

GCE



*Rewarding Learning*

Revised GCE

# Economics

A22

Frequently Asked  
Questions





## FAQ A22 Economics

### Trade and Globalisation:

- 1. Will students be expected to make calculations based on absolute and comparative advantage from data provided in the question?**

Yes. Students are required to demonstrate knowledge of the principles of absolute and comparative advantage and illustrate the potential gains from specialisation and trade mathematically using data provided in the question.

- 2. Are students expected to be able to evaluate the impact of the WTO on trade and economic development?**

Yes. Students are expected to understand the role and functions of the WTO but also be able to analyse the significance of the WTO in promoting trade and the impact of trade negotiations on economic agents in the UK and other countries.

- 3. Do we still need to teach the impact of globalisation on LDCs?**

Yes. Students are expected to analyse and evaluate the impact of globalisation on economic agents in both the UK and other countries.

- 4. Are students expected to draw diagrams for the main forms of protectionism?**

Yes. Students are expected to be able to analyse the impact of trade barriers on economic agents and as such an ability to represent such analysis diagrammatically is required at this level.

- 5. There is no specific mention of customs unions and free trade areas etc. in the new specification, nor any mention of trade creation and trade diversions. Do students still need to know about the different types of trading bloc?**

Yes. The last bullet point on page 23 of the specification states that students should understand the nature and analyse the significance of trade policies, negotiations and trading blocs. This is also important when dealing with the UK's current and possible future relationship with the EU. They should also understand how different trading blocs influence trade and hence trade creation and diversion is relevant in that context.

## **Economic Development**

### **6. Are students expected to know about any of the alternative measures of economic development or do they just need to know about the HDI?**

The HDI is the only measure of economic development mentioned explicitly in the specification and therefore it is the only one that students will be required to have prior knowledge of. However students are expected to understand the difficulties in measuring economic development and as part of this a teacher may decide to discuss some of the alternative indicators of economic development. It is quite possible that a question could appear on a paper which deals with an alternative indicator of economic development, however no prior knowledge of that indicator would be required to answer the question effectively.

### **7. Do we still have to teach the trade versus aid debate which was such a common theme in the last specification?**

The last bullet point in the economic development section of the specification states that students should be able to analyse and evaluate ways of promoting economic development in LDCs. Clearly a question on the relative merits of trade or aid is relevant in this context.

## **Balance of Payments**

### **8. Do students still need to be able to explain why the balance of payments balances as this is not mentioned explicitly in the spec? Do I need to teach double entry bookkeeping?**

The first bullet point states that students should be able to explain the basic structure of the balance of payments. Therefore being able to explain why the overall balance of payments must equal zero is required. A basic understanding of double entry bookkeeping is useful in this context.

### **9. The specification mentions the consequences of current account deficits and surpluses but not causes. Do students still need to know the causes?**

While the causes of current account deficits or surpluses are not mentioned explicitly in the specification, students are expected to analyse and evaluate policies to reduce these deficits or surpluses and hence knowledge of the root cause of the deficit (or surplus) would be relevant in that context.

## **Exchange Rates**

### **10. What do students have to understand in relation to purchasing power parity?**

Students should understand the term purchasing power parity and be able to explain the purchasing power parity theory of exchange rates. In addition they should be able to calculate a purchasing power parity exchange rate from data provided in a question and interpret and manipulate data given in a common currency at purchasing power parity exchange rates.

**11. Will students be expected to make calculations in the SAQ section of the paper in relation to:**

- **The Marshal Lerner condition**
- **Trade weighted index**
- **PPP**

The simple answer to this question is yes. Students should be able to explain the Marshal Lerner Condition and be able to make calculations based on it to determine the likely effectiveness of a change in the exchange rate on the various elements of the balance of payments.

Students should understand the reasons for expressing an exchange rate in trade weighted terms and be able to calculate a simple trade weighted index from data provided in a question.

