Examiners' Report
June 2017

GCE Economics 9ECO 02

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Introduction

This is the first of the new Economics A Level papers in the new AS Specification 2015. Candidates’ answers to the questions on this paper have generally been of an expected standard. All questions were accessible to the candidates, although inevitably candidates scored more highly on some than others.

Section A highlights the need for candidates to be accurate and clear in their definitions and calculations. Far too many candidates are losing marks because they cannot accurately interpret data in different statistical formats. Quantitative skills are a vital skill in the new exams and candidates need to be practicing looking at graphs/charts and being able to explain what they show. This was an issue in particular on questions 1 and 4. On question 1 many candidates didn’t seem to read the title of the chart and discussed an increase in unemployment on the circular flow of income. On question 4 many candidates discussed reasons for a rise in inequality. In addition, in Section A, candidates wasted valuable time defining words simply because they were in the question, for example unemployment in question 1(b), rather than actually answering the question.

In section B it is important that candidates read the question carefully and ensure they are answering the precise question set. For example, with Q6(b) candidates need to ensure they are discussing factors that explain why inflation has fallen (as clearly shown in figure 2). In Q6(c) candidates must make sure the impact being discussed is on the balance of payments of Eurozone countries, not on other aspects of their economies. Finally, in Q6(e), candidates should make sure that both fiscal policies and supply side reforms are discussed.

In all questions it is important for candidates to remember that when a question includes the words "with reference to..." they should refer to whatever they have been asked to do. In shorter questions there are discrete marks for application and in levels-based questions examiners are looking for context to enhance the answer and move it into the higher KAA levels.

For the final questions where candidates had a choice, Q6(f) was significantly more popular than Q6(g). In both questions it was important for candidates to avoid simply discussing benefits and downsides and to focus on effects in Q6(f) and consequences in Q6(g), whether those are positive or negative. In both questions the stronger answers were generally ones that had relevant context to back up the points candidates were making. The other key thing to remember in both Q6(f) and Q6(g) is, the Level 4 Knowledge, Application and Analysis criteria, that there needs to be "logical and coherent chains of reasoning". This contrasts to the level 2 criteria which describes a "two-stage chain of reasoning only".

Question 1 (b)

In this question the focus is on making the link between the data on unemployment and the circular flow of income. The marks are divided up into 2 for knowledge, 1 for application, and 1 for analysis. There are several ways of achieving the knowledge marks, including through drawing a circular flow of income diagram. The application mark needs to come from being able to interpret the data and understand that the figure shows a fall in unemployment. The analysis is for explaining what impact a drop in unemployment would have on the circular flow of income. The main issue that candidates faced here was failing to correctly see that the chart shows a drop in unemployment. This often meant that candidates were unable to achieve very many marks, since it often led on to incorrect analysis.

Circular flow of income represents how much money is circulating in an economy. Unemployment is where someone is willing and able to work but does not have a job. between 2013 & and 2015 unemployment dropped from 6% to 5%. this will likely cause an expansion in the circular flow as people will be earning more so they're spending money and the money keeps circulating provided none of it is lost through leakages.

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Examiner Comments

This answer scores 3/4 marks. The candidate has correctly identified that unemployment has fallen. They then go on to achieve 1 knowledge mark for identifying that this would increase the circular flow of income. The final mark comes from analysis, explaining the link between falling unemployment and an increase in the circular flow of income.

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Examiner Tip

Focus on answering the question – there are no marks here for defining unemployment since that is not what has been asked.

The circular flow of income shows all the flows of money within an economy between firms and households. There are injections such as government spending, investment and exports, and leakages ~~imports~~ out of the circular flow of income such as savings, imports and taxes. The decrease in unemployment from 8% in 2013 to 5.5% in 2015 could lead to an ~~increased~~ decreased leakage of savings out of the circular flow of income, as individuals feel more secure in their job, so spend more money, leading to a positive multiplier within the circular flow of income

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Examiner Comments

This answer scores the full 4 marks available. The application is referring to a fall in unemployment. The knowledge for referring to specific injections/leakages and the impact on the circular flow of income. Finally, the analysis is towards the end of the answer for explaining why falling unemployment would increase the circular flow via a higher multiplier.

