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# A-level ECONOMICS 7136/3

Paper 3 Economic Principles and Issues

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Mark scheme

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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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**SECTION A****KEY LIST**

<b>1</b>	<b>D</b> (favourable weather leading to a record harvest.)	<b>11</b>	<b>A</b> (A)	<b>21</b>	<b>B</b> (Emergency aid provided to another country following a natural disaster)
<b>2</b>	<b>C</b> (the environment has an opportunity cost.)	<b>12</b>	<b>D</b> (V and Q)	<b>22</b>	<b>B</b> (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
<b>3</b>	<b>D</b> (+12.5)	<b>13</b>	<b>B</b> (5th worker is employed.)	<b>23</b>	<b>A</b> (strengthened against the pound sterling and strengthened against the euro.)
<b>4</b>	<b>C</b> (the rate of inflation.)	<b>14</b>	<b>D</b> (zero)	<b>24</b>	<b>D</b> (industry regulators grow too close to the firms they are regulating.)
<b>5</b>	<b>A</b> (A)	<b>15</b>	<b>C</b> (The adoption of satisficing behaviour)	<b>25</b>	<b>C</b> (An increase in the minimum qualifications required for workers in the industry and a fall in the price of a complement for the output produced)
<b>6</b>	<b>B</b> (Bringing down the rate of inflation)	<b>16</b>	<b>B</b> (Economic agents have higher inflation expectations due to the intervention)	<b>26</b>	<b>A</b> (The proportion of employers' total costs which are made up by wages)
<b>7</b>	<b>B</b> (Availability bias and social norms)	<b>17</b>	<b>C</b> (Evaluating the government's performance against its own fiscal targets)	<b>27</b>	<b>C</b> (more equal and the Gini coefficient has decreased.)
<b>8</b>	<b>B</b> (Some firms will leave the market and the price will rise)	<b>18</b>	<b>A</b> (Increase its purchases of government securities)	<b>28</b>	<b>B</b> (An improvement in the balance of payments on current account)
<b>9</b>	<b>B</b> (Creative destruction)	<b>19</b>	<b>D</b> (The supply curve for potatoes shifts due to the incentive function of prices)	<b>29</b>	<b>B</b> (Banks may engage in more risky lending if they believe the central bank will support them in a crisis)
<b>10</b>	<b>B</b> (0.6)	<b>20</b>	<b>C</b> (4 units)	<b>30</b>	<b>A</b> (\$50bn)

## Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

### Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

### Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

**SECTION B****INVESTIGATION****Total for this investigation: 50 marks**

- 3 1** *To what extent, if at all, do the data suggest that the Sri Lankan economy is more economically developed than the economies of Bangladesh and Pakistan?*
- [10 marks]**

Level of response	Response	Max 10 marks
<b>Level 3</b>	<b>A good response that:</b> <ul style="list-style-type: none"> <li>• is well organised and includes at least three relevant, well-developed issues</li> <li>• makes effective use of the numerical/statistical data in <b>Extract B</b></li> <li>• shows some appreciation of the limitations of the data</li> <li>• includes a supported final judgement concerning the extent to which the data support the view that the Sri Lankan economy is more economically developed than the economies of Bangladesh and Pakistan.</li> </ul>	<b>8–10 marks</b>
<b>Level 2</b>	<b>A reasonable response that:</b> <ul style="list-style-type: none"> <li>• is fairly well organised and includes at least two relevant and fairly well-developed issues</li> <li>• includes some satisfactory use of the numerical/statistical data in <b>Extract B</b></li> <li>• may show some appreciation of the limitations of the data</li> <li>• at the top of the level, is likely to include a final judgement regarding the extent to which the data support the view that the Sri Lankan economy is more economically developed than the economies of Bangladesh and Pakistan.</li> </ul>	<b>4–7 marks</b>
<b>Level 1</b>	<b>A weak response that:</b> <ul style="list-style-type: none"> <li>• is very brief and/or lacks coherence</li> <li>• contains very limited or poor use of the data in <b>Extract B</b></li> <li>• doesn't show any appreciation of the limitations of the data</li> <li>• may include an unsupported judgement concerning the extent to which the Sri Lankan economy is more economically developed than the economies of Bangladesh and Pakistan.</li> </ul>	<b>1–3 marks</b>

When assessing the extent to which the data support the view that the Sri Lankan economy is more economically developed than the economies of Bangladesh and Pakistan, most students are likely to base their assessment on the data in **Extract B**. However, they can also be rewarded for making relevant use of the other extracts and their own knowledge.