With regard to purchasing power parity students should be able to calculate a purchasing power parity exchange rate from data provided in a question. They should also be able interpret and manipulate data given in a common currency at purchasing power parity exchange rates and explain how this data might be different if market exchange rates were used to create the common currency.

It should be noted by candidates that an understanding of these concepts can just as easily be tested in section B and to a lesser extent section C of the paper as well.

**12. Are students still expected to be able to compare the advantages and disadvantages of fixed versus floating exchange rates?**

Yes. This is covered in the second bullet point under exchange rates and again in the last bullet point under the exchange rate section of the specification.

## **European Union**

**13. The CAP is not mentioned on the new specification. Does this mean that students are not expected to have any knowledge or understanding of the CAP?**

The fact that the Common Agricultural Policy is not mentioned explicitly on the specification means that students will not be expected to answer direct questions on its nature and effectiveness. However the first bullet point under the EU section of the spec states that students should be able to analyse and evaluate the advantages and disadvantages of membership of the EU for member states. Obviously the CAP is relevant in this context and hence pupils may be expected to have at least some basic understanding of how the CAP impacts on members and indeed non-members.

**14. If the UK is successful in leaving the EU in the lifespan of this specification, will this section of the specification become redundant?**

No. the first bullet point in this section states that students should be able to analyse and evaluate the advantages and disadvantages of membership of the EU **for member states**. Therefore it is still possible for a question to appear about the impact of EU membership on a country other than the UK. In addition the fact that the EU is the UK's largest trading partner means that questions around the EU will still be relevant regardless of the technicalities of the legal arrangements that may exist in the future between the UK and the other members.

**16. The specification was written before the referendum of June 2016. Does this mean that candidates will not be expected to consider the consequences of “Brexit”?**

Quite the opposite! The specification specifically states that students are expected to be able to evaluate the effects of any changes (in the structure of the EU) which may occur.

### **Monetary Policy and the Financial Sector**

**16. In the light of Britain's likely withdrawal from the European Union, is it still necessary to have detailed knowledge of the European Central Bank?**

No detailed knowledge of the control mechanisms of the ECB will be required, but it would be advisable for students to be aware of economic circumstances within the Eurozone, and the ECB's general response to them. In the general context of the role of a central bank in managing an economy, consideration of consequences of a specific ECB decision might be a task in Section A, or its work might feature as an element of the Section B case study. The fitness of the ECB for dealing with the problems of a diverse assortment of states adopting the euro, and the absence of planned support for weaker economies are also important aspects to be given general consideration.

**17. Please can you clarify “the factors which influence the setting of the base rate”?**

When the MPC debates the most advantageous level of the base interest rate its members try to assess the accuracy of forecasts of the future performance of the economy. Often the signals are contradictory and they have to decide whether the risk of initiating an inflationary spiral outweighs the economy's need for a stimulus to growth – or some similar conflict of objectives. Often this may involve consideration of long-term indicators rather than only responding to current conditions. It is also important that they take account of how effective current policies seem, and possible future actions are likely, to be.

**18. The specification refers to the Fisher equation of exchange, but textbooks and websites state that the Fisher equation deals with interest rates. Which is correct?**

There are really two parts to this answer.

Firstly, the equation of exchange is Irving Fisher's refinement of earlier ideas about the relationship of the level of prices in an economy to the level of spending power available. This is an important element in students' understanding of possible influences on the rate of inflation, and is what the specification is referring to, following on from the previous point.

The second idea involves Fisher's formula for calculating the real rate of interest. This is obviously important. In fact, candidates might be asked to calculate a real rate of interest, particularly in a Section A question at A2 and indeed at AS. If so, they would be credited equally for using Fisher's approach of subtracting the rate of inflation from the nominal rate of interest, or adopting the same approach as is used in calculating the GDP deflator.

**19. How broad is the range of activities of the financial sector which students are expected to understand?**

The really vital elements of this topic are the activities of retail banks and central banks.

