates** will demonstrate the ability to discuss the **validity** of some of the **targets** and their specific **achievements**, but will crucially then be able to link into how this affects future development strategy aims. There is a lot of **independent research** they can draw on as it is currently a key UN focus. The best candidates will propose what the next set of goals could look like, showing critical awareness. There is no set agreement on what the post-MDG agenda should look like currently, although there has been a report by UN High Level Panel that was released in May 2013, which has been tasked with creating a development vision to replace the MDGs after they expire. They should use appropriate analytical tools and **data** to support their arguments. They should be familiar with the progress of MDG's to date, though a **trawl** of each MDG and associated statistics with a lack of focus on the specific question set should be treated as a weak response. Whilst a candidate is not expected to simply regurgitate all 8 goals, knowledge of the specific goals is expected, as well as experience of specific noteworthy countries.

They should reach a clear and well-supported conclusion on the extent to which future global economic development strategy should simply extend the same MDG goals into the future.

Good candidates are likely to consider the validity of the MDGs as a development tool and will be able to use a range of LEDC-specific examples to discuss a variety of outcomes. Analysis may be assisted by the use of diagrams.

The best responses will not only posit a new set of MDG-like goals, but will also offer justification. They will not just propose **more ambitious** targets of the same criteria as the old goals, but will focus on aspects that were originally excluded such as income inequality; or understand that the MDGs should be amended as LEDCs have progressed.

Some candidates will attempt to argue that the MDGs have contributed so much to LEDCs that a new set of MDGs are imperative, whilst stronger candidates will show more critical awareness, understanding a) the limits of the past achievements b) that growth may have gained momentum and future gains are now left to independent government policies rather than basic targets c) *policies* should be set, rather than an arbitrary set of *targets* d) a focus on the means, not the ends, e) to become an MEDC requires more than just a set of targets, but requires *institutions* f) the targets should focus on development g) the difference in the myopia between governments in power and the time frame of MDGs.

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**Answers may include:**

**Knowledge and understanding** of MDGs and LEDC/MEDCs

Examples:

- The purpose/nature and **details** of the MDGs.
- The nature of LEDCs and MEDCs, including characteristics such as GDP composition and economic status.
- Nature of economic development (perhaps versus economic growth) – quality of life, incomes, poverty, nutrition, environment, education, equality, human rights.

**Application** of past and future MDGs to helping LEDCs

Examples:

- Specific examples from Asia/SSA/LatAm and their experience
- Future MDGs:
  - More ambitious targets of the same type e.g. Goal 4: Reduce by two thirds, between **1990** and 2015, the under-five mortality rate – should be turned into Goal 4+: to reduce infant mortality even further.
  - Should take the original goals further e.g. Goal 2 of primary **enrolment** should now move to secondary education targets.
  - Should now build on the first by setting new goals that focus on other areas of development such as minimum wages, exploitation, child labour, political institutions, corruption, infrastructure, income inequality, accountability, and protection from violence.

**Analysis** of the link between MDGs and future MDGs for helping development

Examples:

- A discussion of the track record/pluses/minuses of the MDGs as a tool for promoting LEDCs towards MEDC status.
- Link to economic growth but within the context of a future goal – is there more to be done in this area or are there more targets to be set? In terms of becoming an MEDC how important have the past MDGs been and how important are future MDGs?
  - Improving mortality, malaria, HIV/AIDS:
  - Environmental sustainability
  - Gender Equality
  - Income inequality – omitted from original goals – top 5% of world's population earn 37% of world income.
  - Non-communicable diseases such as cancer, respiratory diseases, and diabetes
  - Aid
  - Poverty

Candidates should be rewarded for supporting their analysis with *relevant* diagrams. This question is specifically about whether countries should be given new or old MDG-like goals – as such, a generic AD/AS analysis alone is unlikely to be particularly relevant to the question and deserves limited merit. A candidate who uses the aims of the new-MDGs with their resultant effects on AD/AS and thus economic growth will score well.

For the higher empirical marks, candidates should be able to support their answer with relevant data as to the current success of the MDGs in not only delivering economic growth but *specifically whether a new set of targets, in the same vein, will add anything or not*. Disaggregating individual country experiences will be key in this regard.

Some candidates may argue that since many MDG's will be unmet, there is a need to continue with current MDGs, not set new ones. For example, the world has missed the 2010 target to slow the decline in biodiversity; with half the population of developing regions lacking basic sanitation, the 2015 target appears to be out of reach.

