GCE MARKING SCHEME

SUMMER 2019

A LEVEL
ECONOMICS - UNIT 4
1520U40-1

INTRODUCTION

This marking scheme was used by WJEC for the 2019 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.

Positive Marking

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate 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.

Below are the assessment objectives for this specification. Candidates must demonstrate their ability to:

AO1 Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues

AO2 Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues

AO3 Analyse issues within economics, showing an understanding of their impact on economic agents

AO4 Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

Q1a	**Using a numerical example, explain how game theory can be used to illustrate price leadership in oligopolies.**	
Band	AO1	AO3
	6 marks	4 marks
3	**5 – 6 marks** Excellent, accurate and comprehensive understanding of game theory and price leadership in oligopoly market structures, with an accurate numerical example. Candidates will show excellent understanding of all three elements of the question (numerical example/game theory, price leadership, and oligopolies). Excellent use of relevant terminology.	
2	**3 – 4 marks** Good understanding of game theory and price leadership in oligopoly market structures, with a mostly accurate numerical example. There may be some errors and omissions. Candidates will show good knowledge of two of the three elements of the question (most likely a numerical example/game theory and oligopolies). Good use of relevant terminology.	**3 – 4 marks** A good, accurate and comprehensive analysis of how game theory can be used to illustrate price leadership in oligopolies. Game theory/numerical example is used accurately as part of the analysis.
1	**1 – 2 marks** Some recognition of what is meant by oligopoly, price leadership and/or game theory. Game theory/a numerical example may be attempted, but with significant errors or omissions. Candidates are likely to only consider one element of the question.	**1 – 2 marks** Limited analysis of how game theory can be used to illustrate price leadership in oligopolies.
0	**0 marks** No valid understanding.	**0 marks** No valid analysis.

Indicative content:

Understanding of what is meant by oligopoly:

- small number of dominant firms, high concentration ratio, interdependence between firms, possibility of both homogenous and differentiated products, reasonably high barriers to entry/exit, firms have price-making power

Understanding of price leadership:

- overt (illegal) or tacit (legal) price leadership
- firms working together to raise prices in order to increase joint profits
- The setting of prices (raise or lower) by a dominant firm in an oligopoly, which are then followed by others – for the dominant firm, this may be their profit maximising price but is unlikely to be so for all firms, or it may be that the dominant firm has better information regarding market/economic conditions so other firms 'free ride' on that information (often called barometric price leadership)
- Other firms follow because it can help to reduce uncertainty about the decisions of competitors
- Arguably more likely to occur than collusion, although can be illustrated in a similar way using a
  2 x 2 payoff matrix (see below)
- Examples could include airlines, low-cost supermarkets such as Aldi and Lidl, or modelling industry, airport drop-off fees, German supermarkets and breweries, lift manufacturers, football kits, independent school fees, etc

Understanding of game theory:

- A mathematical technique used to model inter-dependence and 'best responses' by firms to the strategies of other firms
- Uses expected payoffs to help analyse strategies

A possible numerical example:

Example of using a **payoff matrix**, i.e. numerical example, to illustrate price stability, collusion, price wars, price leadership:

		Firm B	
		High Price	Low Price
Firm A	High Price	(20, 20)	(5, 25)
	Low Price	(25, 5)	(8, 8)

The Nash equilibrium here is for A and B to set low prices – this could indicate price war or price stability. However, higher profits are earned by setting prices high, by price leadership that is either collusion (illegal) or tacit (legal).

N.B. The numerical example could be presented in any format – it does not have to be in a traditional pay off matrix format.

Q1b	**"Oligopoly is the most desirable market structure". Discuss.**		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5 – 6 marks** Excellent understanding of oligopoly, and how it compares to other market structures.	**5 – 6 marks** An excellent analysis of the desirability of oligopoly compared to other market structures.	**6 – 8 marks** An excellent critical evaluation of the desirability of oligopoly. A clear judgement on whether oligopoly is the most desirable market structure is made with supporting statements to build an argument. Very top band responses will address the issue of 'most desirable' rather than just desirability *per se*.
2	**3 – 4 marks** Good understanding of the desirability of oligopoly Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band	**3 – 4 marks** A good analysis of the desirability of oligopoly Answers in this band show developed chains of argument. Answers in this band may lack depth, and any diagrams used may not always be well-integrated or completely correct	**3 – 5 marks** A good evaluation that includes most of the key issues. At least two points are evaluated. The arguments may simply be focused on the pros and cons of oligopolies.
1	**1 – 2 marks** Limited understanding of what is meant by oligopoly and how it compares to other market structures.	**1 – 2 marks** Limited analysis of how oligopoly compares to other market structures. Answer tends to lack key economic concepts and avoid technical analysis.	**1 – 2 marks** Limited evaluation There is no development of the evaluation.
0	**0 marks** No knowledge or understanding present.	**0 marks** No relevant analysis.	**0 marks** No relevant evaluation.

Indicative content:

Understanding of what is meant by oligopoly:

- Small number of dominant firms, high concentration ratio, interdependence between firms, possibility of both homogenous and differentiated products, reasonably high barriers to entry/exit, firms have price-making power.

Possible areas for discussion:

- **Consumers**:
  - Wider choice, which could improve allocative efficiency due to product differentiation – this is better than **perfect competition** with no choice at all despite theoretical allocative efficiency, although consumers in **monopolistic competition** can enjoy significant product differentiation.
  - BUT – there could be too much choice/information overload, which increases opportunities for consumers to be exploited.
  - Price wars or low stable prices can increase consumer surplus, which is a measure of welfare, as well as allowing those on lower incomes to purchase goods and services – this is better than **monopoly,** which is assumed to set prices high, but may be less likely to result in low prices than **perfect competition or monopolistic competition** with low barriers to entry.
  - BUT – limited choice may mean that consumers cannot easily switch to alternative providers should prices rise, which might happen as a result of price leadership, collusion, etc (e.g. energy tariffs, mobile phone contracts. etc). Collusion results in price being pushed above MC which is not allocatively efficient. However, collusion is inherently unstable and likely to be temporary; therefore, arguably more desirable than **monopoly** because high prices are unlikely to persist.
  - Opportunities for firms to collaborate can lead to better quality products that are more likely to meet consumer needs – arguably similar to **monopoly** in that there may be dynamic efficiency
  - BUT – not all firms will choose to collaborate as many oligopolistic markets are highly competitive, e.g. supermarkets

- **Government**
  - Large, dominant firms may generate significant profits which can in turn lead to higher tax revenue for the government – this is similar to **monopoly**.
  - BUT – firms may be headquartered elsewhere, e.g. pharma companies in Ireland, so little tax revenue is earned, or they may not generate much profit at all especially if they are engaging in price wars – this is less likely in **perfect competition**.
  - Large, dominant firms may be significant employers, which helps to maintain economic growth and employment levels, as well as possibly leading to a strong multiplier effect – likewise similar to **monopoly**.
  - BUT – they may be footloose and liable to move overseas, or they may be replacing labour with capital in an attempt to keep costs down (e.g. supermarket self-checkout).