Question 2 (a)

Most candidates found this to be a straightforward question. There are 2 marks available for knowledge, 1 mark for the reason and 1 mark for an explanation of that reason. If candidates failed to score full marks on this question it was generally either because they misread the data or they failed to explain their reason for the second mark. Most candidates explained the impact of falling interest rates reducing the incentive to save.

2 The table below shows marginal propensity to save data for an economy.

Year	Marginal propensity to save (mps)
2010	0.11
2011	0.09
2012	0.07
2013	0.05
2014	0.05
2015	0.04

(a) Explain **one** possible reason for the changes in the marginal propensity to save as shown in the table.

(2)

One reason why mps is reducing is due to interest rates falling. This will disincentivise people to save as the return is not great. Therefore they will consume more, increasing marginal propensity to consume.

ResultsPlus
Examiner Comments

This answer scores the full 2 marks. The candidate has identified falling interest rates and clearly explained why it would lead to a lower MPS.

ResultsPlus
Examiner Tip

Be clear and concise in these short questions.

Marginal propensity to save is the proportion of the income that has ~~been~~ gone ~~s~~ towards savings.

One possible reason for the decrease in saving is interest rates going down.

ResultsPlus
Examiner Comments

This answer scores only 1/2 marks because the candidate has only identified their reason, they have not explained it.

ResultsPlus
Examiner Tip

Don't define everything in the question when you haven't been asked to – focus on precisely what the question has asked you.

Question 2 (b)

In this question, like 2(a), the marks are again split as 1 for identifying the impact on the multiplier and 1 for explaining it. Many candidates achieved the full 2 marks here. The main problem that let candidates down was not being clear about their multiplier formulas and therefore making mistakes when they tried to use them.

(b) Explain the likely effect of a fall in the marginal propensity to save on the value of the multiplier if other things remain equal.

(2)

The multiplier equals $\frac{1}{mps + mpt + mpm}$

the multiplier will get bigger as mps falls as 1 is divided by a smaller number.

ResultsPlus
Examiner Comments

This answer scores the full 2 marks. The candidate has used the multiplier formula to explain why the multiplier would increase when MPS falls.

ResultsPlus
Examiner Tip

Ensure you know key formulas like the multiplier. In particular, remember that there are several different ways of calculating the multiplier.

(2)

The formula for the multiplier is : $\frac{1}{1-(MPS+MPT+MPM)}$
Therefore, a fall in the MPS would mean a ~~fall in~~ fall the multiplier, as a smaller number is being subtracted from 1, so 1 divided by this will lead to a ~~greater~~ ~~bigger~~ number.
smaller

ResultsPlus
Examiner Comments

This answer scores zero as unfortunately the candidate doesn't have the correct formula for the multiplier and therefore they incorrectly think that the value of the multiplier would fall.

Question 3 (b)

This question is focused on how to calculate the Consumer Prices Index (CPI). The question specifically asks candidates to do two things as part of their explanation – to refer to the chart provided and also to explain the concept of weights. Unfortunately, many candidates didn't read the question carefully and these were often missing from answers. This limits the mark a candidate can receive. In terms of weights, there was often simply a repetition of the word rather than an explanation of what it actually means.

(b) With reference to the data provided, explain the process of calculating the rate of inflation in the UK using the Consumer Prices Index. Refer to the concept of weights in your answer.

(4)

CPI is a measurement of inflation using a basket of consumer goods a weighting. They use price surveys to find out how much the prices have increased. It usually gives lower inflation rates as it uses housing costs.
So each year they would conduct a survey asking households on what they have spent and how much it was.

ResultsPlus
Examiner Comments

This answer scores only 2/4 marks. The candidate receives the knowledge marks for their explanation of how CPI is calculated. However, there is no explanation of weights or reference to the chart, and therefore the highest mark they can receive is 2/4.

The consumer prices index measures the rate of inflation through regular surveys accounting the prices of items that are in the given economy's average basket of goods. The changes are then adjusted in relation to the good's "weight" - how much of a person's income is spent on it. Food for example will be weighted higher proportionally compared to his bags as more income is spent on food. The changes in prices are then calculated and adjusted then compared to a base year which is set at an index number of 100.

