

## Revision Worksheet

# A2 Economics

# Essay Questions

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## JUNE 2006 Question 2

- (a) Both the USA and the UK's balance of payments accounts are recording large deficits on their trade in goods balances. Do such deficits matter? Justify your answer. **[40]**
- (b) Compare the effectiveness of supply side and fiscal policies to correct deficits on a country's current account of the balance of payments. **[60]**

*[Write your answer plan in this space before looking at the answer guide]*

Qu.2

- (a) Both the USA and the UK's balance of payments accounts are recording large deficits on their trade in goods balances.  
Do such deficits matter? Justify your answer.

LEVEL 5

(28-40 marks)

May be argued from either viewpoint.

Deficits matter because:

- Might indicate lack of competitiveness of goods, resulting in higher unemployment  
*But surplus on service sector might offset deficit*
- Problem of financing deficit  
*Not a problem if money flowing into capital and financial accounts*
- Might cause sharp fall in exchange rate  
*But this would help to correct the deficit*
- Danger of inflation following a fall in exchange rate  
*But other factors might limit inflationary pressures*
- Could cause loss of confidence in economy  
*But unlikely if these economies are otherwise performing well.*

*Other evaluation points could include: consideration of magnitude of effects; difference between short run and long run effects; the differing impact of different countries within the EU*

For a L5 mark (28-31): 3 factors and 1 evaluative point.

A Level 5\* mark (32-40) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 3 points and 2 pieces of evaluation

Max 28 marks if no evaluation.

Award a L4 mark (24-27 marks) if only 2 factors + evaluation

Award a L2 mark (16-19 marks) for identification of points only or for narrow response focussing on one or two points.

- (b) Compare the effectiveness of supply side and fiscal policies to correct deficits on a country's current account of the balance of payments.

LEVEL 5

(42-60 marks)

Understanding of supply side and fiscal policies.

Supply side policies might help to increase competitiveness e.g. by

- Improvements in training and education
- Labour market reforms
- Measures to improve competition in the product market such as Competition policy

*Evaluation points could include:*

- *Reference to time lags*
- *Education and training might not be appropriate*
- *Measures might be ineffective if cause is over-valued exchange rate*

*If answered holistically, could count as 2 points*

Fiscal policy would involve deflating the economy by reducing public expenditure and increasing taxes. Outline of transmission mechanism.

NB Allow consideration of tariffs and subsidies but these should be evaluated.

*Evaluation points could include:*

- *Problem of increased level of unemployment*
- *Disincentive effects of higher taxes*
- *Reduction in quality of public services*
- *Scale and scope of measures taken*

*If answered holistically, could count as 2 points*

*Evaluation: must include some element of comparison for a Level 5 mark.*

For a L5 mark (42-47): should consider at least 4 points (both supply side and fiscal policy) + 2 evaluative points.

A Level 5\* mark (48-60) should be awarded for answers which meet the Level 5 criteria convincingly e.g. 4 points and 3 pieces of evaluation.

Max 42 marks (top L4) if no evaluation.

Award a L4 mark (36-41 marks) if only 3 points + evaluation

Award a L2 mark (24-29 marks) for identification of points only or for narrow response focussing on one or two points.