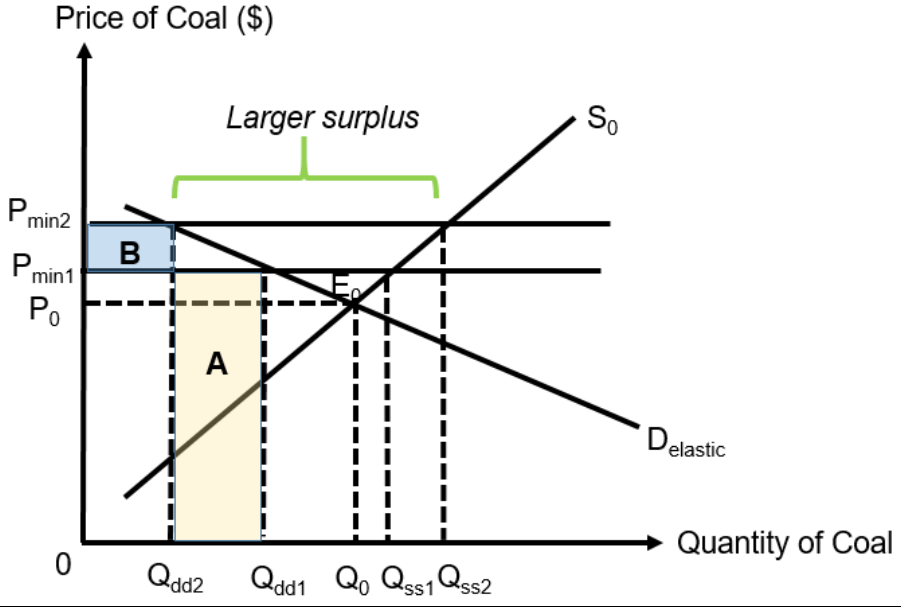
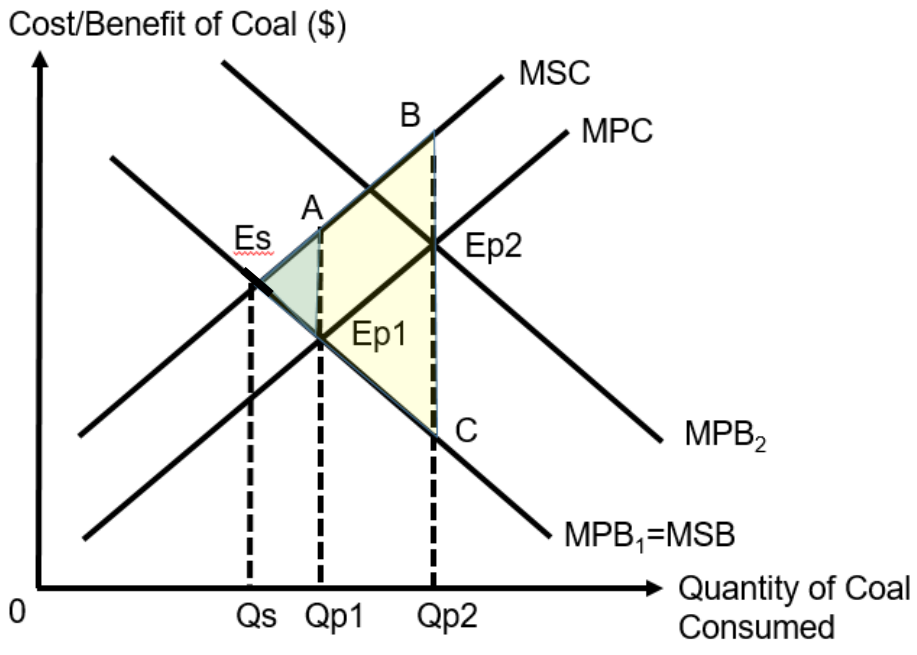
Suggested Answers for H2 N2019 CSQ1: Market Failures in the Vietnamese energy market

(a)		**With reference to Extract 1, identify a demand factor and explain how it has affected demand for coal in the US.**	**[2]**
		• Demand factor: Cheaper substitute such as cleaner gas produced using fracking. • A fall in the price of cleaner gas which is a substitute for coal as an alternative source of energy, will cause profit-driven US firms to increase the quantity demanded for cleaner gas and switch away from coal. Thus, the demand for coal falls. [1]	
(b)		**Using the evidence in Extract 1, explain whether the cross elasticity of demand in China between coal and renewable energy is positive or negative.**	**[3]**
		• As coal and renewable energy are substitutes in demand (to produce energy). [1], the cross elasticity of demand (XED) between coal and renewable energy is **positive**. [1] • Evidence: From Extract 1, an enormous investment in renewable energy would lead to a large increase in the supply of renewable energy which would cause a fall in the price of renewable energy. Hence a **fall** in price of renewable energy would lead to a **fall** in demand for coal in China. [1]	
(c)		**Using a diagram and Extract 1, explain how the UK government's change in the minimum price of coal in 2016 is likely to have affected the UK market for coal.**	**[3]**
		• Imposing a minimum price at P_{min1} would result in a surplus of $Q_{dd1}Q_{ss1}$ in the market for coal.  	