- **Other issues**
  - **Environment** – collaboration may reduce costs, and people being able to purchase a good that more closely suits their needs may reduce wastage; furthermore, volume economies as a result of larger firms being able to transport goods more efficiently may be better for the environment. Arguably, this is better than either **perfect competition or monopolistic competition**.
  - BUT – there may be unnecessary duplication of resources, or resources spent wastefully on advertising, etc.
  - **Efficiency concerns** – oligopolies may be productively efficient because they can benefit from economies of scale if they are large, dynamically efficient if they are competing in non-price ways, allocatively efficient if they are aiming to produce exactly what consumers desire. Comparison with efficiency in other structures (e.g. perfect competition in the LR is productively and allocatively efficient, firms in monopolistic competition and monopoly are neither, firms in monopoly may be dynamically efficient).

- **Wider evaluative issues:**
  - The impact overall depends on the number of firms in oligopolistic market structures and the extent to which they engage in price competition.
  - The impact depends on whether there is effective regulation of behaviour by firms in oligopoly.

Q2a	**Explain, using diagrams, why firms in perfect competition are regarded as efficient.**	
Band	AO1	AO3
	6 marks	4 marks
3	**5 – 6 marks** Excellent understanding of what is meant by perfect competition; either two accurate and comprehensively labelled diagrams (likely to be SR and LR perfect competition diagrams) or one diagram is referred to twice; excellent understanding of the link between different types of efficiency and perfect competition. Excellent use of relevant terminology throughout the answer.	
2	**3 – 4 marks** Good understanding of perfect competition, supported by a relevant diagram or diagrams which should be largely correct with no significant errors or omissions. Candidates may do two reasonable diagrams or one excellent diagram. Candidates will show good understanding of at least two types of efficiency and how they relate to perfect competition.	**3 – 4 marks** Good, clear, comprehensive and accurate explanation of perfect competition and good analysis of how this market structure can be regarded as efficient. Diagram(s) are fully integrated into the written analysis. At the very top of this band, candidates will analyse at least two ways in which perfect competition results in efficiency.
1	**1 – 2 marks** Some understanding of perfect competition, with some attempt at a relevant diagram which is likely to display significant errors or omissions. Some understanding of efficiency, perhaps in relation to perfect competition.	**1 – 2 marks** Limited analysis, with unconvincing explanation of the types of efficiency achieved in perfect competition.
0	**0 marks** No valid diagram and no valid understanding of perfect competition or efficiency.	**0 marks** No valid analysis

Indicative content:

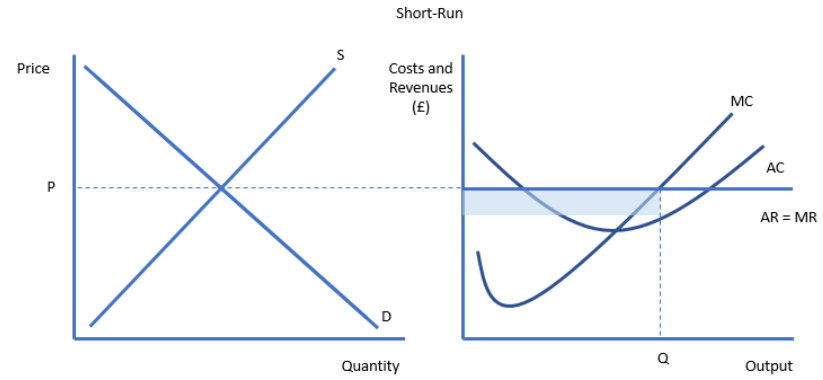
Understanding of perfect competition:

- Many firms and many buyers (none of which have any market power), perfect knowledge, homogeneous goods, no barriers to entry/exit, price-taking firms

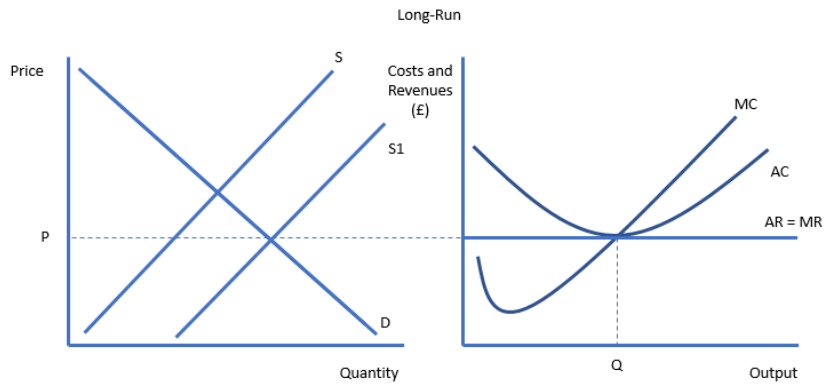
Understanding of different types of efficiency:

- Productive efficiency – producing at lowest AC, i.e. using factor inputs in the most efficient way to produce the largest volume of outputs
- Allocative efficiency – producing where AR = MC, i.e. maximising consumer and producer surplus, so that the marginal utility (represented by price, or AR) is exactly equal to the marginal cost of producing the product; also, maximising consumer welfare and satisfaction
- Dynamic efficiency – improving the products or production process to reduce production costs and make products more desirable
- Pareto efficiency – occurs where both productive and allocative efficiency are achieved, i.e. a situation in which it is not possible to make one person better off without making another worse off
- X efficiency – reducing wastage so that the lowest AC achievable is indeed being achieved at each and every level of output

Knowledge and understanding of diagrams:



In the SR, firms in PC are allocatively efficient but not productively efficient. They should be x-efficient. Although there is abnormal profit, it does not act as an incentive to be dynamically efficient.



In the LR, firms in PC are both allocatively efficient and productively efficient, therefore Pareto efficient. They should be x-efficient. There is no abnormal profit therefore no dynamic efficiency.

Note that the question does not specifically direct candidates to draw the traditional SR and LR perfect competition diagrams, and so any relevant and appropriate diagrams should be accepted, e.g. diagrams to illustrate x efficiency.

Key analysis points:

- Candidates should be able to analyse their diagrams for both the SR and LR to support their explanation of the different types of efficiency in perfect competition.
- As a result of a highly competitive environment in which all firms are price-takers and sell homogenous products, there is no scope for spending on advertising or product

differentiation as this will raise costs above price and result in a loss, as well as meaning that the market is no longer perfectly competitive. Operating without x-efficiency will also result in a loss in the LR.