ResultsPlus
Examiner Comments

This answer scores 3/4 marks. There are several points that earn the two knowledge marks available. There is also an explanation of weights for the analysis mark. However, there is no application, so only a maximum of 3/4 marks can be achieved.

ResultsPlus
Examiner Tip

Remember to apply the data when asked to do so.

Question 4 (a)

In this question, candidates need to make sure they identify what has happened to inequality and offer a specific reference to the data provided. They then need to apply and analyse one reason for why inequality has fallen. As with earlier questions, a common theme that is costing candidates marks is an inability to correctly interpret data. For example, if a candidate incorrectly thinks the diagram shows a rise in inequality it is very difficult for them to then gain very many marks. Having said that, the majority of candidates did offer a relevant point with good analysis.

(a) Explain **one** likely reason for the change in UK income inequality since 2007.

(4)

An income inequality means that people are paid wages unfairly by what they do within their jobs.
The gini coefficient went down from 0.36 in 2007 to approximately 0.35 in 2013.
One reason for the change in UK income inequality is a rise in unemployment. The unemployed may not be able to get the benefits of claimant count resulting in an inequality between the active population and the unemployed.

ResultsPlus
Examiner Comments

This answer scores 2/4 marks. The candidate has correctly identified that the Gini coefficient has fallen and their data points are correct. They achieve 2 marks for this. Unfortunately, the candidate thinks this means that inequality has increased, and as such the rest of their answer cannot achieve any marks.

ResultsPlus
Examiner Tip

Make sure you know what values mean for key measurements such as the Gini coefficient.

One likey reason for the change in UK income inequality since 2007 may be due to the implementation of the national minimum wage. By having a national minimum wage ~~the~~ people are able to have higher relative incomes meaning ~~that~~ ~~those~~ ~~the~~ the UK income inequality is becoming relatively more equal. This can be shown through the decreasing Gini coefficient e.g. 2007 = 0.36 whereas in 2013 it equalled ~~0.3~~ approximately 0.34.

ResultsPlus
Examiner Comments

This answer scores the full 4 marks. The candidate has correctly referred to the chart and explained how the national minimum wage could explain why income inequality has fallen.

Question 5 (b)

This question asks for two limitations of the HDI to compare levels of development. Many candidates wasted valuable time explaining what the HDI is and how it is calculated rather than getting on and answering the question. A wide variety of limitations could be discussed here. The fact that it doesn't take into account income inequality was a popular one. Candidates also needed to remember to refer to the data they had been provided with about Vietnam and India as part of their answer.

(b) With reference to the data provided, explain **two** limitations of using the HDI to compare levels of development between countries and over time.

(4)

One limitation of using the HDI to compare levels of development is the idea of inaccuracy and the ability to be able to measure life expectancies in countries such as Kenya, gambia and many other LEDC's. It is difficult to predict the life expectancy's and level of education due to the poor infrastructure available. ~~Moreover~~, ~~Second~~ Another limitation of the HDI is the fact that ~~in~~ some ~~people~~ areas of a country ~~working and~~, can be experiencing great living standards and life expectancy and other areas are ~~experiencing~~ experiencing the complete opposite. This means that the information provided is not ~~a~~ greatly accurate as ~~the~~ ~~in~~ certain "well off" areas ~~are~~ is boosting up HDI.

ResultsPlus
Examiner Comments

This answer achieves 3/4 marks. The candidate has correctly identified 2 reasons along with plenty of analysis. However, there is no application in the answer so they cannot achieve more than 3 marks.

HDI consists of factors such as, life expextancy, average years in school, adult literacy, and newly GNI per capita. The limitations are that it doesn't include ~~fac~~ welfare factors, such as internet access, and speed of wifi, or how corrupt the government is. even though vietnam may have a higher HDI then india (0.666)?, it may not have better welfare factors such as the speed of internet. so although it's a good unit of measure it does take into account the modern lifestyles that a country is able to offer.

ResultsPlus
Examiner Comments

This answer also scores 3/4 marks. In contrast to the earlier answer, there is application. There is also some knowledge and analysis. However, the candidate has only discussed one limitation so only 1/2 for knowledge can be awarded, hence a maximum mark of 3/4.