		• When there is an increase in the minimum price of coal in 2016 from P_{min1} to P_{min2} , it would increase the size of the surplus, where the larger surplus resulted from $Q_{dd1}Q_{ss1}$ to $Q_{dd2}Q_{ss2}$ in the market for coal [1] • Higher price of coal from P_{min1} to P_{min2} • Assuming |PED|>1 for coal (availability of substitutes), there will be more than proportionate fall in transacted quantity of coal from Q_{dd1} to Q_{dd2}. Overall, TR falls as seen by a greater fall in revenue of Area A as opposed to gain in revenue in Area B. [1] • Diagram [1]	
(d)		**With the help of a diagram, explain how a rise in the demand for coal in Vietnam is likely to affect its social welfare.**	**[4]**
		• Coal consumption generates negative externalities which exists when there are costs borne by third parties due to the consumption of a good or service. [1] • MEC to 3rd parties: Higher healthcare cost to local residents and fishing industry workers from waste generated from coal power plants (Extract 3) are not compensated for the damage done to their health [1] • There is an over-consumption of coal by $Q_{p1}Q_s$. For every trip beyond Qs till Qm, each additional coal consumed adds more to social cost than to social benefits since MSC is greater than MSB. This forgone societal welfare is the deadweight loss (area EsAEp1), leading to allocative inefficiency. • Further increase in demand will shift MPB to the right from MPB_1 to MPB_2, worsening allocative inefficiency and forgone societal welfare with greater deadweight loss of area BEsC. [1] • Diagram [1] 	

(e)		**Discuss whether the Vietnamese government's plan to ban motorbikes and switch travel to public transport is likely to be better than a policy of road pricing in improving air quality in Hanoi.**	**[8]**

Command words: Discuss whether	**Two-sided perspective**: P_1: Banning motorbike and switching to public transport is a better policy in improving air quality in Hanoi. P_2: Road pricing is a better policy in improving air quality in Hanoi.
Context words:	• Air Quality in Hanoi, • Motorbike Ban • Public Transport • Road Pricing (Taxes)
Content words:	• Negative Externality • Ban (HAL) • Taxes (HAL)
End Point	Ban + Switch to public transport or Road Pricing is a better policy in reducing allocative inefficiency

Suggested Response:

Introduction

The transportation market in Vietnam is facing a market failure, where resources are allocated inefficiently to the consumption of motorbikes which spews gas into the air. This is primarily due to the presence of negative externalities, such as severe air pollution, resulting in breathing difficulty for pedestrians which may incur healthcare expenses. To tackle this issue, the Vietnamese government has decided to intervene by proposing policies such as a ban on motorbikes in conjunction with implementing public transportation as well as introducing road pricing, which will be discussed in detail whether which is best in resolving the market failure.

P1: Explaining the market failure of negative externality

The consumption of motorbikes result in negative externalities. The marginal private cost (MPC) of a motorcycle rider would include the cost of fuel. However, gas spewed from the five million motorbikes will result in severe

air pollution, where third parties such as pedestrians would face breathing difficulties. In turn this may cause them to incur higher medical expenses, resulting in an external cost. This leads to a divergence between MPC and MSC as seen in Figure 1 below. Assuming no positive externality, the marginal social benefit (MSB) is equal to the marginal private benefit (MPB), which consists of the utility and convenience of a rider travelling via motorbikes. If riders are driven by their private costs and benefits, the market equilibrium is derived from the intersection between MPC and MPB, where the output is Qp. However, the socially optimal output level is given by the intersection between MSB and MSC, at Qs. Hence the overconsumption of motorbikes results in a deadweight loss of area ABC and hence allocative inefficiency.