In general terms, it would be helpful for students to know that institutions in the financial sector are tempted to undertake certain risks in pursuit of profit, but do their best to offset these risks in a variety of ways. However, it is enough to know that banks and other traders may buy or sell each other's debts or other liabilities, and that this creates uncertainty and adds to complexity.

Understanding and analysis of different classes of financial derivatives is not required.

**20. What sort of short answer questions might be set on this section of the specification?**

Even though there is no formal fixed assets ratio in the UK, candidates might be asked to demonstrate the extent of a bank's credit creation capacity based on a hypothetical liquidity ratio, but the terms of this would be defined in each such question.

There might also be a question requiring a brief illustration of the Fisher equation of exchange as described in question 18 above.

**21. There isn't much detail in published textbooks about problems in regulating the financial sector. Where is information available?**

CCEA has tried to address specification issues in a variety of ways. There are three factfiles on the financial sector, and while these cannot easily be regularly updated to cover, for example, recent judgements or changes in policy of financial authorities, one does investigate the difficulties of effective regulation and provides an outline of the current regulatory framework.

**22. What is meant in the specification by “other methods of expanding or contracting the money supply”?**

The use of quantitative easing is relatively recent in management of the UK economy. When it seemed extraordinarily difficult to re-stimulate the economy, the Bank of England proposed making help to retail banks conditional on their lending funds to borrowers. Instead of using monetary policy, governments could inject spending power directly into the pockets of citizens through some such scheme as Universal Basic Income or helicopter payments. In inflationary circumstances, the Bank of England might try alternatives to interest rate rises such as legislating for tighter conditions attached to borrowing, or influencing banks to maintain higher ratios of reserves to overall liabilities than currently.

### **Fiscal Policy and Macroeconomic Policies and Objectives in a Global Economy**

**23. How is it possible for there to be “benefits” of a National Debt?**

This is largely a relative thing. As John Maynard Keynes said, “in the long run, we’re all dead”. It may be in the nation’s long-term interest to incur debt to avert some other crisis, and debt often depreciates as a burden over time because of inflation or the inertia of those who have perhaps inherited entitlement to repayment. In that respect, deliberately incurred debt might involve a lower opportunity cost than reducing current living standards.

**24. One section states that “students should be able to analyse the performance of different economies”. How much will students need to know about different economies?**

In general, no detailed prior knowledge of other economies will be expected, but that is too broad a generalisation to be true in all circumstances. More often than not, comparisons will be in the context of a short question or case study when some information has been provided. However, many commonplace insights such as that the economy of the USA is large and influential or that Less Developed Countries lack infrastructure would be taken for granted. Relative performance of the EU has become significant and likely to be widely publicised after “Brexit”. There are other special circumstances - for example, the failed attempt of Japanese monetary authorities to bring about a devaluation of the yen – which are useful in particular contexts, but not as knowledge essential for answering a question on a related topic.

**25. There is no mention of government bonds in the previous section. Does this mean that the implications of using these to finance a deficit do not include effects in the banking sector?**

No. In the “Finance” factfiles there is analysis and explanation of the role of government bonds as a reserve asset, closely linked to the section which prescribes that candidates should be able to explain the role and impact of the financial sector.

## Specimen Assessment Materials

26. **The levels of attainment in Section C appear to have a different emphasis from those of the previous specification. Will there be a significant change in the way that the piece of extended writing is marked.**

No. In fact, when the first drafts of the new examination were being inspected by revisers, a different breakdown was used than that used in the SAMs. This new distribution of marks across the levels is more logical, and hence it was approved for all future examinations. Therefore for the actual A2 examinations we will this be working with a de facto marks distribution ratio of 7:8:8:7 as shown below.

Level 1	- basic response	([1] - [7])
Level 2	- reasonable response	([8] - [15])
Level 3	- good response	([16] - [23])
Level 4	- excellent response	([24] - [30])