GCE A LEVEL MARKING SCHEME

SUMMER 2018

A LEVEL
ECONOMICS - COMPONENT 2
A520U20-1

INTRODUCTION

This marking scheme was used by WJEC for the 2018 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

1. (a)	**What benefits do train operators such as Virgin and First Great Western get from winning a franchise for a certain route on the rail network?**	**Total**
	AO1: 2 marks Award **2** marks for showing a developed understanding of why the monopoly power given by the franchise will increase profitability and/or why open access routes will decrease it. Award **1** mark for showing a limited understanding of the effects of franchising/open access on the probability of train operators. **AO2: 2 marks** Award **2** marks if the learner applies the context effectively to support their answer. Award **1** mark if the learner makes limited application of the context to support their answer.	**4**

Indicative content:

AO1 – benefits of monopoly power in general relating to higher levels of profitability/greater security etc

Monopoly power will allow prices to be higher than they would be in a more competitive/contestable setting
The costs of competition will be lower – no need to offer higher quality etc.
Combined these will mean that profits are higher

AO2 – application to the context

Understanding that franchises give monopoly power to train operators on a route for several years; other operators cannot run services along the same route.
Use of the context of railways in terms of season tickets, on-board catering etc.
Franchise operators gain subsidies from the government

<table>
<tr><td>1 (b)</td><td colspan="2">Using figure 3, outline what has happened to rail fares in both real and nominal terms over the period shown. [4]</td></tr>
<tr><td>Band</td><td colspan="2">AO2</td></tr>
<tr><td></td><td>Nominal</td><td>Real</td></tr>
<tr><td>2</td><td>2 marks
Good application

Data is used effectively over the period to show an understanding of the different rates of change of nominal rail fares, showing an understanding that rail fares have risen throughout almost the whole period in nominal terms, sometimes more quickly and sometimes more slowly.</td><td>2 marks
Good application

Data is used effectively over the period to show some of the periods in which rail fares are rising and falling in real terms</td></tr>
<tr><td>1</td><td>1 mark
Limited application

Understanding that nominal rail fares have risen throughout almost the whole period is shown, but data use is indirect and/or limited.</td><td>1 mark
Limited application

Data only shows either periods in which rail fares are rising or falling in real terms, or data use is indirect and/or limited.</td></tr>
<tr><td>0</td><td>0 marks
No valid application
Understanding of percentage changes is not demonstrated</td><td>0 marks
No valid application
Understanding of real vs nominal changes is not demonstrated</td></tr>
</table>

Indicative content:

Nominal

Rail fares rise every year except 2016, rising very quickly in the 2010-12 period.

Since 2011, rail fares have been rising more slowly.

Between 1997 and 2008 rail fares rose relatively modestly although slowing sharply in 2002-03

Real

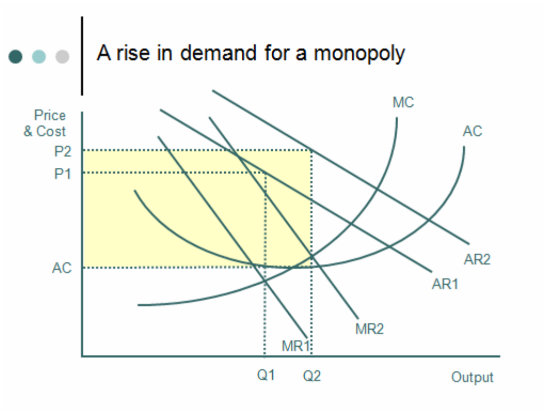
Rail fares rise in real terms in most years, but are generally only slightly above RPI.

Key areas of difference are:

2008-11 when fares rise sharply in real terms.
1997, 2000, 2003 and late 2016 rail fares fell in real terms.