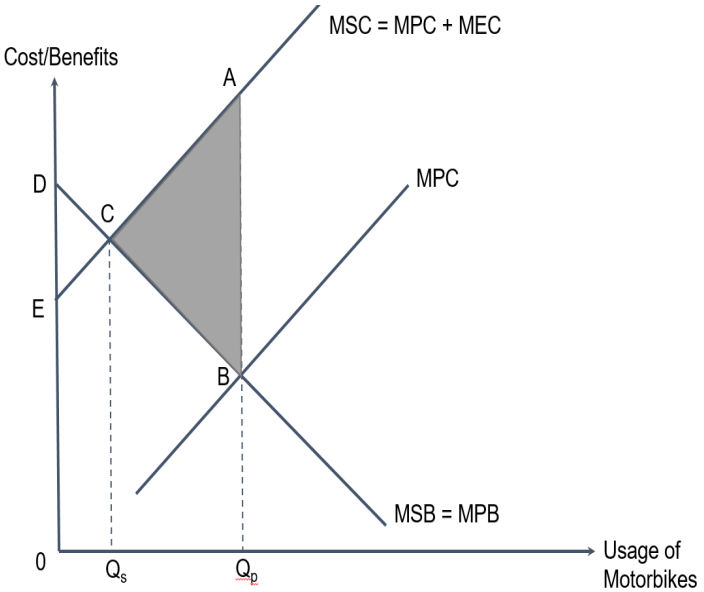


Fig 1: Negative Externality in Motorbike Market

P2: How + Advantage of a ban

An effective ban on motorbike would result in the usage of motorbikes to fall to 0, eliminating the deadweight loss ABC entirely. This would effectively remove the air pollution caused by the motorbikes in Hanoi, improving the air quality significantly. However, this would also mean Hanoi would forgo all the potential improvement to society's welfare from the usage of motorbikes, such as the benefits of convenience in travelling from one place to another. With a ban in place, it means that society is forgoing area CDE in Fig 1, sacrificing any improvement to welfare between 0 and Qs of motorbike usage. Assuming that the MEC is extremely high, area ABC exceeds area CDE significantly, therefore a ban is justified and should be implemented to improve air quality. The advantage of a ban is that as a blanket policy, it is simple to implement and identify transgressors, for example motorbike users who continue riding even after the ban.

P3: Limitations of a ban

However, a ban may result in government failure. If the MEC is overestimated, the area CDE may actually be larger than area ABC, hence a ban would result in an overall loss to society's welfare when consumption of motorbikes is at 0. Also, maintaining a ban could be an uphill task for the government as they would need to devote substantial resources to monitor and enforce the ban, such as hiring enforcement officers, which could lead to greater inefficiency too.

P4: How + Advantage of road pricing

The policy of road pricing works by charging riders a fee every time they use their motorbikes on specified roads by setting up toll booths. The Vietnamese government can charge a fee on riders equal to the size of the marginal external cost (MEC), effectively increasing MPC to MPCt in Fig 3. This would allow riders to internalise the spillover costs, removing the divergence between MSC and MPC. Hence at this new equilibrium, motorbike riders will consider their MPCt and MPB and consume at the new output which coincides with the socially optimal output, Qs, eliminating the deadweight loss of ABC effectively and the market for motorbikes achieves allocative efficiency as air quality is improved.

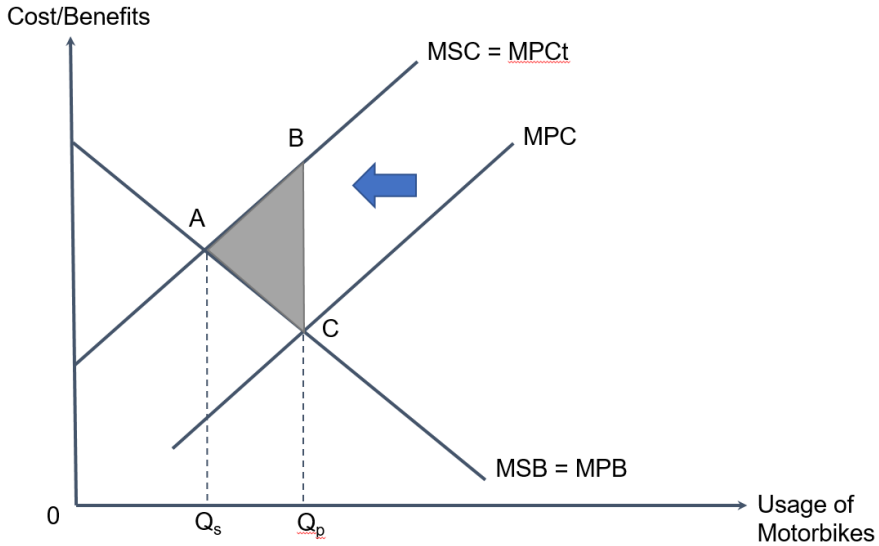


Fig 3: Road Pricing in Motorbike Market

P5: Limitation of road pricing

However, it is not feasible for the government to set up toll booths at every single road in Hanoi. Therefore, the government can only prioritise road charges on busy roads on certain timings such as peak hours and public holidays. As a result, riders can simply avoid these roads during such timings and choose to take alternative routes to avoid paying the fees. Hence there is a limit to how such a road pricing strategy would deter riders from using motorbikes, but merely redirect them to other routes and raise the level of pollution in some other areas, hence the MEC may not be entirely internalised by motorbike users, preventing MPC from increasing to MPCt.

Therefore, there would still be a significant amount of air pollution being generated every day.

Evaluation

On balance, road pricing would still be a better policy than the ban on motorbikes as a short term policy. It is a more feasible way in controlling overconsumption of motorbike especially for a large city such as Hanoi, where there could be feasibility issues in terms of monitoring and limiting motorbike usage. The cost of enforcement may cause a great strain in the government's budget. However, that being said, the government should pursue a more sustainable approach in improving air quality by investing in public transportation, so as to provide an affordable alternative for the residents to reduce overdependence on motorbikes and eventually switch over to and eradicate air pollution more significantly in the longer term.