Good responses will select appropriate indicators of economic development and explain how they are relevant. Data in the extracts relating to population, population density and total GDP are unlikely to help support judgements concerning the economic development of the three countries. However, if a student provides a convincing argument to explain how, for example, population density might be relevant, they should be rewarded.

**Relevant issues include:**

- explanation of what is meant by 'economically developed'
- the difference between economic development, economic growth and income per head
- characteristics of an economically developed economy
- what is meant by a lower-middle-income country
- GDP per capita in 2020 is higher in Sri Lanka (\$3684.9) than either Bangladesh (\$1961.7) or Pakistan (\$1188.8), giving partial support to the view that Sri Lanka is more economically developed than Bangladesh and Pakistan
- the Gini coefficient for Sri Lanka (39.3) indicates that the degree of inequality is greater than in either Bangladesh (32.4) or Pakistan (31.6), casting some doubt on the view that Sri Lanka is more economically developed than Bangladesh and Pakistan
- the income share of the poorest 40% of the population is also lower in Sri Lanka (17.7%) than in either Bangladesh (21.0%) or Pakistan (21.1%), also casting some doubt on the view the view that Sri Lanka is more economically developed than Bangladesh and Pakistan
- however, both measures of the international poverty rate are lower for Sri Lanka (0.9% and 11.0%) than either Bangladesh (14.3% and 52.3%) or Pakistan (4.4% and 35.7%), giving some support to the view that Sri Lanka is more economically developed than Bangladesh and Pakistan
- the health indicators support the view that Sri Lanka (life expectancy of 77.0 years and an infant mortality rate of 6.4) is more economically developed than Bangladesh (life expectancy of 72.6 years and an infant mortality rate of 25.1) and Pakistan (life expectancy of 67.3 years and an infant mortality rate of 57.2)
- the education indicators support the view that Sri Lanka (10.6 years of schooling and 91.7% adult literacy rate) is more economically developed than Bangladesh (6.2 years of schooling and 73.9% adult literacy rate) and Pakistan (5.2 years of schooling and 59.1% adult literacy rate)
- the Human Development Index (HDI), a key measure of economic development, is higher in Sri Lanka (0.782) than Bangladesh (0.632) or Pakistan (0.557), supporting the view that Sri Lanka is more economically developed than Bangladesh and Pakistan
- the labour force participation rate and capital investment provide a mixed picture. Both pieces of data support the view that Sri Lanka is more economically developed than Pakistan but not Bangladesh. However, they are not key indicators of the current state of a country's economic development
- without further information, interpreting the significance of CO<sub>2</sub> emissions is difficult. Whilst the lower level of CO<sub>2</sub> emissions in Bangladesh (0.5 tonnes per capita) indicates less pollution than in Sri Lanka (1.1 tonnes per capita) or Pakistan (1.1 tonnes per capita), it may also indicate people may not have as much access to goods and services that improve people's quality of life
- limitations of the data might, for example, include:
  - data for GDP per capita may not reflect the purchasing power of the \$ in the different countries
  - the indicators of inequality are not current, and values for Pakistan are more out of date than for Sri Lanka and Bangladesh
  - CO<sub>2</sub> per capita emissions is a poor indicator of the general level of pollution experienced by people in the country
  - only a limited number of indicators have been provided, for example, there aren't any indicators of gender differences, access to clean water supplies or power
  - issues such as personal and/or political freedoms cannot be assessed from the data provided
  - measures of human happiness have not been provided.
- an overall assessment of the extent to which the data support the view that the Sri Lankan economy is more economically developed than the economies of Bangladesh and Pakistan.