Q2b	**Evaluate the view that competition authorities should ban firms from using price discrimination.**		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5 – 6 marks** Excellent knowledge of the nature of price discrimination, probably with reference to the different types of discrimination. There is broad and deep coverage of the factors that are relevant with no significant errors or omissions. There are likely to be some valid, accurate diagrams that are well integrated into the answer.	**5 – 6 marks** An excellent analysis of the impact of discrimination, likely considering both microeconomic and macroeconomic issues. A well-developed argument is made that uses strong chains of analysis. Relevant examples are likely to be integrated throughout the answer.	**6 – 8 marks** An excellent critical evaluation of whether competition authorities should ban firms from using price discrimination. The very best answers will likely consider alternatives to a ban and/or the issues surrounding bans Clear judgements are made with supporting statements to build an argument that is well justified.
2	**3 – 4 marks** Good understanding of price discrimination, its implications, and the reasons why a ban may be needed. Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band. There may be some valid diagrams attempted, but they may not be well integrated or wholly accurate.	**3 – 4 marks** A good analysis of the reasons why a ban on price discrimination may be desirable, possibly considering micro and macro issues. Answers in this band generally show good chains of argument using relevant examples to illustrate key points. Some chains may lack depth and any diagrams used may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues, although the evaluation may be one-sided. At least two points are evaluated with a clear discussion in light of whether a ban on price discrimination is desirable. No clear judgement is reached, or a judgement is reached but with a weak underpinning argument.
1	**1 – 2 marks** Limited understanding of what is meant by price discrimination and the context in which a ban would be relevant. Limited use of appropriate technical vocabulary.	**1 – 2 marks** Limited analysis of the need for a ban on price discrimination. Answer tends to lack key economic concepts and avoids technical analysis.	**1 – 2 marks** Limited evaluation that is one-sided and unbalanced, and limited in terms of depth or breadth.
0	**0 marks** No valid knowledge or understanding of price discrimination or competition policy.	**0 marks** No relevant analysis of the issues surrounding a ban on price discrimination.	**0 marks** No relevant evaluation of the impact of a ban on price discrimination.

N.B. This is a reversible answer.

Indicative content:

Understanding of price discrimination:

- The charging of different prices to different customers for the same product/service by firms with price-making power (i.e. usually in a concentrated market)
- Candidates may consider the different types of price discrimination
  - First degree: each consumer is charged the maximum price that they are willing to pay, and therefore the firm converts all consumer surplus into producer surplus
  - Second degree: the amount charged varies according to the quantity of the good purchased
  - Third degree: consumers are split/segmented into groups, each with different PED for the product – those with inelastic PED are charged more than those with elastic PED – there must be no arbitrage

Areas for discussion:

- **PD results in higher profits** for firms than simply charging the same price to all consumers; this profit can then be used to entrench the firm's dominant position in the market, potentially leading to further exploitation of consumers. This is also a transfer of surplus from producers to consumers. This is true for all types of PD.
  - BUT – higher profits can be used to improve dynamic efficiency and lead to better products or production processes, which in turn can improve allocative efficiency and/or productive efficiency.
  - BUT – higher profits do not necessarily mean that community surplus is reduced. Households may still benefit from higher profits in the form of higher dividends on shares, or higher wages.
  - BUT – higher profits may result in higher tax revenue for the government.

- **PD, especially 2nd degree PD, may result in rising inequality** – those who are able to buy in bulk/
  store larger quantities are likely to have higher income and therefore benefit from the lower prices from bulk-purchase.
  - BUT – 3rd degree and 1st degree PD may reduce inequality – those on lower incomes may have a more elastic PED or a lower willingness-to-pay and so will benefit from lower prices, whereas those on higher incomes will pay more (although they clearly suffer from a fall in consumer surplus). So, PD can effectively be progressive rather than regressive.
  - BUT – 3rd degree PD may lead to the market widening as those paying higher prices effectively cross-subsidise those paying lower prices; those paying low prices may not otherwise be able to participate in the market without PD (therefore this improves allocative efficiency for these people).

- **PD may result in increased exploitation of consumers** – some people may have no choice but to pay higher prices (e.g. essential services workers such as nurses having to travel on trains at peak-times) or may suffer from information failure and not realise they are eligible for lower prices. Competition authorities in the UK, Europe and US are particularly focused on protection of consumers over the rights of businesses.
  - BUT – use of PD may improve welfare of most consumers if peak times are more 'spread out' or access is widened.
  - BUT – government policy may limit prices for the highest prices, e.g. peak time train travel
  - BUT – problems can be solved via information provision.

- **Effectiveness of government intervention**
  - A ban would lead to all consumers presumably being charged the same price, or different ways of exploiting consumers could occur, e.g. low-cost airlines charging for additional items such as food, exit row seats, bags, speedy boarding, etc.
  - A ban could lead to higher prices for everyone, which reduces consumer surplus yet further.
  - Bans are difficult to implement when firms may be based overseas, e.g. overseas hotels using price discrimination strategies at different times of the year.
  - Alternative approaches could include having a set ratio of high to low prices instead.
  - Difficult and cost of enforcement of bans or other similar policies to reduce the unwanted effects of PD
  - Whether PD should be banned depends on the grounds for discrimination, i.e. it is already illegal to discriminate in terms of race or gender (e.g. no difference now in the UK for car insurance despite the evidence suggesting that women are less likely to claim on insurance).
  - PD has arguably become more difficult to understand as there is increased use of technology to capture market changes, e.g. day-to-day variations on prices of flights or trains.
  - Need to consider PD in relation to the supply-chain, e.g. small businesses may benefit from lower prices for raw materials if they have more elastic PED – this can improve market contestability.
  - PD may be justified if firms face different costs when supplying different customers, e.g. geographical PD may be justifiable if it costs more to supply customers in remote, rural areas compared with urban areas.

Q3a	**Explain, using a diagram, the shape of the short-run aggregate supply (SRAS) function and the factors which may cause it to shift.**	
Band	AO1	AO3
	6 marks	4 marks
3	**5 – 6 marks** Excellent understanding of the shape of SRAS as well as factors that cause shifts in SRAS. Accurate diagram showing the shape of the SRAS curve and possibly shifts in the curve. The very best candidates may show knowledge and understanding of Neoclassical and Keynesian perspectives although this is not necessary.	
2	**3 – 4 marks** Good understanding of SR aggregate supply shape and shifts, although the answer is likely to be unbalanced and focus on either the shape **or** the shifts. The diagram is largely accurate with no significant errors or omissions.	**3 – 4 marks** Good, accurate and clear chains of analysis explaining the shape of SRAS as well as shifts in the curve. The very best candidates may consider the Keynesian and the Neoclassical perspectives.
1	**1 – 2 marks** Limited understanding of what is meant by aggregate supply, its shape and causes of shifts. Candidates may only consider the shape **or** shifts, not both. The diagram will have significant errors or omissions, or fail to properly consider the SR.	**1 – 2 marks** Limited analysis of the shape of SRAS and/or limited analysis of the factors that cause shifts in SRAS.
0	**0 marks** No valid diagram and no valid understanding.	**0 marks** No valid analysis.