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The MDGs have offered a helpful stepping stone towards development but the time has come to move forward in setting new targets and policies.

The following bullet points note examples of supporting analysis/application that *could* be used by candidates. Note, this is **not** an exhaustive list, nor is it what is required to do well, but rather it is an **indicative** list of the kinds of independent research that candidates could use to support their arguments.

- Goal 1: The proportion of the Nepalese population living in poverty dropped from 42 percent between 1995/1996 and 2006.
- Abolishing school fees in Burundi, Ethiopia, Ghana, Kenya, Mozambique, Malawi, Nepal and Tanzania – in Tanzania, the enrolment ratio had doubled to 99.6 per cent by 2008, compared to 1999 rates.
- Goal 7: Installing water systems in Brazil, Burkina Faso and Sri Lanka: Since 2002, Brazil has been implementing the One Million Rural Cisterns Programme to bring clean water to about 36 million people in semi-arid North-Eastern Brazil.
- Candidates may raise various issues from their independent research following the development agenda recently including:
  - There were many issues omitted from the original goals – income inequality, banking sector regulation, exchange rate manipulation, R&D budgets, industrial policy.
  - Findings from the UN High Level Panel Post-2015 Development Agenda committee (led by David Cameron), in 2013–14.
  - Research from The Zero Draft for Sustainable Development Goals – the proposed SDGs to be attained by 2030 aim to “end poverty in all its forms everywhere”, and include broad topics such as hunger, health, gender equality, education, water and sanitation, energy, economic growth, sustainable consumption and production, climate change, biodiversity and marine conservation.
  - To focus on the means, rather than the ends? The MDGs specify an outcome but do not set out the process which would make it possible to realize the objectives. China have succeeded in pulling 600 million out of poverty with no explicit targeting of the MDGs.
  - The MDGs are stipulated without any reference to initial conditions, but where a country gets to in any given time horizon depends at least, in part, on where it starts out from.
  - Is the correct issue to set measurable targets? The depiction of social indicators of development as arithmetic means or statistical averages provides a single summary measure but it cannot reflect the well-being of the poor, most of whom are significantly below any line that is drawn on the basis of an average. Therefore, a meaningful assessment of progress in the living conditions of people must recognize rather than ignore the existence of inequality. It is essential to disaggregate outcomes so as to reveal rather than conceal distributional realities.
  - Should post-2015 goals be aimed at all economies or just LEDCs?
  - Does the next agenda need to be less rushed and more managed than the roll out of the original goals?
  - More input needed from academics, activists, UN experts, and in-country specific feedback?
  - Critique of MDGs beyond just the achievements: Poorly designed: Basic limitations. There is a multiplicity of objectives. There are 8 goals, 18 quantifiable targets now increased to 21, and 48 indicators now increased to 60. Second, the objectives are specified in many different ways. Some objectives are set out in proportional terms: reducing the proportion of people who live in poverty or hunger by one-half; reducing child mortality rates by two-thirds; reducing maternal mortality rates by three-fourths; or reducing the proportion of people without access to safe drinking water and basic sanitation facilities by one-half. Other objectives are set out in terms of completion: universal primary education; gender equality in school education; productive employment with decent work for all; or universal access to reproductive health. Yet other objectives are set out as statements of intentions: reduce loss in bio-diversity or improve the lives of slum-dwellers.