As indicated in the level of response mark grid above, a good response will include a supported final judgement concerning the extent to which the data support the view that the Sri Lankan economy is

more economically developed than the economies of Bangladesh and Pakistan. A good response will quote data to support the judgement and data will be quoted accurately. It is likely that good answers will conclude that the Sri Lankan economy is more economically developed than the economies of Bangladesh and Pakistan. However, they should not be penalised for a different conclusion, provided it is well supported.

**MAXIMUM FOR QUESTION 31: 10 MARKS**

**3 2** Explain possible reasons for fluctuations in the world market price of tea.

**[15 marks]**

Level of response	Response	Max 15 marks
<b>Level 3</b>	<b>A good response provides an answer that:</b> <ul style="list-style-type: none"> <li>• is well organised and develops a selection of the key issues that are relevant to the question</li> <li>• shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors</li> <li>• includes good application of relevant economic principles and, where appropriate, good use of data to support the response</li> <li>• includes well-focused analysis with clear, logical chains of reasoning.</li> </ul>	<b>11–15 marks</b>
<b>Level 2</b>	<b>A reasonable response provides an answer that:</b> <ul style="list-style-type: none"> <li>• focuses on issues that are relevant to the question</li> <li>• shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present</li> <li>• includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response</li> <li>• includes some reasonable analysis but which might not be adequately developed or becomes confused in places.</li> </ul>	<b>6–10 marks</b>
<b>Level 1</b>	<b>A weak response provides an answer that:</b> <ul style="list-style-type: none"> <li>• has one or more relevant issues identified</li> <li>• has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely</li> <li>• has very limited application of relevant economic principles and/or data to the question</li> <li>• might have some limited analysis but it may lack focus and/or become confused.</li> </ul>	<b>1–5 marks</b>

**Relevant issues include:**

- meaning of fluctuations in price
- explain that the world market price of tea is determined mainly by the interaction of demand and supply
- explain that changes in price are caused by shifts in the supply and/or demand for tea
- explain factors that may cause shifts in the supply of tea in the short run, eg weather conditions and natural disasters
- explain factors that may cause shifts in the supply of tea in the long run, eg climate change and new suppliers entering the market, changes in technology
- explain why an inelastic demand for tea will lead to large fluctuations in the price of tea when there is a shift in supply
- explain factors that may cause shifts in the demand for tea, for example: changes in the price and availability of substitutes, changes in tastes and preferences, changes in incomes, introduction of new varieties of tea and innovations such as instant tea
- explain why an inelastic supply of tea will lead to large fluctuations in the price of tea when there is a shift in demand



- use of own knowledge and data in **Extract C** to illustrate/support the above
- explain the impact of speculation on the price of tea
- explain the possible impact of monopoly suppliers and large monopsonistic businesses on the price of tea
- explain the possible impact of exchange rate changes on the world market price of tea, usually quoted in dollars.

The question asks for reasons why the price of tea **fluctuates** and therefore, 'A good response' (Level 3), is likely to explain why the price of tea might rise **and** why it might fall.

The use of relevant diagrams to support analysis should be taken into account when assessing the quality of a candidate's response to the question.

**MAXIMUM FOR QUESTION 32: 15 MARKS**

**3 3**

*After considering **Extract D**, and the original evidence in **Extracts A, B and C**, would you recommend that the government of Sri Lanka cut its spending to reduce its debt? Justify your recommendation.*