Indicative content:

Understanding of aggregate supply: the total amount of goods and services planned to be supplied in an economy in a given time period/the total amount of a goods and services that firms in an economy are willing and able to sell at a given price level in a given time period.

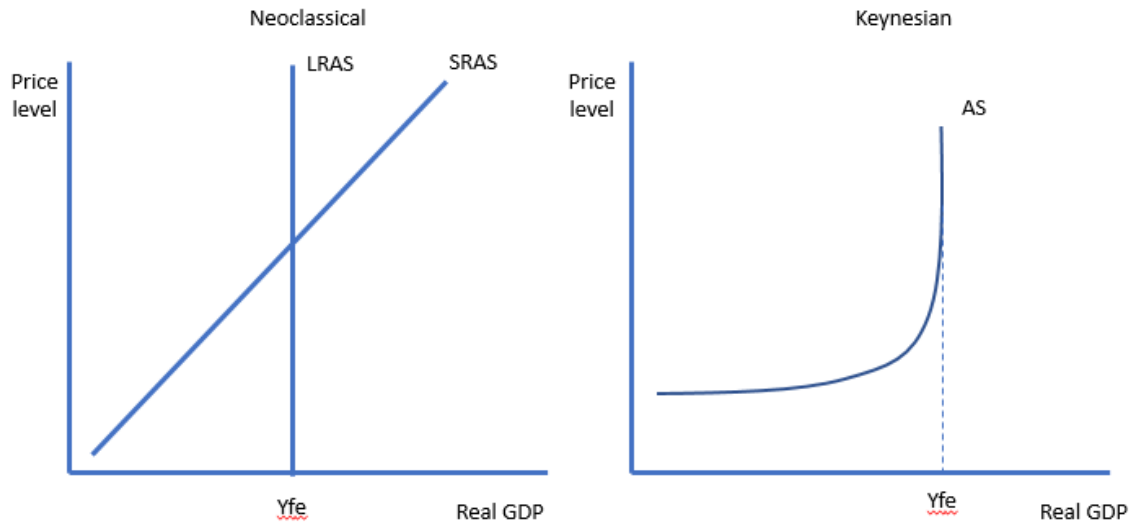
SRAS – shape

- This represents the total amount of goods and services that can supplied when the price level changes but there is no change in the total quantity/quality of factors of production available in the economy.
- It is upwards sloping because higher prices mean that it becomes more profitable for firms to provide their goods and services; the more factors of production that they hire to produce the output, the higher the price of those factors of production as they become increasingly scarce and arguably less productive due to diminishing returns.
- Furthermore, as output rises in the short run, existing factors of production become less productive, e.g. overtime is tiring, capital starts to depreciate, etc, and this raises the cost of production.

SRAS – shifts

- SRAS shifts when the prices of factors of production change.
- For example, a decrease in the wage rate, interest rate or rents, or lower raw material costs such as cheaper oil, will cause a downwards shift in the SRAS curve.

Diagrams:



N.B. Answers must be focused on macroeconomics to be awarded top band.

Q3b	**"Recession can sometimes generate benefits for an economy." Discuss the extent to which governments should pursue contractionary fiscal policies.**		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5 – 6 marks** Excellent understanding of possible impacts of contractionary fiscal policy. The very best candidates will likely show understanding of different types of economy and different types of contractionary fiscal policy. There is broad and deep coverage of the factors that are relevant with no significant omissions.	**5 – 6 marks** An excellent, detailed analysis of how contractionary fiscal policy may be beneficial for different economies and in different contexts. Diagrams, where used as part of the analysis, are well integrated and accurate. A well-developed argument is formed.	**6 – 8 marks** An excellent critical evaluation of at least two factors. Clear judgements are made with supporting statements to build an argument that considers the extent to which governments should pursue contractionary fiscal policy. Very top band answers will consider different economic contexts and different perspectives.
2	**3 – 4 marks** Good understanding of possible impacts of contractionary fiscal policy. Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band.	**3 – 4 marks** A good analysis of how contractionary fiscal policy can lead to benefits for an economy. Answers in this band show developed chains of argument. Answers in this band may lack depth at times, and any diagrams that are used may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues. At least two factors are evaluated. Candidates in this band may superficially consider different types of economy and different types of fiscal policy.
1	**1 – 2 marks** Identification, and some limited understanding, of one or more benefits associated with contractionary fiscal policy. Some limited understanding off contractionary fiscal policy.	**1 – 2 marks** Limited analysis of the possible benefits of contractionary fiscal policy. Answer tends to lack key economic concepts and avoid technical analysis.	**1 – 2 marks** Limited evaluation of contractionary fiscal policy, likely just focusing on the disadvantages of recession. A very one-sided answer.
0	**0 marks** No knowledge or understanding present.	**0 marks** No relevant analysis.	**0 marks** No relevant evaluation.

N.B. This answer is reversible.

Indicative content:

Understanding of contractionary fiscal policy:

- Higher taxes (across a range of tax types) and/or reduced government spending (again, on a different range of issues – could consider current v capital, or both) and/or reduced government borrowing; could consider discretionary v automatic contractionary fiscal policy.

Areas for discussion include:

- Contractionary fiscal policy can lead to **falling inflationary pressure** if it causes AD to fall. This can help achieve a key macro objective, assuming that a government has an inflation target, and assuming that inflation has been above target.
    - BUT – impact really depends on the current state of the economy – during a boom this is desirable, perhaps less so in deep recession.
    - BUT – impact depends on other factors, e.g. in an increasingly globalised world we may be more likely to suffer from imported inflation and be more susceptible to changes in global commodity prices which can cause cost-push inflation.
    - BUT – depends on response by the authorities in charge of monetary policy, i.e. lowering interest rates in response to recession may act as a buffer against falling inflation and counteract contractionary fiscal policy.

- Contractionary fiscal policy may lead to **positive consequences for the environment** as resources are used more slowly due to falling AD and therefore less derived demand for resources; furthermore negative externalities from production and transport are reduced, there is less packaging used, etc.
    - BUT – firms may not be incentivised to invest in greener technology, or may not be able to afford to comply with expensive environmental legislation – there may be fewer government subsidies in this area.
    - BUT – consumers may switch to less environmentally friendly products because they may be cheaper substitutes, i.e. not paying a premium for 'forest friendly' products, switching to inferior goods if benefits are cut and incomes fall.
    - BUT – evidence from the 2007-2009 recession in the UK suggests that environmental quality worsened, e.g. people switched to burning wood in log burners at home to save on energy bills, people downgraded their cars to older, more polluting versions or did not upgrade to newer models.