1. (c)	**Using a costs and revenue diagram show how the trend shown in Figure 2 since privatisation would have increased the profits of train operators such as Virgin Trains.**	**Total**
	AO1: 2 marks Award **2** marks for a correct diagram showing the AR and MR shifting to the right leading to increased profits. There are no meaningful errors. Award **1** mark for a diagram that has minor errors and omissions. **AO2: 2 marks** Award **2** marks for use of the data using figure 2 to link the increased market share to higher demand and increased profits in the diagram. Award **1** mark for limited use of the data; the trends in chart 2 are not linked to the diagram.	4

Indicative content:



Costs and revenue diagram for an imperfect market showing AR and MR shifting to the right with increased level of profit.

Rail has had an increased share of transport since privatisation (use of figure 2). This implies increased demand and thus increased profits for train operators.

<table>
<tr><td>1. (d)</td><td colspan="4">“The most efficient price for a train operator to set would be price = marginal cost”. How far do you agree with this view? [8]</td></tr>
<tr><td rowspan="2">Band</td><td>AO1</td><td>AO2</td><td>AO3</td><td>AO4</td></tr>
<tr><td>2 marks</td><td>2 marks</td><td>2 marks</td><td>2 marks</td></tr>
<tr><td>2</td><td>2 marks
Good understanding

Understanding that P=MC is allocatively efficient and what this means.</td><td>2 marks
Good application

Learner uses the context of rail services specifically to support their points.</td><td>2 marks
Good analysis

Clear chain of argument explaining at least one of the different types of efficiency that a firm can aim to achieve in terms of why it is efficient or why failure to achieve it would be inefficient.</td><td>2 marks
Good evaluation

A well-developed counterargument explaining that achieving allocative efficiency may prevent other efficiencies from being achieved or is impractical.</td></tr>
<tr><td>1</td><td>1 mark
Limited understanding

Understanding that P=MC is allocatively efficient</td><td>1 mark
Limited application

Learner makes some reference to the data/ context of rail services, but these references are not well-developed.</td><td>1 mark
Limited analysis

The explanation is superficial with little development of what is actually efficient/inefficient.</td><td>1 mark
Limited evaluation

Evaluation of marginal cost pricing is limited or superficial showing that achieving allocative efficiency may prevent other efficiencies from being achieved</td></tr>
<tr><td>0</td><td>0 marks
No valid understanding</td><td>0 marks
No valid application</td><td>0 marks
No valid analysis</td><td>0 marks
No valid evaluation</td></tr>
</table>

Indicative content:

AO1
Marginal cost pricing is seen as allocatively efficient because the valuation placed on the product by the consumer is equal to the resource cost of producing it/ societal welfare/community surplus will be maximised (no deadweight/welfare loss). It is similar to the idea that D=S in perfect competition.

AO2
Reference to the context of rail services/use of data

Data argues that in the case of fares being very high and a need to reduce fares
Rail fares have been increasing above the rate of inflation in most years (figure 3)
High levels of fixed costs may make P=MC a loss making strategy
CMA argues that non-price competition in the form of “new routes, destinations and innovations” is important meaning that dynamic efficiency may be important.
According to Which?, “millions of passengers are not satisfied with the service that they are receiving”

AO3
Allocative efficiency
Price greater than MC implies consumers are willing to pay more for an extra good than the cost of the resources involved in making that good i.e. consumers want more and resources should be diverted into the making of this product to increase overall community surplus. If price is below marginal cost then more resources have been used to make a product than the value consumers place on them, again implying a welfare loss.

Productive efficiency

Producing the output at which MC=AC means that unit costs are minimised, meaning that the firm is maximising output with its inputs, avoiding wasted resources

Dynamic efficiency

High levels of abnormal profit allow for reinvestment into the business, allowing for improvements in process (reducing costs further in the long run) or product (improving consumer welfare in the longer run)

AO4
Producing at P/AR=MC will generally mean that profits are not maximised (not MC=MR) reducing allocative efficiency and also will often mean not producing at MC=AC meaning that costs are not minimised. Hence there may be a trade-off between the different efficiency types.

Marginal cost pricing does not take into account the external costs of production where they exist hence there could be market failure.