Mark Scheme

Level	**Knowledge, Application, Understanding and Analysis**	**Marks**
L2	● Two well explained policies (Ban & Road Pricing) with limitations to address the market failure (Negative Externality) ● Substantial reference to the extracts	4-6
L1	● Underdeveloped explanation and limitation of one policy ● Answer is brief and contains conceptual error ● Listing of policies without explanation ● No reference to the extracts	1-3
Evaluation	**Descriptor**	**Marks**
E	For evaluative comment ● Judgement is based on reasoned economic analysis and substantiated with information from the extract	1-2

(f)		**Discuss whether the Vietnamese government's plans to remove state monopolies and create more competitive markets in energy provision will on balance, improve economic efficiency in Vietnam.**	**[10]**

Command words:	**Points of analysis:**
Discuss whether	P_1: Removing state monopolies and creating competitive market will improve economic efficiency (allocative, dynamic, productive) P_2: Removing state monopolies and creating competitive market may not improve economic efficiency (allocative)
Context words:	• Vietnam • Energy provision market
Content words:	Market Structure – State Monopolies Barriers to Entry Market Failure: Market Dominance, Negative Externality
End Point	Whether market failure in the energy market can be reduced by removing state monopolies and increasing competition.

Suggested Response

Introduction

Improving economic efficiency would consist of Vietnam attaining the microeconomic objectives of allocative efficiency (AE), productive efficiency (PE) and dynamic efficiency (DE). AE refers to the allocation of resources such that no agent can be made better off without another being made worse off, thereby maximising society's welfare. PE is achieved when production is made at the lowest possible cost given existing technology. Lastly, DE is achieved by having product and process innovation. This essay seeks to discuss whether the above objectives can be attained through the process

of increasing competition via the erosion of barriers to entry in the energy market in Vietnam

P1: Thesis – Removing state-owned monopoly can improve allocative efficiency

By removing the title of state monopolies, the government has effectively removed the barriers to entry in this market, increasing the competition within the industry. With the entry of more firms, Vinacomin will now face a set of smaller and gentler set of revenue curves, AR_2 and MR_2. This is because the market power of Vinacomin has been eroded by new competitors while at the same time, the demand for energy production is now more price elastic due to the availability of a greater number of substitutes. With reference to the figure above, at the intersection between MC and MR_2, the firm will produce at profit maximising output Q_2 and prices will fall to P_2. There is an improvement in allocative efficiency as deadweight loss has decrease from ABC to the smaller area of DEF.

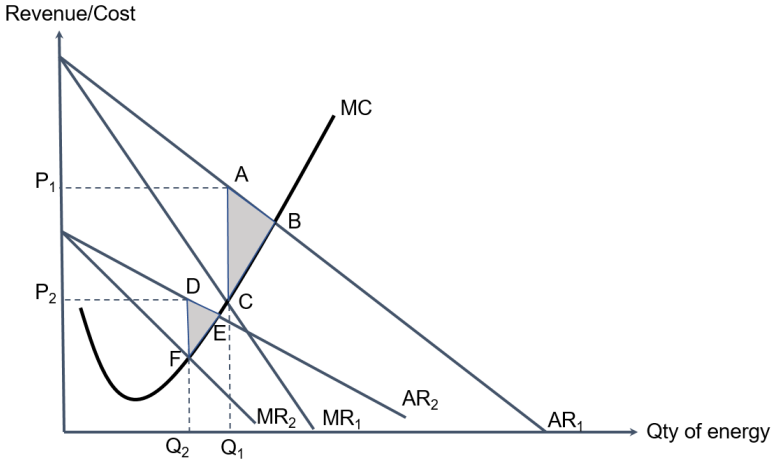


Fig 1: Removing state-owned monopoly

P2: Thesis: Increasing competition would improve productive efficiency and dynamic efficiency.

Also, the increased competition can result in greater productive efficiency. As a state-owned monopoly, Vinacomin is inefficient and has reported low profitability. This is because it was not incentivised to keep costs low as it was not profit driven. There could be many inefficient and old processes based off yesterday's technology causing firms to suffer from x-inefficiency as it produces on a point above its LRAC. With the removal of state monopolies and hence the objective of profit maximisation, Vitacomin will now be committed to minimising costs as much as possible to maximise profits, moving from a point above the LRAC to a point on the LRAC, achieving productive efficiency and reducing x-inefficiency. This is especially so given the fact that the market is highly competitive, having low costs would allow firms to set more competitive prices to deter new entrants, so as to secure market share and profits in the long run. Also, firms may now have greater incentive to conduct research and development (R&D) to

improve their energy production process, to gain a competitive edge over the other firms. This can lead to the invention of sustainable green technology, which could reduce the amount of emission while ensuring the energy produced remains the same. This would allow firms to achieve dynamic efficiency through innovating their processes of energy production

P3: Anti-Thesis – Removing state-owned monopoly worsens allocative efficiency

The removal of state-owned monopoly may not improve economic efficiency. Vinacomin, as a state-owned monopoly must produce energy at the socially optimal output level, ensuring AE, to meet the economic objective of the government. This is because energy is a necessity used for essential needs such as heating and lighting. The Vietnamese government would require Vinacomin to produce at the output where price is equal to the marginal cost (MC), P=MC, to attain allocative efficiency at Q_0 and P_0 in Figure 2. This is possible because profit maximisation is not the main objective of a state-owned monopoly. Hence, by privatising the energy market, energy producer would now be subjected to profit maximising objective and produce at the point where MR_1 intersects MC, at output Q_1 and charges P_1. Therefore, Vinacomin will earn a total revenue of $0P_1DQ_1$ and the total cost incurred will be $0CBQ_1$, resulting in supernormal profits of P_1CBD. Since P > MC, there will be allocative inefficiency, as shown by the deadweight loss of area DEF, reflecting an underproduction of energy.