- Contractionary fiscal policy can **encourage firms to become more efficient** to cut costs (fewer subsidies, higher corporate tax rates) – this can reduce x-inefficiency as only the essentials are provided for; productive efficiency may rise as AC falls.
    - BUT – pressure to achieve efficiency can lead to greater capital-labour substitution which may lead to unemployment which is already likely to be rising as a result of recession (demand for labour is derived from demand for goods and services).
    - BUT – employees may be asked to move onto contracts that provide less certainty, e.g. zero-hours, or become under-employed as they work fewer hours, or have to settle for jobs that require lower skill levels than they are qualified for – this is particularly problematic if welfare spending has been cut.
    - BUT – recession can make it more difficult for young and inexperienced people to get jobs, which can lead to longer-term economy-wide inefficiency problems.

- Contractionary fiscal policy can lead to **rising international competitiveness** if the general price level falls, and maybe the exchange rate falls too (especially if interest rates are lowered to try and stimulate the economy).
    - BUT – if the recession is global or spreads to more than one country then any price competitive advantage may be lost, and, other countries may not be able to buy more exports.
    - BUT – competitiveness is also determined by the nature of the products available – they need to be desirable and good quality.

- Contractionary fiscal policy may **raise a government's credit rating**, allowing it to continue to borrow cheaply and reduce debt financing costs – this can support longer-term growth.
    - BUT – credit ratings are not the only issue affecting government borrowing; even when the US's credit rating was cut, it was still able to continue to borrow – the impact depends on the overall level of development and credibility in an economy.

Broader evaluative issues to consider:

- The impact may depend on the whether the economy produces a broad range of goods and services – not all sectors may suffer
- The impact depends on the depth and longevity of any recession that may occur
- The impact depends largely on the way in the government pursues contractionary fiscal policy, e.g. discretionary cuts may be more damaging than automatic cuts, which will actually stabilise an over-heating economy
- Also, the degree of development in the economy will affect whether contractionary fiscal policy brings benefits or not

N.B. The question is not about the pros/cons of recession, and so should be focused on contractionary fiscal policy.

Q4a	**Explain, using an AD/AS diagram, how quantitative easing should lead to an increase in both economic growth and inflation rates.**	
Band	AO1	AO3
	6 marks	4 marks
3	**5 – 6 marks** Candidates draw an accurate diagram illustrating the impact of QE, with no significant errors or omissions. The very best diagrams are likely to illustrate the impact on both AD and AS, although this is not essential. Candidates demonstrate excellent knowledge and understanding of how QE can raise growth and inflation rates, via more than one transmission mechanism, and use excellent, appropriate terminology.	
2	**3 – 4 marks** Candidates draw an appropriate diagram to illustrate the impact of QE on the economy, with no significant errors or omissions. Candidates use appropriate terminology and show good understanding of how QE can lead to rising economic growth and inflation rates. There may be more focus on one of these impacts rather than a balanced treatment.	**3 – 4 marks** A detailed and comprehensive analysis of how QE leads to rising growth and inflation rates. The very best candidates will likely consider more than one transmission mechanism.
1	**1 – 2 marks** Candidates may attempt a diagram but with significant errors, inaccuracies or omissions. Candidates show a limited knowledge and understanding of QE, economic growth and inflation, and a limited knowledge and understanding of how QE can increase growth and inflation rates.	**1 – 2 marks** Limited analysis of how QE can be used to raise growth and inflation rates.
0	**0 marks** No valid diagram or understanding of QE.	**0 marks** No valid analysis of QE.

Indicative content:

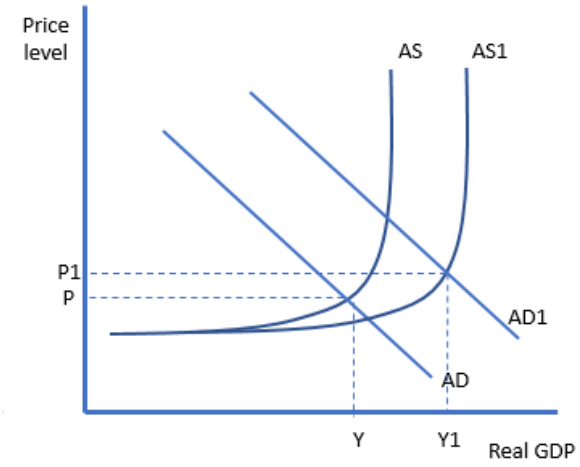
Understanding of QE and economic growth and inflation rates:

- QE refers to relatively unconventional monetary policy in which a central bank creates electronic money that is then used to finance the purchase, by the central bank, of bonds from financial institutions. These bonds may be government bonds or corporate bonds or a mixture
- Economic growth, in the short run, refers to an increase in the real value of output produced in an economy and, in the long run, an increase in the productive potential of an economy
- Inflation refers to a sustained increase in the general level of prices (in the UK, measured by the CPI)

Analysis of how QE can lead to rising economic growth and inflation rates:

- QE has been used by the Bank of England (£375bn up to 2012 and then an additional £70bn from August 2016), Federal Reserve ($3.7tr), Bank of Japan and the European Central Bank ($600bn).
- QE is used when interest rates are already very low, and the base rate (Bank Rate) cannot be lowered further.
- The aim of QE is to inject liquidity into financial markets by making available more 'loanable funds'/ raising the size of reserves in banks and other financial institutions, therefore making it more likely that financial institutions will provide credit (i.e. lend) to businesses and households, stimulating investment and consumer spending.
- Furthermore, the rising demand for bonds (by the central bank) pushes up the price of these bonds. Bond prices and interest rates (yields) are inversely related. So, QE should also lead to lower interest rates in financial markets, making it more likely that consumers and households are incentivised to borrow rather than save.
- Rising C and I should lead to rising AD and rising LRAS, leading to short-run and long-run growth.
- In addition, lower interest rates also lead to a fall in the value of a currency operating in a freely floating foreign exchange market (such as the £) because of a reduction in demand for hot money, which lowers demand for the currency on the foreign exchange market. This makes exports relatively cheaper and imports relatively more expensive, raising net exports and further increasing AD.