Marginal cost price may be difficult to calculate.

Marginal cost pricing is impractical in high fixed cost industries such as rail.

Marginal cost pricing does not necessarily achieve productive, dynamic or X-efficiency.

If MC pricing is just in the rail sector but not in other sectors or the economy it may actually reduce social welfare and take the economy away from Pareto efficiency (theory of second best).

1. (e)	**With the aid of the data and using economic analysis evaluate the view that the railways should be renationalised. [10]**			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
3				**4 marks** Excellent evaluation A strong two-sided answer effectively discussing whether railways should or should not be renationalised with a well-reasoned and supported overall judgement
2	**2 marks** Good understanding Learner shows a clear understanding of renationalisation	**2 marks** Good application The case is used effectively to support the discussion	**2 marks** Good analysis A well-developed line of analysis is made on one side of the case	**3 marks** Good evaluation A well-developed counterargument is made, arguing that railways should or should not be renationalised.
1	**1 mark** Limited understanding Learner shows a limited understanding of renationalisation	**1 mark** Limited application The data is used but is undeveloped. Occasional references used	**1 mark** Limited analysis The explanation is superficial with little development	**1-2 marks** Limited evaluation Evaluation is limited or superficial.
0	**0 marks** No valid understanding	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation

Answer is reversible

Indicative content:

AO1
Renationalisation would mean the government would take over ownership of the railways from private firms and re-introduce state ownership and control.

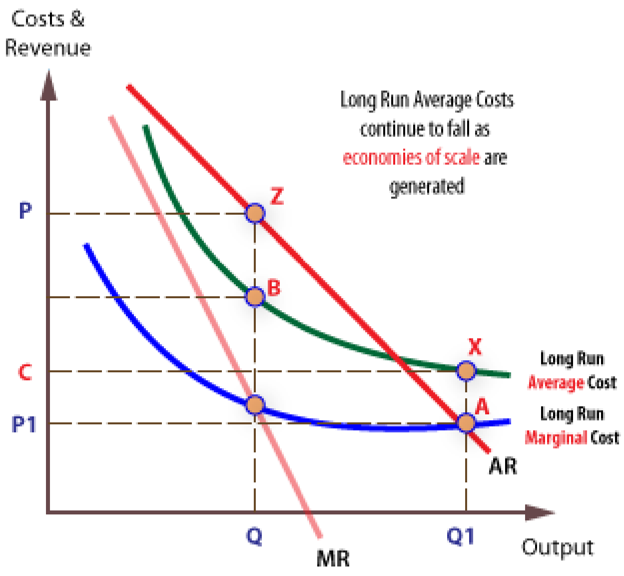
AO2
Data references to a joined up approach to rail. (Rail Delivery Group/Campaign for Better Transport).

The present organisation of rail is over-complex and dysfunctional (see Figure 1).

Competition is not possible on the railways – only one set of tracks.

Competition on routes recommended by CMA to improve the service and supported by Which? magazine.

AO3/4
Renationalisation of what is a natural monopoly would lower costs as the benefits of economies of scale would be realised. This could then translate into lower prices and a better service.



Privatisation of the railways has not and cannot create genuine competition as franchises are monopolies.

Rail is a strategic industry and should be in the hands of the state.

Renationalisation would not be too expensive because Network Rail is already state owned and the government could just let existing franchises lapse.

Rail needs a lot of investment and it would be better if it was directed by the government. There would be costs involved in renationalisation and the government has a large fiscal deficit.

State ownership could lead to x-inefficiency

The experience of nationalised rail in the UK under BR was poor.