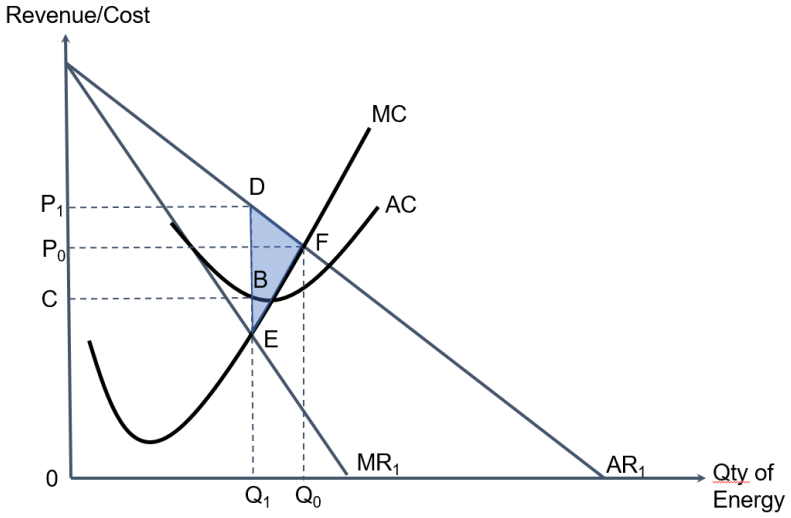


Fig 2: Privatisation of Energy Production Firms

P4: Anti-Thesis – Increasing competition would worsen economic efficiency via negative externalities

Increasing competition in the energy production market may not achieve greater allocative efficiency due to generating greater negative externalities. With an increase in energy production firms using coal-fired power plants in order to keep up with growing demand for energy. This could generate greater emissions which results in air pollution. This would result in an

increase in marginal external costs (MEC) on third parties not involved in energy production, creating a divergence between MPC and MSC, as seen in Figure 3. Assuming the presence of no positive externality, MSB =MPB which equates to the revenue earned from the distribution of energy. Energy production firms will only consider MPC and MPB, which results in the market output which is greater than the socially optimal output level. Hence an overproduction of energy occurs, resulting in allocative inefficiency, generating a greater societal welfare loss than before.

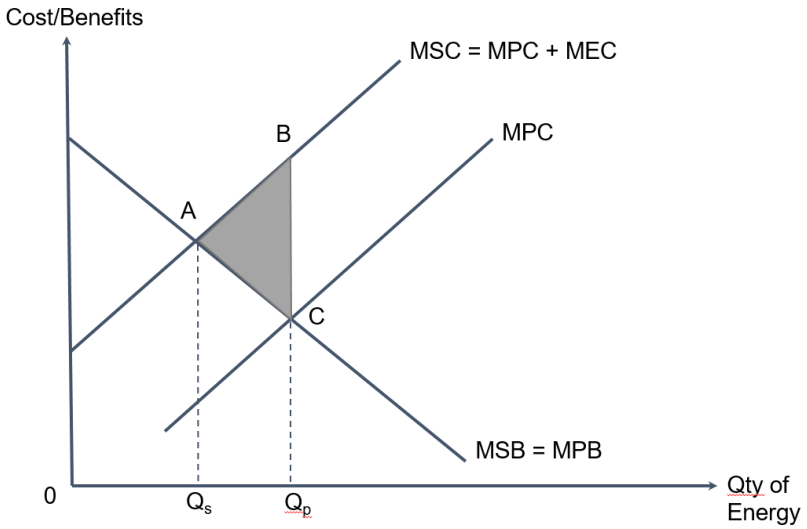


Fig 3: Negative Externality in Energy Market

Evaluation

On balance, the Vietnamese government should prioritise increasing competition in the energy market to improve economic efficiency, despite the shortfalls it might face in the short run. This is because of the potential to achieve allocative efficiency, productive efficiency and dynamic efficiency in the longer term when privatisation is realised.