Possible diagram:



Q4b	Evaluate the view that deflation is always undesirable for an economy.		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5 – 6 marks** Excellent understanding of the desirability of deflation. There is broad and deep coverage of the factors that are relevant with no significant omissions. If candidates choose to use diagrams, they are accurate and comprehensive. Answers at the top of this band are characterised by an excellent use of appropriate and accurate economic terminology.	**5 – 6 marks** An excellent analysis of why deflation may be undesirable Answers at the top of this band are specific rather than overgeneralised.	**6 – 8 marks** An excellent critical evaluation with supporting statements to build an argument. Evaluation is specific rather than general. Very top band response will fully address the question and will reach a clear judgment on whether deflation is **always** undesirable. The best candidates are likely to consider the argument from a range of perspectives and different economic contexts.
2	**3 – 4 marks** Good understanding of the desirability of deflation. The knowledge and understanding at times may be over-generalised. Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band.	**3 – 4 marks** A good analysis of why deflation may be undesirable. Answers in this band show developed chains of argument with a sensible grasp of appropriate economic theory. Answers in this band may lack depth, diagrams may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes at least 2 evaluative points. Candidates may attempt a judgement as to the desirability of deflation but it is unlikely to be supported.
1	**1 – 2 marks** Limited understanding of the desirability of deflation.	**1 – 2 marks** Limited analysis of why deflation may be undesirable Answer tends to lack key economic concepts and avoids technical analysis.	**1 – 2 marks** Limited evaluation of the desirability of deflation. Answers in this band are likely to provide overly generalised or superficial evaluation.
0	**0 marks** No knowledge or understanding of deflation.	**0 marks** No relevant analysis of the desirability of deflation.	**0 marks** No relevant evaluation of whether deflation is always undesirable.

N.B. This answer is reversible.

Indicative content:

Understanding of deflation and inflation:

- Deflation refers to falling average prices in an economy, i.e. negative inflation (not to be confused with disinflation). It can be benign, i.e. caused by increasing LRAS, or malign, i.e. caused by falling AD.

Possible areas for discussion include:

- Impact on **economic growth**, i.e. deflation caused by rising LRAS causes an increase in real GDP and an increase in the potential output of an economy, and can be a by-product of effective supply side policies; deflation caused by falling AD is less beneficial. In other words, whether deflation or inflation is more beneficial in terms of economic growth depends on what has caused the deflation/ inflation.

- Impact on **price expectations**. Prolonged deflation can lower price expectations which in turn can depress consumer and investment spending, as prices are expected to fall – this is especially true for durable consumer goods. This can reduce AD and lead to recession. In the case of Japan, this has been prolonged. Consumers tend to 'hoard' cash, reducing multiplier effects and reducing the accelerator effect, therefore making recession much more likely. So, the impact depends on the length of time that an economy experiences deflation and the response of policymakers to counteract hoarding.

- Impact on **confidence**. Falling prices may damage business confidence because it will lead to falling revenue and probably falling profit (although the impact depends on PED of the final products and also whether factor inputs become cheaper too). This in turn can discourage investment – LR impact.

- Impact on **inequality**. Inflation redistributes income from savers to borrowers, whereas deflation does the opposite and redistributes income from borrowers to savers. Those who save are typically middle-aged and on reasonable income (i.e. they have enough income left over after discretionary spending to be able to save). Deflation could arguably, therefore, worsen inequality. Also, deflation raises the value of real debt – this could be true for households, consumers and the government, depending on how the debt is held.

- Impact on **labour market flexibility**. Workers are resistant to wage cuts (i.e. wages are sticky downwards according to Keynes) and inflation allows firms to reduce real wages even if nominal wages are unchanged. Deflation, however, raises real wages even if nominal wages remain constant. This can lead to workers 'staying put' in jobs and reducing their mobility.

- Impact on **costs.** Inflation is often said to lead to menu costs and shoe-leather costs. The same is true of deflation as businesses need to 'redo' price lists with lower prices, and consumers will look for the lowest prices. Deflation therefore imposes additional costs on businesses and households.

Broader evaluative issues could include:

- Whether deflation is desirable depends on the state of the economy and trends in the price level.
- The impact also depends on the credibility of the central bank for restoring inflation to its target/ target range, assuming there is one, i.e. not letting deflation 'set in' and generate a 'spiral'.
- The impact depends on the extent to which there is deflation, i.e. the actual rate of change in the price level.

- Central banks with an inflation target never have a target of zero inflation, e.g. Bank of England 2±1%, ECB < 2%. This suggests that low rates of inflation are desirable.
- Depends on the overall context to the deflation – following significant hyperinflation (e.g. Zimbabwe) it may be beneficial.
- Depends on whether the deflation is caused by a fall in AD or a rise in AS.

Q5a	Explain possible causes of a current account deficit.	
Band	AO1	AO3
	6 marks	4 marks
3	**5 – 6 marks** An excellent and thorough understanding of the current account in an overall Balance of Payments context is demonstrated. Candidates demonstrate excellent knowledge of the likely causes of a deficit on the current account. At the top of this band, candidates will show an understanding that a current account deficit can exist as a result of trade deficits and deficits on investment income and transfers/primary and secondary income. An excellent use of appropriate technical vocabulary.	
2	**3 – 4 marks** A good knowledge and understanding of the likely causes of a deficit on the current account, as well as a good knowledge and understanding of the various components of the current account, although the focus is likely to be on the trade balance.	**3 – 4 marks** A good and detailed analysis of a number of causes of deficits on the current account, in significant depth, e.g. X and M routes for the top of the band.
1	**1 – 2 marks** Limited knowledge and understanding of the current account and possible causes of a deficit. In this band there is unlikely to be much understanding shown that the current account is more than the balance of trade.	**1 – 2 marks** Limited analysis of the causes of deficits on the current account, with errors and omissions. Candidates may cover many causes but very superficially, or a limited number of causes with limited depth.
0	**0 marks** No valid knowledge or understanding of the current account.	**0 marks** No valid analysis of the causes of deficits on the current account.

Indicative content:

Understanding of the phrase 'current account deficit':

- The current account is one of three accounts on the Balance of Payments (an economy's record of all international transactions).
- The current account comprises the trade balance (visible and invisible trade), net primary income (investment income), and net secondary income (transfers).
- A deficit on the current account means that more money is leaving the economy than entering the economy, in one or more of these three areas.
- A deficit on the current account is balanced by a surplus on the capital account and/or financial account, because the BoP must balance overall.

Possible causes of deficits on the current account:

- Deficit on the trade balance, i.e. greater value of imports than exports. Possible causes include:
    - Economic growth causing an increase in import volumes due to rising income and high MPM
    - Depletion of domestic raw materials/resources requiring imported raw materials
    - Uncompetitive exports (in terms of price and/or quality)
    - Strong currency, making exports relatively more expensive than imports
      Accept any sensible cause of a trade deficit.