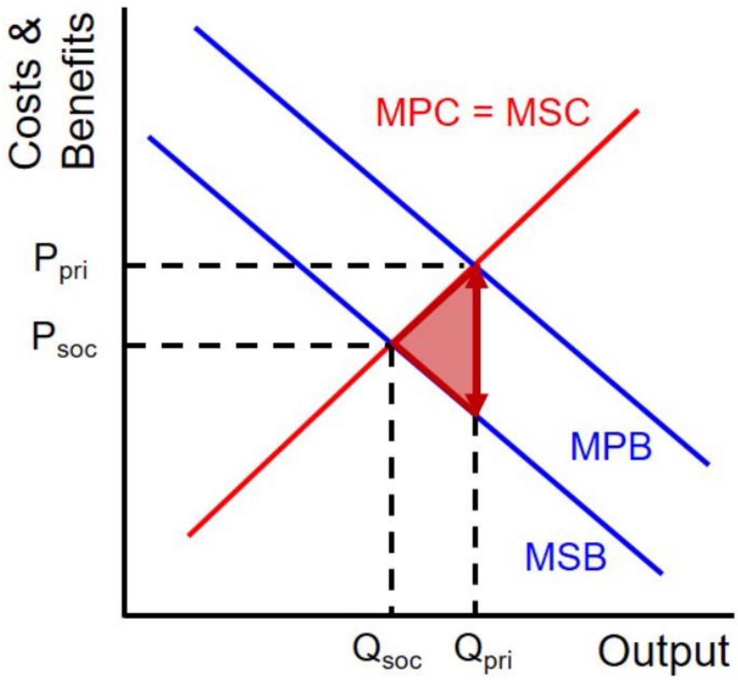
The present privatised system could be improved and regulated better to produce genuine competition and a better quality of service.

Evidence suggests that passenger travel has increased since privatisation - so it must have been successful.

1. (f)	**Using an appropriate diagram and with reference to the data, evaluate the view that the government should tax the use of private cars more heavily to provide more subsidies for the rail network. [10]**			
Band	AO1	AO2	AO3	AO4
	2 marks	2 marks	2 marks	4 marks
3				**4 marks** A well-reasoned and supported judgement with supporting statements. Justified conclusion on the overall effects of this policy
2	**2 marks** Good understanding Clear use of a market failure diagram to illustrate the external costs of pollution from car use Diagram has no significant errors	**2 marks** Good application The case is used effectively to support the discussion	**2 marks** Good analysis Well-developed line of analysis showing why this policy is necessary to correct market failure.	**3 marks** Good evaluation A well-developed line of counterargument is made, explaining the drawbacks of this policy.
1	**1 mark** Limited understanding Limited use of a market failure diagram to illustrate the external costs of pollution/other appropriate diagrams not linked to market failure.	**1 mark** Limited application The data is used but is undeveloped. Occasional references used	**1 mark** Limited analysis The explanation is superficial with little development. Limited use of economic theory	**1-2 marks** Limited evaluation Evaluation is limited or superficial, lacking development.
0	**0 marks** No valid understanding	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

AO1

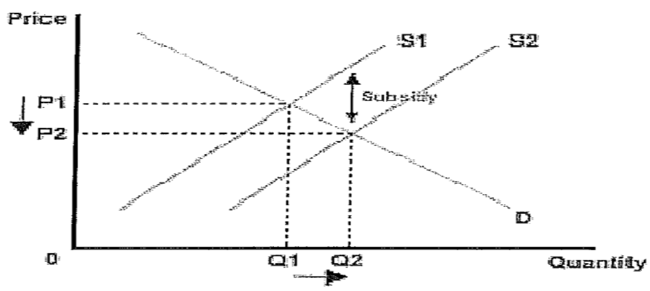


External costs diagram showing that road travel is over-produced when considering the external costs from noise and pollution. At Qpri MSC>MSB and thus there is a welfare loss.

AO2
Data explains that service on the rail network is poor and fares are high.
Billions needed to upgrade the railways.
The road network is heavily congested.
Monopoly power of train operators may mean that subsidies are not well-used

AO3/4
Imposition of an indirect tax such as road tolls would correct the market failure and achieve the socially efficient level of road use.

Proceeds of taxes to subsidise rail will lower prices/increase quality of service/increase investment leading to more people and freight going by rail thus reduced external costs. A diagram may be used to support this line of reasoning.