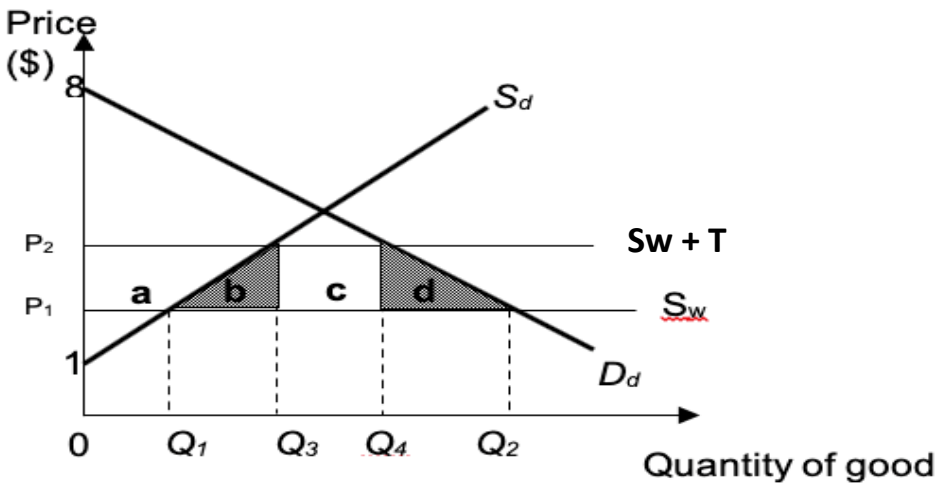
As a government, there could be other macroeconomic objectives such as sustainable growth which it must fulfil, and privatisation of energy production is crucial towards meeting that aim through a more environmentally sustainable market. Therefore, the successful and fast privatisation of the energy producer market is critical in improving economic efficiency and this would hinge upon the capability of an effective government.

Mark Scheme

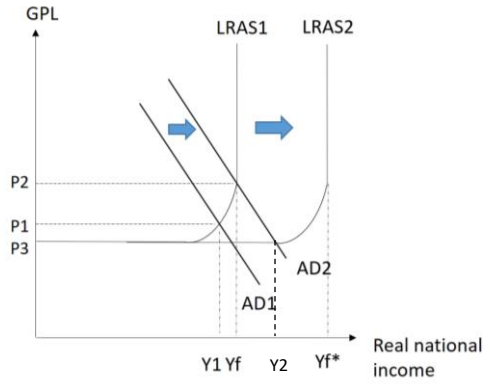
Level	Descriptors	Marks

		L2	● Two sided explanation of how increasing competition can improve or worsen economic efficiency that is well developed ● Covers allocative efficiency, productive efficiency and dynamic efficiency ● Substantial reference to the extracts	5-7		
		L1	● Underdeveloped one-sided explanation of how increasing competition can improve or worsen economic efficiency ● Answer is brief and contains conceptual error ● Listing of points ● No reference to the extracts	1-4		
		Evaluation	Descriptor	Marks		
		E	For evaluative comments ● Judgement is based on reasoned economic analysis and substantiated with information from the extract	1-3		

2019 A-Levels H2 Economics Paper 1_CSQ 2_suggested answers

(a)	**With reference to Figures 1 and 2, what evidence is there to suggest an increase in the productivity of workers in US manufacturing over the period 1987-2017?**	**[2]**
	Figures 1 and 2 show a decline of US manufacturing employment and a rise in US real manufacturing output over the period respectively. Hence, this suggests an increase in the productivity of workers in US manufacturing, which means that the number of output per worker increased since more output was produced though fewer workers were employed over the period.	
(b)	**Using an example, explain a benefit to a firm producing on a larger scale through participation in the global value chain.**	**[2]**
	Participation in global value chains allows the scale of production in each country to increase (Extract 5). Hence, a firm producing on a larger scale through participation in the global value chain is able to reap lower unit cost of production as it reaps internal marketing economies of scale such as bulk buying of raw materials.	
(c)	**Explain one possible reason why Singapore has such a high participation rate in the global value chain.**	**[2]**
	Singapore has such a high participation in the global value chain as it enables Singapore to focus on certain aspects of the production process that it has a comparative advantage in so as to perform most efficiently, while outsourcing the aspects of the production process that it performs less efficiently. As Singapore is a small economy with limited natural resources, a high participation in the global value chain will allow Singapore to optimise the use of its scarce resources.	
(d)	**Explain two possible reasons for the US government's call for tariff protection of the manufacturing industry.**  	**[6]**
	For protecting US domestic employment : US imposes import tariff ➔ rise in unit cop ➔ the world supply of manufactured good falls from S_w to S_w+t ➔ the price of the imported manufactured good rises from P_1 to P_2 ➔ the quantity demanded of imported manufactured good falls from Q_1Q_2 to Q_3Q_4 ➔ the domestic production of domestically manufactured	

	good increases from Q_1 to Q_3➔ derived demand for domestic labour rises ➔ higher domestic employment in the US **For prevention of dumping in US:** Dumping occurs when a manufactured good is sold in foreign markets at a price below its marginal cost of production. Import tariff is imposed ➔ rise in unit cop ➔ the world supply of manufactured good falls from S_w to S_w+t ➔ the price of the imported manufactured good rises from P_1 to P_2 ➔ foreign firms are not able to set a predatory price through dumping ➔ domestic firms survives and competes with foreign firms ➔ foreign firms cannot gain monopoly position in the domestic market at the expense of domestic consumers (in terms of higher prices or lower output).	
(e)	**Considering possible advantages or disadvantages to Pakistan's economy of China's 'Belt and Road Initiative', assess whether it is likely to be of overall benefit to Pakistan.**	**[8]**
	Question Analysis **Approach** — **Command Word**: Assess **Approach** — **Start point**: Advantages and disadvantages of China's 'Belt and Road Initiative' to the Pakistan economy **Approach** — **End Point**: Is China's 'Belt and Road Initiative' likely to be of overall benefit to Pakistan? **Content and Context** — **Content**: Positive and negative consequences for the Pakistan economy in terms of achieving the four macroeconomic goals **Content and Context** — **Context**: Pakistan **Introduction**: China's 'Belt and Road Initiative' → both advantages and disadvantages to Pakistan in terms of achieving its key macroeconomic goals (i.e sustained/sustainable/inclusive growth, ful employment, price stability, healthy balance of trade). **Development**: **Thesis**: China's 'Belt and Road Initiative' is beneficial to Pakistan.	