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- Difficult to compare progress with universal binary targets e.g. if the object is to reduce the proportion of people living in poverty by one-half, much depends on the initial level whether it is 60 per cent or 20 per cent. Consequently, targets may be set too high for some and too low for others.
- Targets that are set out as statements of intentions mean different things to different people and are exceedingly difficult to monitor. These problems are often compounded by difficulties in measurement which differ across objectives. In some countries and for some indicators, statistics lack independence or accountability or are difficult to find.
- Critical awareness of having the MDGs: MDGs are simple and accepted and focus on ends that everyone agrees on. But there is an assumption of one-size-fits-all e.g. the same for some Eastern European countries as for Eastern African countries.
- The MDGs have been associated with unintended consequences, mostly in the form of misplaced emphasis on stepping up the rate of economic growth and mobilizing external financing for social sectors.
- Some framework, even if it is a point of reference, is essential after 2015. The Sustainable Development Goals could be a focus here.
- Critical awareness surrounding the MDG and the future development strategies may focus on:
  - Learning from experience in the pursuit of doing better or moving faster. It might also be possible to do the same things differently or do altogether different things. More targets and more indicators would detract from the simplicity which was the virtue that made the MDGs so attractive.
  - There can be no generalized prescriptions or universal blueprints that would deliver the well-being of people. Policies and strategies must evolve at a national level as times and circumstances change.
  - Generalized MDGs and contextualized MDGs should not be presented as an either-or choice. Indeed, posing them as alternatives creates a false dilemma. Generalized MDGs were objectives for the world as a whole. And these global goals were meant to be modified in the context of initial conditions and national priorities. In other words, the MDGs constituted a set of norms and provided a framework for national governments to formulate their objectives with reference to specificities in time and in space. Given these norms, country-oriented MDGs could have reflected differences in priorities and objectives. Therefore, generalized MDGs and contextualized MDGs are complements rather than substitutes.
- Future development strategy: It is imperative that there is structural flexibility at the national level. It is essential to recognize differences in initial conditions. It is just as important to allow for differences in national priorities, and to monitor progress at a disaggregated level by introducing some weights that reflect the distribution among people – inequalities exist in achieving targets within a country.

**Evaluation** of the extent to which future global economic development strategy should simply extend the same MDG goals into the future.

At the lowest ends, the weakest candidates will broadly speaking accept the premise of the question arguing that new MDG-like goals are not needed, and more of the same is fine.

At the lower end, a candidate will understand the difference between the limitations of the existing MDGs and will adopt a critical eye over the achievements. Weaker candidates in this group will look at a purely an empirical approach, whilst stronger candidates in this group will offer a more critical awareness of the legitimacy of the existing MDGs as a framework for the post-2015 agenda. However in this group of candidates, the approach will be exclusively backward looking at the existing MDGs.

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Stronger candidates will evaluate the question more explicitly, but critically have a forward looking focus on what the post-MDG agenda will look like. Weaker candidates in this group will be general in their critique whilst stronger candidates in this group will identify and develop the difficulties of deciding what exactly these new MDG-like goals could be, and whether the time for goals is over and now independent government policies should be adopted (such as micro-finance etc.). The best candidates in this group will point out that targets were needed at the beginning of development for the poorest countries, but now that momentum has gathered, the contexts have changed, MDG-like goals may not be as productive going forward, with the ‘low hanging fruit’ having been picked already.

The strongest candidates will challenge the premise of the question that targets like the MDGs, which may be able to help a poor country start on the road to development, can achieve a transition from LEDC to MEDC, or whether this comes from more fundamental growth policies.

Candidates who actually put forward original and interesting ideas for what the new MDG-like goals could consist of should be rewarded highly. There may even be an attempt, possibly in a conclusion, to challenge whether MDGs offer any real development for the people on the ground (e.g. China managed to pull 600 million people out of poverty with economic growth policies and no MDG focus). Or similarly, a discussion of whether to become an MEDC, it is less about setting narrow targets and more about global integration and global macroeconomic policies.

### Theory and Analysis

Level 4 (18 – 22 marks) Mid mark 20	In this level, the candidate displays a cogent discussion between the existing MDGs and a prospective future development strategy. In this level, a clear attempt is made at discussing the use of the original MDG framework as a valid basis for the post-2015 agenda. Candidates will show an understanding of both past/future issues with regards to the development agenda issues, which have been well documented by the UN Panel. At the top end of this level, the development of points are thorough and detailed, with supporting evidence and data, incorporated within an answer with strong economic foundations. The use of theory and analysis is comprehensive, with an almost flawless integration of the two into a clearly flowing essay.
Level 3 (12 – 17 marks) Mid mark 15	In this level, some attempt is made to answer the specific question set on whether the original MDGs should be extended as part of future global development strategy. Links between the question being asked and the perspective being put forward are clear. There is a solid understanding of a range of both existing MDGs, with relevant supporting data, and also at the top of this level of potential future development strategies – the nuance/sophistication of the latter would move the candidate towards the higher end of the level, but candidate may not develop and justify their points at the mid-low level. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. A range of perspectives is discussed but may lack critical awareness at times. At the bottom end of this level, an attempt to discuss future development strategies is not very developed.