Taxing road use by tolls or higher taxes on petrol will increase costs for firms and lead to cost-push inflation**.**

Road tolls are regressive and would reduce disposable income of motorists.

High tech tolling is costly to set up.

Higher petrol taxes are less effective with improving fuel efficiency of vehicles.

Demand for road travel is price inelastic and taxes may have little impact on road use.

Subsidies may be misused by train operators and lower prices and an improved level of service do not occur.

Governments cannot always be trusted to hypothecate tax revenue.

Rail network already under strain and thus more passengers would add to over-crowding.

<table>
<tr><td>2. (a)</td><td colspan="3">With reference to figures 1 and 2, consider how significant the impact of commodity prices has been on sub-Saharan African economic growth in 2015-16. [6]</td></tr>
<tr><td rowspan="2">Band</td><td>AO2</td><td>AO3</td><td>AO4</td></tr>
<tr><td>2 marks</td><td>2 marks</td><td>2 marks</td></tr>
<tr><td>2</td><td>2 marks
Good application

Charts 1 and 2 are used effectively to support the argument in the analysis. The data is well-used to support a point/points in the analysis and/or evaluation</td><td>2 marks
Good analysis

Developed line(s) of analysis showing that there is clear evidence that African economic growth has been impacted significantly by commodity prices making good use of economic theory and explaining the links clearly.</td><td>2 marks
Good evaluation

Strong counterargument with some sense of the size of the effect or that some countries are affected more than others.</td></tr>
<tr><td>1</td><td>1 mark
Limited application

Data is used, but its use is underdeveloped, taking the form of occasional references rather than forming strong supporting evidence.</td><td>1 mark
Limited analysis

There is a chain of reasoning, but its use of economic theory is limited. Explanation is superficial</td><td>1 mark
Limited evaluation

Counterarguments are present, using either data or theory but development is limited.</td></tr>
<tr><td>0</td><td>0 marks
No valid application</td><td>0 marks
No valid analysis</td><td>0 marks
No valid evaluation</td></tr>
</table>

Indicative content:

AO2
Chart 1 shows that commodity prices have fallen significantly – band 2 responses will use the data directly/process it.

Chart 2 shows that the impact is clearly greater on some sectors than others. Non-commodity exporters have barely been affected, suggesting that commodity prices make a big difference, although this clearly varies by country.

AO3
Commodity prices can have a big impact on economic growth by affecting investment, the government's tax base, export earnings and household incomes.

Falling commodity prices will therefore hit AD, restricting short-term growth.

The impact on government finances may also reduce funds available for investment in health, education and infrastructure, which may damage potential growth.

AO4
However, not all countries are equally affected – some will be more commodity=dependent than others.
Economic growth has been damaged by other factors such as tight external financing conditions and drought.

Nevertheless, the impact has been quite serious – the price fall was very great and countries such as Equatorial Guinea have been hit very hard.

Alternatively, in many countries, growth has been hit, but remains positive.

In all cases, allow other valid lines of argument.

2. (b)	**With reference to economic theory and using a diagram, explain why primary product prices tend to be very volatile.** **[6]**	
Band	AO1	AO3
	2 marks	4 marks
2	**2 marks** Good understanding Strong use of diagram to illustrate the primary product price volatility. There are no meaningful errors and diagram is referred to as part of the answer showing inelastic supply or demand.	**3-4 marks** Good analysis Developed line(s) of analysis making use of economic theory to explain why primary product prices can be volatile Both elasticity and volatility issues are analysed
1	**1 mark** Limited understanding Weaker use of diagram to illustrate primary product price volatility. The diagram is limited in scope or contains significant labelling errors	**1-2 marks** Limited analysis There is a chain of reasoning, but its use of economic theory is superficial Either elasticity or volatility issues are analysed or both are analysed superficially
0	**0 marks** Diagram is not valid	**0 marks** No valid analysis

Indicative content:

Diagrams should show inelastic demand with volatile supply or inelastic supply with volatile demand.