**[25 marks]**

Level of response	Response	Max 25 marks
<b>Level 5</b>	<b>Sound, focused analysis and well-supported evaluation that:</b> <ul style="list-style-type: none"> <li>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors</li> <li>• includes good application of relevant economic principles and, where appropriate, good use of data to support the response</li> <li>• includes well-focused analysis with clear, logical chains of reasoning</li> <li>• includes supported evaluation throughout the response and in a final conclusion.</li> </ul>	<b>21–25 marks</b>
<b>Level 4</b>	<b>Sound, focused analysis and some supported evaluation that:</b> <ul style="list-style-type: none"> <li>• is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors</li> <li>• includes good application of relevant economic principles and, where appropriate, some good use of data to support the response</li> <li>• includes some well-focused analysis with clear, logical chains of reasoning</li> <li>• includes some reasonable, supported evaluation.</li> </ul>	<b>16–20 marks</b>
<b>Level 3</b>	<b>Some reasonable analysis but generally unsupported evaluation that:</b> <ul style="list-style-type: none"> <li>• focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present</li> <li>• includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response</li> <li>• includes some reasonable analysis but which might not be adequately developed or becomes confused in places</li> <li>• includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.</li> </ul>	<b>11–15 marks</b>
<b>Level 2</b>	<b>A fairly weak response with some understanding that:</b> <ul style="list-style-type: none"> <li>• includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely</li> <li>• includes some limited application of relevant economic principles and/or data to the question</li> <li>• includes some limited analysis but it may lack focus and/or become confused</li> <li>• includes some evaluation which is weak and unsupported.</li> </ul>	<b>6–10 marks</b>
<b>Level 1</b>	<b>A very weak response that:</b> <ul style="list-style-type: none"> <li>• includes little relevant knowledge and understanding of economic terminology, concepts and principles</li> <li>• includes analysis which is, at best, very weak</li> <li>• includes attempted evaluation which is weak and unsupported.</li> </ul>	<b>1–5 marks</b>

**Relevant issues include:**

- meaning of debt, national debt and the budget deficit
- relationship between government spending, the budget deficit and government debt
- the significance of the currency in which the debt is denominated and size of the country's foreign exchange reserves
- use of the data in **Extract D** to indicate the nature of the problem faced by Sri Lanka in relation to government and government-guaranteed debt
- arguments in favour of the Sri Lankan government cutting its spending to reduce its debt:
  - avoid defaulting on its interest and debt repayments (servicing the debt)
  - increase confidence in lenders and maintaining its ability to borrow in the future
  - try to prevent the cost of government borrowing increasing
  - make it more likely that Sri Lanka would be able to attract Foreign Direct Investment (FDI)
  - prevent a further depreciation in the Sri Lankan currency (Rupee - LKR)
  - avoid inflationary pressures without excessively high interest rates
  - minimise possible crowding-out effects.
- arguments against the Sri Lankan government cutting its spending to reduce its debt:
  - need to maintain spending to support people on very low incomes
  - supporting the provision of infrastructure to promote the development of the economy and increase living standards
  - necessary to provide health care for people in need and to enhance people's ability to work and their productivity
  - necessary to spend on education and training to support economic development
  - avoid reducing AD by cutting an injection into the circular flow of income
  - short-run effects on employment and growth.
- alternatives to cutting government spending:
  - increasing taxes, but the taxable capacity of a lower-middle-income country is likely to be limited
  - attempting to encourage private provision of vital services such as education and health care
  - attracting FDI, including to provide services that would otherwise have been provided by the government
  - waiting for the recovery in the Sri Lankan economy to increase tax revenues
  - waiting for the expected recovery in the world economy to lead to an increase in tourism and to generate more foreign exchange for Sri Lanka
  - approaching the World Bank for development loans
  - approaching the IMF for a loan, but this is likely to include conditions that may involve cutting government spending
  - attempting to attract foreign aid of various types and from various sources.
- an overall assessment of the arguments for and against the Sri Lankan government cutting its spending to reduce its debt
- a supported recommendation.

The use of relevant diagrams to support analysis should be taken into account when assessing the quality of a candidate's response to the question.

**An answer that does not include any evaluation or a supported recommendation must not be awarded more than 13 marks.**

**MAXIMUM FOR QUESTION 33: 25 MARKS**