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Level 2 (6 – 11 marks) Mid mark 9	At the top end of this level, a generalised attempt to answer the question has been made but candidates fall short on critical awareness or current context. They may make only a superficial attempt to answer the specific question set. Points made may be focussed almost exclusively on the achievements of existing MDGs with only a cursory mention of the future development agenda. Knowledge of MDGs may be lacking in range, or depth, at the bottom of this level.
Level 1 (1 – 5 marks) Mid mark 3	There is a lack of understanding of whether the original MDG goals should be extended.

### **Evaluation**

Here follows a re-cap of some of the areas that might be included, and a breakdown of what will be expected at the various Levels.

Issues include:

- Have the existing MDGs offered the ‘low hanging fruit’ gains such that not much more will be achieved by narrow targets?
- MDG goals were necessary for a very poor country to achieve some development, but to achieve MEDC status requires much more than a set of MDG-like goals.
- Universal targets for LEDCs haven’t worked – failure of existing MDGs – so new MDG targets also likely to result in failure.
- LEDCs are at different stages of development with different focuses needed, so universal MDG-like targets are not the answer – they need differentiated, individualised policies.
- Political lobbying – everyone with a particular interest will want to make sure their particular issue is covered in next framework, especially given international donor focus on MDG targets.
- Policies, not targets are needed.
- Do ends need to be focussed on more than means?
- Is a blueprint for economic growth a justifiable solution or should the focus be on sustainable development, not growth per se?
- Short term versus long term considerations: LEDC to MEDC is a long-term issue, governments are myopic.
- Is the correct issue to set measurable targets?
- Does the next agenda need to be less rushed and more managed than the roll out of the original goals?

Level 3 (13 – 18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this Level, there will be signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.
Level 2 (7 – 12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas unexplored and conclusions may lack any rigorous justification.

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Level 1 (1 – 6 marks) Mid mark 4	Some of the issues that could be open to evaluation and may be introduced into the discussion but there is no attempt to go further than to show an appreciation of the issue – for example, ‘the MDGs have worked so new ones are needed but it will be difficult to determine what they should be’. There is no attempt to draw together the relevant issues in a conclusion.
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#### **4 Economic Thinkers and their relevance today (Adam Smith, Karl Marx and John Maynard Keynes)**

***‘There is no alternative way of improving the lives of ordinary people that can come close to the productive activities that are unleashed by a free market system.’***

**Professor Milton Friedman (Economics Nobel Prize winner, 1976)**

***‘Recent economic experience has shown that the free market damages the lives of ordinary people in society.’***

**Where would Smith, Marx and Keynes stand on the disagreement identified in the above statements? [40]**

To do well on this question, candidates need to have a thorough and deep understanding of all three thinkers mentioned. The response expected on this Paper 3 is different to Paper 2 – we are looking for candidates to display a depth of understanding of the respective economic ideologies, rather than a simple rehash of market failure versus state intervention arguments. This will be a key differentiator between L2 and L3 responses.

Given the broad nature of this question, responses will vary on their approach depending on how the ‘lives of ordinary people’ is interpreted, as well as the phrase ‘productive activities’. This should give scope for interesting and varied responses, making the essay accessible to a range of candidates, whilst still enabling candidates to differentiate themselves.

Candidates are expected to show a good understanding of the three schools of economic thought and should be able to support the ideas of these economists with relevant empirical examples. Broadly speaking, Smith would agree with the first quote, whilst Keynes and Marx would agree with the second quote. However, the best responses will understand the grey areas that exist – that the three thinkers have a degree of agreement over some aspects of the quotes, and disagreement over others. Recent evidence from markets in both Europe and Asia would also (dis)agree with both quotes. Standard responses will discuss Smith’s view that free markets, laissez-faire economic policies bring forth the best outcome – agreeing with the first quote. Stronger responses will go on to discuss issues of market failures, business cycles, the volatile nature of free markets and unfettered capitalism; with reference to specific examples such as the financial crises (e.g. the global one of 2008, or the Asian financial crisis of the 1990s), food droughts, oil price shocks etc.

The best responses will look at a combination of all three schools of thoughts, whilst weaker responses will focus on one or two. For example, evidence has shown Smith’s laissez-faire philosophy which involves markets dictated by self-interest, far from maximising economic welfare, can lead to greedy, risky, poor decision-making. Examples of this are numerous; from CEO pay, to sub-prime mortgage lending, to bankruptcies. Strong candidates will understand that even Smith advocated government intervention in certain scenarios, understanding why markets could fail, and Keynes similarly understood the role for free markets. The strongest responses will exhibit an understanding of the difference in what has become known as the thinkers’ philosophies/rhetoric and their actual views.