One approach will argue that supply tends to be volatile, which when combined with inelastic demand, will mean that prices can shift considerably for a given change in supply. The reasons for volatility and low elasticity are explained.

An alternative approach is to argue that supply is inelastic (explained), which means that for a given change in demand (driven by rising incomes or sudden recessions), again there will be a significant change in price.

2. (c)	**Discuss the extent to which the relationship between Malawian interest rates and the Malawian exchange rate shown in figures 3 and 4 can be explained by economic theory.** **[10]**		
Band	AO2	AO3	AO4
	3 marks	3 marks	4 marks
3	**3 marks** Excellent application The data (charts 3&4 and/or the case) is used effectively to support the discussion The data is well-used to support a point/points in the discussion	**3 marks** Excellent analysis Detailed line(s) of analysis explaining the theoretical links between interest rates and the exchange rate. All stages in the process are both identified and fully explained	**4 marks** Excellent evaluation Strong counterargument Well-developed with clear judgements with supporting statements Justified conclusion is reached.
2	**2 marks** Good application The data is used to support the discussion The data is used to support a point/point in the discussion At times the use of data is superficial	**2 marks** Good analysis Developed line(s) of analysis explaining the theoretical links between interest rates and the exchange rate. Some of the steps are not fully explained	**3 marks** Good evaluation Good counterargument Reasonably well-developed with clear judgements with some attempt to support their argument
1	**1 mark** Limited application Data is used, but its use is mostly underdeveloped, taking the form of occasional references rather than forming strong supporting evidence	**1 mark** Limited analysis There is a chain of reasoning, but its use of economic theory is underdeveloped Explanations are superficial	**1-2 marks** Limited evaluation Counterargument(s) are present, but none of them are well-developed The evaluation is superficial and unsupported
0	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

AO2
There are times at which the data does conform to the standard economic theory linking interest rates and exchange rates, such as early 2013 and late 2014. These factors include currency moving to the country with the highest rate of return, speculation and so on.

Mostly, however, the relationship isn't there – rising interest rates in 2012 are correlated with a sharp fall in the exchange rate and the significant increases in 2013 have little lasting effect.

Other factors are therefore likely to be important such as the widening current account deficit, rampant inflation and volatile primary product prices, creating the risk of capital flight/outflows. Large budget deficits may damage confidence in Malawi together with concerns about transparency, again hitting the exchange rate.

AO3
Answers in the top band here will tend to make a convincing case for the theoretical link between interest rates and the exchange rate, arguing that rising interest rates should lead to inflows of short term capital, pushing up the exchange rates.

Band 1 answers will tend to have a weaker understanding as to why short term capital flows are triggered, with the mark overall for AO3 depending on the depth and clarity of the explanation of the theoretical link.

There are three key elements that can be mentioned:
1 That higher interest rates should attract hot money
2 The reasons for that
3 The hot money will increase demand and therefore push up the ex rate.

Separately, a weaker but still valid argument is that higher interest rates will reduce domestic demand, cutting imports and therefore reducing the supply of Kwacha.

AO4
Band 2 and 3 answers will show a clear understanding that there are many periods where the standard relationship does not hold and will have clear alternative hypotheses for what might be going on and will conclude either that standard economic theory cannot explain the links, or that it can, but we need to look beyond interest rates.

Relevant other factors that are likely to be brought in include:

Rapid inflation will cause the exchange rate to fall even if interest rates are rising due to falling competitiveness and lack of confidence.

Volatile commodity prices which impact Malawi's export earnings and FDI are likely to play a large role.

A widening current account deficit and a worsening fiscal position may also have an impact on the exchange rate, cancelling out the effects of rising interest rates.

Possibly currency speculation/capital flight.