- Deficit on net primary income. Possible causes include:
    - Previous significant inwards FDI, meaning that factor payments are being made to overseas owners of foreign-owned factors
        - Possibly due to the domestic economy having deliberately sought/encouraged inwards FDI, e.g. regional policies, lower corporation tax
        - Possibly due to the domestic economy being seen as a stable place in which to invest, e.g. overseas ownership of property
    - UK workers being based abroad and working for UK companies – this leads to an outflow of wages.
    - A decline in inflows of factor payments from investment overseas (carried out by UK firms), e.g. in the UK, falling global commodity prices have reduced inflows from overseas investment into commodities such as oil production

- Deficit on net secondary income (transfers). Possible causes include:
    - Developed economies typically have a deficit on net secondary income because of higher outward payments to institutions such as the EU and UN, and the provision of aid overseas, as well as military aid overseas

Q5b	**Evaluate the extent to which increasing integration of the world economy is beneficial to the UK. [20]**		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5 – 6 marks** Excellent understanding of the nature of increasing world integration and the likely impacts on the UK. There is broad and deep coverage of the factors that are relevant with no significant omissions. Excellent and appropriate economic vocabulary is used throughout the answer.	**5 – 6 marks** An excellent analysis of the impact of increasing integration of the world economy on the UK. A well-developed argument is made that integrates real-world or illustrative examples with the analysis, focused on the impact on the UK. The answer is likely to contain appropriate diagrams that are accurate, comprehensive and relevant, and which are fully integrated into the written analysis.	**6 – 8 marks** An excellent critical evaluation of the view that increasing integration is beneficial to the UK. At least two points are fully evaluated. Clear judgements are made with supporting statements to build an argument. A very top band response will consider the *extent* to which rising integration is beneficial, and be fully in the context of the UK.
2	**3 – 4 marks** Good understanding of the meaning of and impact of increasing integration of the world economy. Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band. Appropriate economic vocabulary is used throughout.	**3 – 4 marks** A good analysis of the impact of increasing world integration. Answers in this band show developed chains of argument. Answers in this band may lack depth, diagrams may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues, but which may not reach an overall supported judgment. At least two points are well evaluated.
1	**1 – 2 marks** Limited understanding of the meaning of integration of the world economy. Some relevant consequences may be identified but no real understanding is shown. Limited use of appropriate economic vocabulary.	**1 – 2 marks** Limited analysis of the impact of increasing world integration. In this band, answers are likely to only state/assert possible impacts and may not be linked well with the UK economy. Answers tend to lack key economic concepts and avoid technical analysis.	**1 – 2 marks** Limited evaluation of the impact of integration of the world economy. Answers are one-sided, and evaluation is not developed and overly general.
0	**0 marks** No knowledge or understanding of the impact of integration on the UK.	**0 marks** No relevant analysis of the impact of integration on the UK.	**0 marks** No relevant evaluation of the impact of integration on the UK.

Indicative content:

Understanding of what is meant by 'integration' of the world economy, for example:

- Increasing trade volumes, global supply chains, greater mobility of factors of production (especially labour and capital), global financial markets, improved communication via ICT, etc.

Possible areas for discussion include:

- Impact on **employment**. UK workers can work overseas more easily, or can find jobs in MNCs, or can use ICT to work remotely. If the UK is able to produce goods that are desirable in the global economy (e.g. hi-tech manufacturing, space technology, coding/software) then this can raise exports which in turn can generate jobs. UK-based small businesses might be more able to function if they can source materials and expertise from anywhere in the world.
    - BUT – improved labour mobility can lead to inflows of workers as well as outflows, and this can depress wages as the labour supply increases; this has been particularly true in low-skilled jobs.
    - BUT – companies are more able to relocate to places which have lower production costs, e.g. less planning permission costs, lower employment and environmental legislation, lower minimum wages (if any exist at all), closer to raw materials, etc. This can reduce UK employment.
    - BUT – the impact of Brexit remains to be seen, as this will be likely to reduce labour mobility for UK workers in Europe.

- Impact on **efficiency/productivity**. UK businesses might be more easily able to source raw materials and other inputs more cheaply as a result of rising integration, which can improve productive efficiency. Improved knowledge transfer between businesses can improve production techniques. Improvements to allocative efficiency may occur if consumers are more able to purchase the goods and services that they want. These improvements may also lead to **lower inflation** if production costs are lower.
    - BUT – efficiency may fall if businesses spend longer looking for alternative/cheaper suppliers.
    - BUT – knowledge transfer may reduce incentives to carry out innovative R&D and develop patentable goods.
    - BUT – inflation may not be lowered because domestic policymakers lose some of their control over the inflation environment, and UK businesses become more at risk of suffering imported inflation if more materials are sourced from abroad.

- Impact on **growth**. UK businesses could sell more exports and become part of global MNC supply chains. This causes AD to rise and leads to short-run/actual growth. Furthermore, rising productivity can lead to rising LRAS, therefore potential or long-run growth. Businesses may be more able to access global financial markets and gain the funding/finance that they need to be able to grow.
    - BUT – exports may rise but so too may imports, causing a fall in net exports and a decline in AD.
    - BUT – greater use of global financial markets may increase systemic risk within financial markets and possibly lead to a repeat of the global financial crisis which significantly affected UK growth.

- Impact on **inequality**. Global inequality may fall as workers are more able to relocate, but UK inequality may rise – regions that have been dependent on particular industries may find that companies relocate to cheaper areas overseas.
    - BUT – the impact depends on government policy to support such areas, as well as the willingness of UK workers to relocate.

- Impact on the **environment**. Greater knowledge-sharing may lead to sharing of green technology. Increased awareness of global environmental problems in the UK may lead to lobbying for better environmental legislation. Businesses may be more able to source environmentally friendly inputs.
    - BUT – global transport use may rise as a result of global supply chains and lead to greater negative externalities associated with transport of goods.
    - BUT – countries may increasingly free-ride on the efforts of other countries.

- Impact on **government finances.** If the UK economy is able to grow and attract inwards FDI then the government is likely to earn more tax revenue from income tax, VAT, corporation tax, etc. Similarly, spending on social security/welfare payments may fall.
    - BUT – the government may need to support regions that are struggling to compete (geographically or particular sectors), or to help finance improved infrastructure to allow the UK to compete (e.g. broadband, transport links, etc)
    - BUT – the government may need to slash tax rates in order to attract workers and investment, and this could lower tax revenue (link with Laffer curve).

Q6a	**Explain how 'international aid' and 'debt relief' can help to raise the level of development in an economy.**	
Band	AO1	AO3
	6 marks	4 marks
3	**5 – 6 marks** An excellent understanding of how aid and debt relief can lead to development. At the very top of this band, candidates are likely to show knowledge and understanding of specific examples, or different types of aid/debt relief.	
2	**3 – 4 marks** Good understanding of how aid and debt relief can lead to development, although the answer may be balanced more towards one than the other. There are likely to be few examples.	**3 – 4 marks** Good, clear analysis showing depth of explanation of both aid and debt relief, and their impact on development.
1	**1 – 2 marks** Some limited knowledge of how aid and debt relief can lead to development. Answers in this band may focus more on growth than development.	**1 – 2 marks** Limited analysis of how aid and/or debt relief lead to development. Candidates are likely to only consider aid or debt relief.
0	**0 marks** No valid knowledge of development, aid and debt relief.	**0 marks** No valid analysis of the link between aid, debt relief and development.