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There is plenty of scope, given the vagueness of the quote, to discuss market failure in either a micro or macro perspective. Those discussing both perspectives should be rewarded for the higher analysis marks. Analysis may be assisted by the use of diagrams, both micro and macro diagrams.

Candidates should reach a clear and well-supported judgement about the extent to which there is 'no alternative way' – which is a rather strict statement – and indeed China's challenge to the Washington Consensus with the Beijing Consensus has shown many African countries that there indeed is an alternative way, whilst Cuba and Venezuela's experience has been mixed.

Some evaluation may come from an interpretation of the phrase 'the lives of ordinary people' and 'productive activities' as these may mean different things to different stakeholders.

Specific knowledge of Friedman/Monetarism is not expected, nor required, for this question, but reference to a wider group of thinkers beyond the three in the specification merits reward.

Answers may include:

**Knowledge and understanding** of the free market system and the economic thinkers:

Examples:

- Free markets – supply and demand; market forces; self-fulfilling stabilisation, markets clearing, self-interest, rationality
- Productive activities – price, range, quality, innovation, profits, wages, rents, efficiency

**Application** of economic thinkers to the specific question set:

Examples:

- Smith and laissez-faire free market approach
- Marx and state-ownership driven approach versus exploitation and crisis of capitalism
- Keynes and intervention driven approach

**Analysis** of the question:

- Using examples that illustrate the economic schools of thought and the link to the question on whether free market systems work best

Examples include:

- Smith:
  - laissez-faire economics – providing competition in choice, quality, price, allocative efficiency, deadweight loss
  - rationality
  - free markets
  - invisible hand
  - free trade
  - government failure/government intervention in case of public goods, monopoly power, legislation
  - Labour markets: Wages dictated by whoever has the greater bargaining power via competition – either for workers, or for employers.
  - Labour versus Capital – depending on the bargaining power of each group, will dictate the inequity of distribution of profits

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- Keynes:
  - Free markets do not guarantee growth in the short or medium term: aggregate demand determined the overall level of economic activity, and that inadequate aggregate demand could lead to prolonged periods of high unemployment/depression.
  - Subtlety in the difference between Keynesianism and Keynes' thoughts e.g. Keynes was not anti-free markets in every respect.
  - State intervention: numerous examples both past and present: 2008 bailouts and fiscal expansions: UK, EU, US, China; 1940s interventions in US out of Great Depression
  - 'in the long run we are all dead'
  - markets not clearing
  - sticky wages: Keynes noted that wages no longer fell with prices in the classical fashion, due in part to the power of unions and wage stickiness
  - unemployment persisting
  - demand management
  - paradox of thrift
  - role of animal spirits, confidence
  - fiscal stimulus
- Marx:
  - Marxian view that the interests of the capitalist and those of the worker are not one and the same, thus the 'lives of ordinary people' is most definitely not improved
  - Marx: capitalist exploitation is realised as deriving surplus value from the worker. Workers must work for the capitalist but since workers do not own the means of production, the capitalist maximises profit for himself by paying low wages relative to the value of the product created
    - state ownership
    - nationalisation
    - labour theory of value
    - exploitation of labour
    - full employment
    - socialism
  - Capitalism/free markets faces a continuing cycle of overproduction and underconsumption that will result in the destruction of the capitalist system.

For the higher marks, candidates should be able to discuss specific points with respect to the question/quotes, rather than merely broad brush ideological discussions.

Use of diagrams should be awarded as appropriate.

The following bullet points note examples of supporting analysis/application that *could* be used by candidates. Note, this is **not** an exhaustive list, nor is it what is required to do well, but rather it is an **indicative** list of the kinds of independent research/ideas that candidates could use to support their arguments.