The analysis in AO3 and AO4 is reversible

<table>
<tr><td>2. (d)</td><td colspan="3">To what extent might the policies recommended by the IMF in lines 31-41 be beneficial for Malawi's economic development? [10]</td></tr>
<tr><td rowspan="2">Band</td><td>AO2</td><td>AO3</td><td>AO4</td></tr>
<tr><td>3 marks</td><td>3 marks</td><td>4 marks</td></tr>
<tr><td>3</td><td>3 marks
Excellent application

The data is used effectively to apply the policies identified by the IMF to the case of Malawi.
The data is well-used to support the discussion
The answer is deeply rooted in the context of Malawi making full and direct use of the case</td><td>3 marks
Excellent analysis

Detailed line(s) of analysis explaining the theoretical links between at least two of the IMF's policies and the possible positive impact on Malawi's economic development.
The analysis clearly links development and growth.
All stages in the process are fully explained.</td><td>4 marks
Excellent evaluation

Strong counterargument arguing that the IMF's policies will not improve Malawi's economic development.
A reasoned judgement as to the extent to which they might help with supporting statements.
The evaluation is clearly set in the context of development rather than growth alone</td></tr>
<tr><td>2</td><td>2 marks
Good application

The data is used to apply the policies identified by the IMF to the case of Malawi.
The data is used to support the discussion, although at times the use of data is superficial</td><td>2 marks
Good analysis

Developed line(s) of analysis explaining how at least of the IMF's policies might be expected to help Malawi's economic development.
Answer may be focused more on growth than development
Some stages in the process are not fully explained</td><td>3 marks
Good evaluation

Good counterargument arguing that the IMF's policies will not improve Malawi's economic development.
Reasonably well-developed with some judgement as to the extent to which they might help.</td></tr>
<tr><td>1</td><td>1 mark
Limited application

Data is used, but its use is mostly underdeveloped, taking the form of occasional references rather than forming strong supporting evidence</td><td>1 mark
Limited analysis

There is a chain of reasoning, but its use of economic theory is underdeveloped
Explanations are superficial.
Answer focuses more on growth than development and few stages in the process are fully explained</td><td>1-2 marks
Limited evaluation

Counterarguments are present, but not well-developed.
Superficial or brief judgements given</td></tr>
<tr><td>0</td><td>0 marks
No valid application</td><td>0 marks
No valid analysis</td><td>0 marks
No valid evaluation</td></tr>
</table>

Indicative content:

Note – AO3 and AO4 are reversible depending on the angle the answer takes.

The IMF wants countries to allow their exchange rate to fall, to cut their budget deficits and to try to diversify their economies outside of commodities

AO2
Figure 2 shows that Malawi is not a commodity exporter for the most part and that falling commodity prices haven't affected it that much. Hence the diversification advice is not particularly relevant. This is reinforced by the fact that Malawi's service sector is the major driver of growth, although its narrow export base does add weight to the recommendations.
Many of Malawi's problems stem from weather issues and rapidly rising inflation, which the IMF's policies are not looking to address, focusing instead on rising national debt and widening trade deficits.
Malawi does also have significant fiscal and trade deficits, making the IMF's advice relevant, but the steady decline in the kwacha, which has driven up inflation, won't be helped by currency liberalisation.
Urbanisation in Malawi requires significant resources if it is to be a success, which may be at odds with the IMF's fiscal restrictions.
A lack of transparency in public funds has contributed to the fiscal deficit, meaning that focusing deficit reduction efforts in this area may well be appropriate.
Band 3 answers will be full of references to issues such as these and the answer will be fully set in the context of Malawi
Band 2 answers will have well-developed sections, but will not be compeltely convicing and may miss signifncant areas.
Band 1 answers will make references to Malawi but these will not be well-developed (often being undeveloped examples)

AO3
In principle the IMF's policies make sense:
Reductions in fiscal deficits can avoid problems with creeping debt repayments, crowding out, capital flight and debt downgrades, allowing private sector investment to rise and boosting long term growth. Hence the IMF's argument that: *"The required measures may come at the cost of lower growth in the short-term. However, they will prevent what could otherwise be a significantly more costly disorderly adjustment."*
Exchange rate flexibility will help to avoid depletion of currency reserves (needed to prop up overvalued currencies) and will allow exporters and domestic firms to become more competitive and closing countries' trade deficits.
Diversification is obviously advisable simply because of the issues of commodity dependency.