Indicative content:

Understanding of 'development':

- Increase in living standards/an increase in the HDI

Understanding of 'aid':

- Money, usually in the form of a grant or 'soft loan', from one country to another
- Types of aid: humanitarian, bilateral, multilateral, military, tied, technical assistance, etc
- "Official Development Assistance" (ODA)
- Can be given by private individuals, organisations, governments

Understanding of 'debt relief':

- Partial or total forgiveness of debt; "writing off" debt
- Heavily Indebted Poor Country (HIPC) Initiative/Multilateral Debt Relief Initiative/Jubilee 2000
- Can be debt rescheduling or debt reduction or debt cancellation

Possible areas for analysis:

- Humanitarian aid can prevent development from declining, e.g. provision of food and shelter following a crisis can prevent unnecessary deaths/illness
- Aid in the form of "trade aid" can help to support infrastructure development, e.g. Chinese investment into sub-Saharan Africa has improved transport links/ports/communications (e.g. port in Djibouti) – this in turn can lead to rising demand for exports, rising AD and rising employment which in turn can lead to rising development (more income, more able to purchase food/education/ medicine, etc)
- Military aid can improve business confidence in a country, e.g. South Korea after the Korean war – this leads to rising investment and long-run growth
- Debt relief means that governments in LEDCs can use money that would otherwise be spent on debt repayment and large compounding interest payments on areas such as primary school education, healthcare, infrastructure, etc, or even paying public sector workers a fair wage
- Debt relief makes it less likely that governments will default on other debts, and may improve credit ratings which in turn allows cheaper borrowing that can then be used for other spending – debt relief allows debt to become 'sustainable debt'

Possible examples:

- Marshall Aid in 1948 from the US to Europe
- World Bank has reduced debt in 35 countries, e.g. Uganda and Ghana
- The HIPC and MDRI have both led to reduction/cancellation of $116bn in debt so far
- Debt relief can occur internally, e.g. Brazil has provided debt relief to some of its states
- Biggest aid recipients include Afghanistan, Ethiopia, Vietnam, Turkey and the DRC; biggest country aid donors (total aid) include US, UK, Germany, Japan and France
- In 2009, South Korea became the first country that had previously been a beneficiary of aid to become a donor
- World Food Programme

Q6b	**Discuss the extent to which governments in LEDCs should use protectionist policies to increase living standards.**		
Band	AO1	AO3	AO4
	6 marks	6 marks	8 marks
3	**5 – 6 marks** Excellent understanding of protectionist policies and how their use can impact upon living standards. Excellent understanding of the broad meaning of the concept of 'living standards. Excellent understanding of LEDCs. Answers in this band are likely to include a number of relevant examples, although this is not necessary.	**5 – 6 marks** An excellent analysis of how protectionist measures can improve living standards in LEDCs, with reference to at least two types. A well-developed argument is made that supports (and/or negates) the view in the question.	**6 – 8 marks** An excellent critical evaluation of the reasons why governments of LEDCs may choose to use (or not use) protectionist policies to promote living standards. Clear judgements are made with supporting statements to build an argument. Very top band responses will likely refer to specific examples to support/refute key points, although this is not necessary.
2	**3 – 4 marks** Good understanding of protectionist policies and how their use can impact upon living standards. Good understanding of LEDCs. Answers in this band may omit significant content or the breadth of coverage is good, but the depth of understanding is not sufficient to reach the highest band. Answers in this band are likely to include a small number of relevant examples.	**3 – 4 marks** A good analysis of how protectionist measures can improve living standards. Answers in this band show developed chains of argument with a sensible grasp of the issues facing LEDCs. Answers in this band may lack depth, diagrams may not always be well-integrated or completely correct, or key points are missing.	**3 – 5 marks** A good evaluation that includes most of the key issues, including an awareness that each LEDC is different and therefore that different protectionist policies may be needed in order to improve living standards in that country. At least two points are evaluated with a clear discussion.
1	**1 – 2 marks** Limited understanding of the various types of protectionist measures – it is likely that candidates will only consider tariffs. Limited understanding of the concept of living standards. Minimal use of relevant economic vocabulary.	**1 – 2 marks** Limited analysis of how protectionism can improve living standards. Answer tends to lack key economic concepts and avoid technical analysis, as well as being overly generalised.	**1 – 2 marks** Limited evaluation**.**

0	**0 marks** No knowledge or understanding present of protectionism or development.	**0 marks** No relevant analysis of how protectionist policies can raise living standards.	**0 marks** No relevant evaluation of how protectionist policies can raise living standards.

Indicative content:

Understanding of types of protectionist policies:

- Tariffs, quotas, embargoes, currency manipulation, non-tariff barriers

Ways in which protectionist policies can be used to promote living standards:

- Protectionist policies can be used to support development and an increase in living standards by allowing domestic industry to be more competitive through restricting imports, therefore creating jobs/employment, generating tax revenue for the government (via tariff revenue and also more corporation tax/income tax from increased domestic production), creating a multiplier effect, promoting domestic investment
- Consideration of import substitution policies and export orientation policies – these can generate long-run growth/raise LRAS
- Use of currency manipulation, i.e. keeping domestic currency devalued can lead to rising availability of foreign currency (especially US dollars) and such hard currencies can be used to purchase essential items such as medicines
- Non-tariff barriers can help to support domestic culture and therefore living standards
- Reduction in trade can protect the environment
- Protectionist policies in LEDCs may help to mitigate the problems caused by protectionist policies in MEDCs, e.g. the Common Agricultural Policy (CAP)
- Candidates may draw tariff and/or quota diagrams

Ways in which protectionist policies may not increase living standards

- Restrict purchase of essential items from overseas/limit consumer choice/may limit imports of capital which could be used to support short-run and long-run economic growth
- Domestic firms may still not be able to compete
- Domestic firms may produce poor quality goods, and not be able to improve them because of restrictions on capital, limits on knowledge transfer – domestic consumers have to ‘make do’ with sub-standard items
- Greater domestic production can lead to greater domestic environmental problems rather than production by more environmentally friendly/efficient firms overseas

Broader evaluative issues:

- Impact depends on the type of protectionist policy used, e.g. tariffs may be preferable to quotas because of the gain in tax revenue
- Impact depends on the length of time that the policies are in use for
- Impact depends on the precise nature of the goods/services that are restricted
- Impact depends on the ability of domestic consumers to engage in black market/shadow economy transactions, and purchase from abroad anyway