- Quotes from the thinkers are indicative of areas that could be explored. This is not an invitation to simply name drop a series of quotes but use them to support their analysis.
- Self-interest: "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." (Wealth of Nations)
- "They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society." (Wealth of Nations)

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- Proponent of free trade, and reducing barriers to trade/protectionism: “Such preferential treaties, though they may be advantageous to the merchants and manufacturers of the favoured, are necessarily disadvantageous to those of the favouring country. A monopoly is thus granted against them to a foreign nation; and they must frequently buy the foreign goods they have occasion for dearer than if the free competition of other nations was admitted.” (Wealth of Nations)
- "Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone." (Keynes)
- The recent experiences of countries that contradict or agree with the quotes:
  - E.g. Eastern European countries versus China versus Africa versus LatAm (Venezuela/Cuba)
  - Countries within EU, especially UK and Germany and Poland
  - The recent experiences of U.S versus UK
- The rhetoric versus the actual experience e.g. UK – is it really a free market economy with the NHS, RBS bailout, legislation on house building etc., and how much fiscal austerity has really been adopted by the government during the financial crisis?
- “Capitalism has no villain. It does, however, suffer from a technical defect. Although investment is the key to economic prosperity, business owners and bankers are not always motivated to invest. During a depression, for example, capitalists have no incentive to invest because there is no market for their products. Capitalists should not be blamed for an unwillingness to invest when there is no market for products. And thus the government should intervene to prime the pump.”
- Marx: capitalists profit from paying workers subsistence wages and thus capitalists will never threaten their own profits by providing workers with higher wages.
- Capitalists profit from the destruction of competition. With the destruction of competition capitalists can more easily increase their profits.
- Labour theory of value: Smith versus Marx
- Self-destruction of capitalism:
  - A desire to sell more products motivates capitalists to hire more workers.
  - The desire for more workers drives up wages.
  - More workers at higher wages leads to a crisis of overproduction during which capitalists witness a decline in profits.
  - A decline in profits causes capitalists to reduce labour costs.
  - When labour costs are reduced, society faces a crisis of under-consumption. During this crisis smaller businesses are taken over by larger businesses. The circle of capitalists narrows, and huge business organisations begin to dominate the economy.
  - The crisis of under-consumption gives capitalists a desire to sell more products. The cycle starts over and continues until society experiences a final economic collapse in which capitalism will be abolished. Since workers outnumber capitalists, capitalism is destined for a revolution in which the workers abolish private property.
  - Capitalism will be replaced by communism, an economic system defined by the abolition of private property.

**Evaluation** of the extent to which Keynes, Marx and Smith would agree with the quote.

At the lower end of the evaluation marks is likely to be candidates that conclude that the Smith agrees with the first quote and Keynes and Marx with the second quote. The candidate will accept the question at face value, and only consider a one-dimensional analysis.

Most conclusions will discuss a mix of systems being key, with no single system of resource allocation being the best, and secondly that in certain time frames or certain scenarios, one system of allocation may be preferable to another.

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At higher levels, candidates should be able to support their conclusions with evidence. Strong candidates will challenge key words from the quote, most likely: “no alternative way”, “improve the lives of ordinary people”, “productive activities”. It depends what we mean by ‘recent experience’ – both time frames and which countries e.g. China has been very successful with an ‘alternative way’ to free markets (China’s capitalism with Chinese characteristics), whilst Cyprus has had a disaster. In the short-term, a state-run economy may be better (provision of goods/services, guaranteed employment) but in the long-run the economy will stagnate and then the lives of ordinary people will not improve and may worsen (Soviet Union).

Since neither Marxian, Smith nor Keynesian ideas are used exclusively in any economy, the phrase ‘no alternative way’ is too strong and needs caveats. Most candidates should spot this. Some may argue the differences in the theoretical advantages of government/free market enterprise versus the reality (lack of property rights etc.).

The phrase ‘productive activities’ depends on which stakeholders and what objectives are being pursued – in this respect all three of the ideologies could have merit.

‘Improving the lives of ordinary people’ could depend on the criteria used and timeframe discussed e.g. markets may clear in the very long run, but as Keynes, said, in the long we are all dead. The lives of ordinary people may be improved in terms of income, but damaged in terms of negative externalities: environmental air quality, safe drinking water, deforestation. It depends who you are – if you are poor, uneducated and unskilled, then the free market system is unlikely to improve your life, whilst if you are wealthy, you would agree with the Friedman quote. Similarly, the ordinary person (unemployment rates in Spain) has seen recent experience prove the second quote correct, although not the case in Germany for example. Certain bankers/CEOs have taken advantage of the recent economic crisis to benefit.

Advanced candidates may challenge the notion that the economic crisis in recent times is due to free markets – this is an ongoing area of debate – as to whether the financial sector was too unregulated (and thus a flaw in free markets), or because the central banks tried to set the ‘correct’ base rates and influence inflation too much, thus leading to cheap money and asset bubbles that led to the demise (and thus government failure).