<u>(+) Sustained Growth</u>
Plans for pipelines and a port in Pakistan (Extract 6) ➔ rise in investment spending by China in Pakistan → rise in FDI in Pakistan

SR: Rise in FDI from China➔increase in AD from AD1 to A2 ➔ unplanned fall in inventories ➔ firms in Pakistan hire more workers to produce greater output ➔ multiplied rise in real national income from Y1 to Yf ➔ actual growth (AG).

LR: Rise in FDI ➔ capital accumulation ➔ increase in LRAS from LRAS1 to LRAS2 ➔ Yf rises to Yf* → potential growth (PG). Yf rises to Y2 → reinforces actual growth.

➔ AG + PG ➔ sustained growth in achieved

<u>(+) Full employment</u>
Rise in AD ➔ increase in DDL (ie labour is a derived DD) ➔ fall in demand-deficient unemployment

Rise in LRAS ➔ rise in aggregate quantity demanded along AD2 ➔ real output/income increases from Yf to Y3 ➔ employment may rise further as more workers may be required to produce more goods.

Furthermore, US$62billion China-Pakistan economic corridor, network of motorways, power plant factories and railways ➔ create up to one million jobs in Pakistan (Extract 6) as more workers are needed for construction

➔ Pakistan moves closer to achieving full employment

Anti-Thesis: China's 'Belt and Road Initiative' is costly to Pakistan.
<u>(-) DD-pull inflation</u>
Assume Pakistan is operating near or at YF
SR: Rise in AD ➔ unplanned fall in inventories ➔ firms in Pakistan hire more workers to produce greater output ➔ greater competition for limited resources ➔ rise in factor payments ➔ firms will only increase aggregate quantity supplied at higher GPL ➔ DD-pull inflation if rise in AD is sustained, assuming rise in LRAS has not taken effect yet.

<u>(-) BOT deficit</u>
SR: Pakistan may increase its spending on imported capital goods to support the 'China Belt and Road Initiative', Pakistanians may import more consumer

goods as national income rises (assume YED >0) ➔ BOT deficit rises assuming X remains unchanged.

Conclusion/Evaluation:

Whether China's 'Belt and Road Initiative' is overall beneficial to Pakistan depends on time period.

In the short run, net benefits to Pakistan may be limited due to the significant import spending that is likely to occur due to building infrastructure while the Pakistanian economy is still operating near full employment.

However, in the long run, China's 'Belt and Road Initiative' is likely to be overall beneficial to Pakistan with the successful completion of infrastructure that facilitates trade and investment opportunities between Pakistan and other countries. This has the potential to further enhance its BOT position, employment level and hence actual economic growth. Additionally as productive capacity is enhanced it will also lead to potential growth; improving the economic performance of the Pakistanian economy.

Level	Knowledge, Understanding, Application, Analysis	Marks
L2	• 2-sided discussion, supported by sound economic analysis • Exemplification within the given contexts.	4-6
L1	• One-sided discussion • Lack of clarity, coherent flow and organisation	1-3

Level	Evaluation	Marks
E	• Reasoned judgement	1-2

(f) Using economic analysis and based on the evidence provided, discuss whether you agree with the view that globalisation is reversible. **[10]**

Question Analysis

Approach	**Command Word**	Discuss
	Start point	Factors that increase/reduce the integration of the world economy.
	End Point	Globalisation is (not) reversible
Content and Context	**Content**	Policies for and against globalisation, AD-AS analysis
	Context	US and China's economy

Introduction:

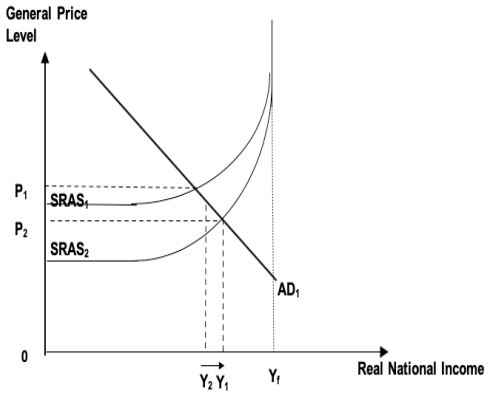
	Globalisation refers to the increased integration of the world economy. The process of globalisation involves increased trade, greater mobility of labour and capital and the increased interdependence of national economies ➔ whether globalisation is reversible depends on whether there is more/less integration of the world economy. Development: Thesis: Globalisation is reversible. <u>Point:</u> Globalisation is reversible by implementing protectionist measures that reduce the flow of trade and foreign direct investment between countries to protect domestic firms and employment. In Extract 4, it states that the ratio of global trade to global GDP has fallen from 52% to 45%. <u>Explain/Elaborate:</u> Because of the US economic slowdown and high domestic unemployment ➔ In Extract 4, the US President Donal Trump expressed that "we must protect our borders from the ravages of other countries making our products, stealing our companies and destroying our jobs." ➔ implement protectionist policies, like import tariff ➔ the world supply of a good falls ➔ the price of the imported good rises ➔ the quantity demanded of imported good reduces ➔ the domestic production of domestically manufactured good increases ➔ derived demand for domestic labour rises ➔ higher domestic employment ➔ Hence**,** the integration of the world economy via trade is reduced. In addition, in Extract 4, it states that automation/new technologies allow for smaller factories and localised production ➔ transition from labour-intensive production to capital-intensive production ➔ falling unit COP ➔new comparative advantage developed in these industries **+** customers' preference toward personalisation and near-immediate delivery ➔ smaller and localised production becomes possible and attractive ➔ foreign direct investment reduces ➔ Hence**,** the integration of the world economy via foreign direct investment is reduced. <u>Link:</u> Therefore, implementing protectionist measures that reduce the flow of trade and foreign direct investment between countries make globalisation reversible. Anti-thesis: Globalisation is not reversible. <u>Point 1:</u> Globalisation is not reversible because of the positive consequences of trade integration that aims to increase the integration of the world economy. <u>Explain/Elaborate:</u> In Extract 7, it states that governments are pursuing free-trade deals and the leading indicators of trade (manufacturing export orders and shipping rates) remain high **+** global growth is forecast to remain robust ➔ access to larger overseas market with fewer trade barriers **+** strong demand for overseas products (M rises) ➔ export volume rises and AD increases ➔ multiplied increase in RNY ➔ actual growth results **+** BOT position improves **+**	

Higher AD ➔ unplanned inventories falls ➔ production level rises ➔ derived demand for labour increases ➔ demand-deficient unemployment improves

Link:
Hence, the positive consequences make implementing free trade favourable and globalisation is not reversible.

Point 2:
Globalisation is not reversible because of the positive consequences of trade liberalisation that aims to increase the integration of the world economy through trade and foreign direct investment.

Explain/Elaborate:
In Extract 5, it states that integration into GVCs raises the benefits of producing on a larger scale ➔ integration into GVCs reflects the division of production and task specialization ➔ allow a country's firms to exploit internal economies of scale ➔ average cost of production becomes lower ➔ develop comparative advantage in producing goods and services for which these countries are specialised **+**
In Extract 7, US car producers are planning new facilities in China ➔ tap on China's comparative advantage on labour cost ➔ unit COP for producing cars falls ➔ boost the price competitive of the US exported cars



➔The lowering of average cost of production shifts SRAS to the right from $SRAS_1$ to $SRAS_2$, causing a fall in the general prices from P_1 to P_2. ➔ this will improve export price competitiveness ➔ it would result in a more than proportionate increase in the quantity demanded of exports (given $PED_x > 1$) ➔ thus, net exports would increase ➔ multiplied rise in RNY → stimulates more investments because of the prospects of higher sales, faster growth ➔ higher inflow of FDI.

Link:
Hence, the positive consequences of trade liberalisation promotes the integration of the world economy through trade and FDIs and this makes globalisation irreversible.

Conclusion/ Evaluation:
Stand: Globalisation is not reversible to a large extent.

Criterion 1 : Making globalisation reversible cause more harm.
Justification 1: Protecting the non-competitive domestic firms would only perpetuate the problems of allocative inefficiency and the misallocation of resources. ➔ when a tariff is imposed ➔ price increases and quantity demanded

falls ➔ loss of consumer surplus **+** unnecessarily allocate resources to non-competitive industries, which should be allocated to industries with comparative advantage ➔ allocative inefficiency

Criterion 2: The vast majority of economies in the world still favour globalisation.
Justification 2: The deeply interconnected GVCs make unrealistic all stages of production of a good taking place in a single country. In Extract 5, it states that the clear beneficiaries of globalisation are the emerging economies. These emerging economies are still actively participating in economic activities that promote the integration of the world economy, for instance, the partnership between China and Pakistan in the 'Belt and Road Initiative'. Furthermore, Asia, as the growth engine of the world economy, has seen strong export orders and high shipping rates. This is an indication of a trade boom.

Level	Knowledge, Understanding, Application, Analysis	Marks
L3	• 2-sided discussion: globalisation is (not) reversible. • Accurate and conceptually sound using AD-AS framework • Clear elaborations • Exemplification within the given contexts. • Coherent flow and organisation	5-7
L2	• Attempted to address the question • Used AD-AS framework, but with some inadequacy and/or inaccuracy • Some attempt to elaborate • Some exemplification within the given context	1-4
Level	**Evaluation**	**Marks**
E2	Insightful judgment substantiated with analyses, including but not limited to the following considerations: • long vs short term • other factors • different contexts • underlying assumptions	2-3