AO4
In reality, all of these policies have issues where Malawi is concerned. Cutting the fiscal deficit might make sense, depending on how it is done, but the rapid urbanisation of Malawi mean that resources are needed there. Given that the Malawian economy is expected to bounce back strongly, there may not be a need to take drastic fiscal action.
Exchange rate flexibility might not make that much sense for Malawi given its narrow export base – there will be a risk that a depreciation of the kwacha may simply worsen their trade position – the government certainly seems keen to support the currency.
Diversification makes sense, but there is an argument that Malawi is already doing this, although a more diversified export base would be advisable.
Top band answers will attempt to come to some sort of (reasoned) judgement as to how desirable the IMF's policies are in the case of Malawi, but this can't just be a throwaway line.

2. (e)	**In line 28, the IMF speaks of 'favourable population trends'. To what extent is the Malawian economy likely to benefit from its rapid population growth? [8]**		
Band	AO2	AO3	AO4
	3 marks	3 marks	2 marks
3	**3 marks** Excellent application Case is used effectively to support a point/points in the analysis **and** evaluation. The answer is deeply rooted in the context of Malawi making full and direct use of the case.	**3 marks** Excellent analysis Detailed line(s) of analysis explaining the theoretical links between rapid population growth and the possible positve or negative impacts on Malawi's economy. There is a fully developed chain of reasoning clearly linking rapid population growth to positive or negative economic outcomes.	
2	**2 marks** Good application Case is used effectively to apply the concept of rapid population growth to the case of Malawi on one side of the debate, or application is on both sides, but coverage of one side is superficial.	**2 marks** Good analysis Developed line(s) of analysis explaining the theoretical links between rapid population growth and the possible positive or negative impacts on Malawi's economy. Some stages in the chain of reasoning are not fully explained.	**2 marks** Good evaluation Strong discussion of the costs and benefits of rapid population growth coming to a reasoned judgement as to the extent that it might help the Malawian economy.
1	**1 mark** Limited application Data is used, but its use is mostly underdeveloped, taking the form of occasional references rather than forming strong supporting evidence	**1 mark** Limited analysis There is a chain of reasoning, but its use of economic theory is underdeveloped; explanations are superficial.	**1 mark** Limited evaluation Arguments are qualified but the answer lacks an overall judgement.
0	**0 marks** No valid application	**0 marks** No valid analysis	**0 marks** No valid evaluation

Indicative content:

AO2
Urban population is growing faster than population as a whole, providing both opportunities and threats for Malawi
Rapid urbanisation in Malawi is viewed as potentially beneficial, depending on whether the infrastructure can be put in place
Likely to support the growth of the service sector away from agriculture
Short term budget issues may be exacerbated by rapid population growth
Growth of 2.8% per year will significantly dilute the effects of the predicted 4 and 4.9% growth over the next two years.

AO3
Rapid population growth can cause significant problems for an economy in terms of:

- Diluting the impacts of economic growth
- Putting strain on both the government's finances in terms of pressure in education and health infrastructure and on the quality of education and health themselves
- Put pressure on resources such as agriculture and housing
- Reduce disposable household income, reducing savings ratios and therefore potentially damaging investment.
- Rapid urbanisation can lead to slums
- Labour supply rising faster than labour demand can create problems with unemployment, damaging stability and the investment climate.

AO4
But there are benefits of rapid population growth too:

- The IMF believes that the population trends will support growth in the medium term, by expanding the capacity of economies, providing a plentiful supply of skilled labour and holding down labour costs.
- In the medium term, the tax base will also be boosted.
- Urbanisation (the area of fastest population growth for Malawi) provides the opportunity to shift the economy away from an agricultural base and towards a more diversified economic structure as skills can be developed.