Very strong candidates may understand that Smith’s ideology was not purely driven by the common ‘invisible hand’ idea. Indeed, in the Theory of Moral Sentiments, he looked at the altruism and morals of people. Similarly candidates looking at the neo-classical synthesis, where Keynesian ideas and neo-classical concepts were merged, would be a clear top level response.

The best responses will not accept the question at face value and offer some kind of conclusion with a supporting value judgement – it is easier to agree with the second quote and disagree with the first quote: is the free market really the only way to improve the lives of ordinary people (China versus North Korea versus Cuba versus USA)? Some candidates may choose to reject the second quote too as an over-simplification, especially if they adopt a Hayekian approach.

Some may choose to get into the nuances of the two quotes – that is to argue that the two quotes are not mutually exclusive: recent experience has indeed shown free markets to be flawed, but there may be no alternative way to improve the lives of ordinary people, since the alternatives are also flawed and problematic (Soviet Union). Although the free market system inherently promotes inequality, this does not necessarily mean that there is a better way to make the ordinary person better off.

Candidates who show an understanding of the grey areas in the schools of thought with respect to their application to these two quotes, should be rewarded highly.

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## Theory and Analysis

Level 4 (18 – 22 marks) Mid mark 20	In this level, distinctions are made between the three different schools of thought and whether they agree with the quotes or not. At the top end of this level, development of points is thorough and detailed, with supporting evidence and data, incorporated within an answer with strong economic foundations. The use of theory and analysis is comprehensive, with an almost flawless integration of the two into a clearly flowing essay. In this level, candidates are expected to have discussed the full extent of the question/quotes presented, including all three thinkers (Keynes versus Smith versus Marx), and answers should include an excellent range of supporting empirical evidence, particularly from recent economic experience. The distinction between KSM will cover grey areas, and will not be portrayed as black-and-white textbook distinctions in this level.
Level 3 (12 – 17 marks) Mid mark 15	In this level, a clear attempt is made to answer the specific question set on whether the three thinkers would agree or reject the quotes in question. Links between the question being asked and the perspective being put forward are clear. There is a solid understanding of a range of supporting points, with relevant supporting empirical examples. Use of economic theory, terminology and application is correct and regular, though it may contain some errors at times. Such errors may prevent entry into L4, but do not detract from the overall essay. At the mid-level, a range of perspectives is discussed but may lack critical awareness at times. Towards the bottom of this level, the candidate may focus on the theoretical differences, and lack empirical evidence. Responses in this level will intertwine market failure and market success issues.
Level 2 (6 – 11 marks) Mid mark 9	At the top end of this level, a generalised attempt to answer the question has been made but candidates fall short on critical awareness or current context. They may make only a superficial attempt to answer the specific question set, instead perhaps discussing Keynesian versus Smith versus Marx in general. At the bottom of this level, a ‘Paper 2’ response on free markets and market failure is undertaken. Points made may be generalised whilst simultaneously being narrow in their analysis. Knowledge of the economic thinkers may be lacking in range, or depth. In this level, candidates may misinterpret the question to be as one almost exclusively about market failure.
Level 1 (1 – 5 marks) Mid mark 3	There is a lack of understanding of how the economic ideologies accept or refute the quote.

## Evaluation

Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels.

- What constitutes ‘productive activities’?
- What do we mean by ‘improving the lives of ordinary people’?
- Is the phrase ‘no alternative way’ too strong?
- Empirical evidence to support their judgements with respect to the quotes
- Challenging the textbook view of the thinkers’ schools of thought
- Is the correct system of allocation one that mixes the three, depending on different scenarios and time frames?
- The track record of countries adopting exclusively one of the ideologies may/may not support either the quotes or the rejection of the quotes: e.g. USA, UK, France, Spain, Cuba, North Korea, The Soviet Union.

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- Short term versus long term – the quotes may be more applicable under different time frames
- Is the recent track record actually evidence of market failure or government failure?

Level 3 (13 – 18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this Level, there will signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.
Level 2 (7 – 12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas unexplored and conclusions may lack any rigorous justification.
Level 1 (1 – 6 marks) Mid mark 4	Some of the issues that could be open to evaluation may be introduced into the discussion but there is no attempt to go further than to show an appreciation of the issue – for example, ‘market failures exist which means the Friedman quote does not hold true and the recent financial crisis shows the second quote to be correct’. There is no attempt to draw together the relevant issues in a conclusion.