Question 6 (a)

This answer is a straightforward percentage change calculation. Most candidates were able to answer this question easily and achieve the full 5 marks. Some candidates forgot the minus (or a reference to decrease or similar) and as such scored 4/5 marks. This question also demonstrates the need for candidates to know key calculations such as percentage change.

(a) With reference to Figure 1, calculate the percentage change in the value of the euro in pounds from the start of 2009 to the start of 2015.

(5)

$$\frac{0.95 - 0.75}{0.95} \times 100$$

$$= 21.05263158\ \%$$

ResultsPlus
Examiner Comments

This answer scores 4/5 marks. They have the correct value but have not appreciated that this is a decrease in the exchange rate.

$$\frac{0.75 - 0.95}{0.95} \times 100 = -21.1\%$$

ResultsPlus
Examiner Comments

This candidate has calculated the correct answer and as such achieves full marks.

ResultsPlus
Examiner Tip

Always ensure you know how to calculate percentage change and other similar calculations.

Question 6 (b)

In this question the marks are evenly divided between knowledge, application, analysis, and evaluation (2 marks for each). Again, it is important that candidates appreciate that there has been a continuous fall in the rate of inflation since 2011, as shown in figure 2. This needs to be the basis for their answer. There are a wide variety of reasons that candidates put forward to explain this and all relevant reasons were credited. Candidates also needed to offer some evaluation of their answer. This is where many answers were lacking – candidates simply didn't evaluate, and as such missed out on 2 marks.

(b) With reference to the information provided and your own knowledge, examine **two** factors which might explain the change in the rate of Eurozone inflation as shown in Figure 2.

2 factors causing

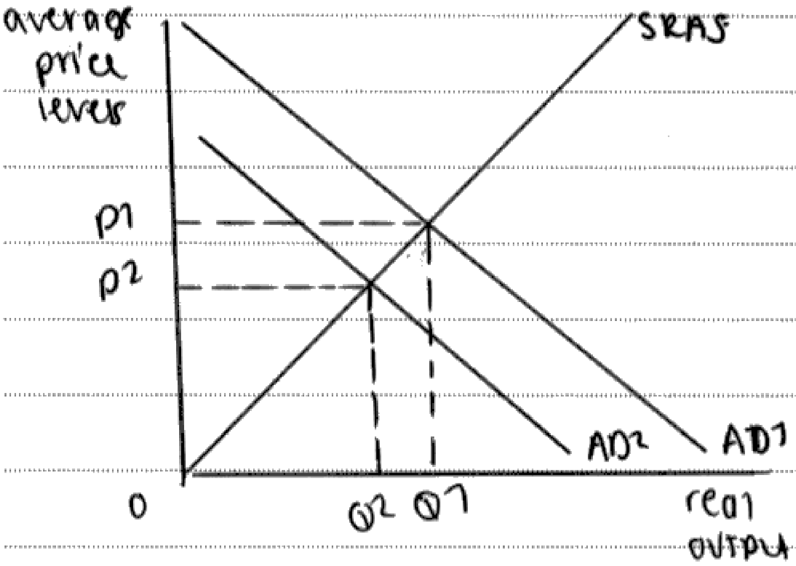
(8)

The annual percentage change in prices fell from 3.2% in 2011 to around 0.2% ~~meaning~~

The reason for a fall in the rate of inflation meaning there was disinflation may be due a fall in the rate of growth due to a fall in consumption.

As ~~there~~ individuals may have been spending less there may have been a fall in the overall demand ~~may have been no incentive for suppliers to increase supply causing~~ ~~causing~~ there full there would have been no demand pull inflation. Due to this there may be a decrease in average price levels as less people are consuming.

Another reason is due to a decrease in AD. this is due to increases in AD causing rises in price levels to fall from P1 to P2.



ResultsPlus
Examiner Comments

This answer scores 4/8 marks. The candidate unfortunately only has one reason – falling growth/AD. There is also no evaluation. Their application is good and their knowledge and analysis of their one point is good, but 4/8 is the highest they can score in this situation.

ResultsPlus
Examiner Tip

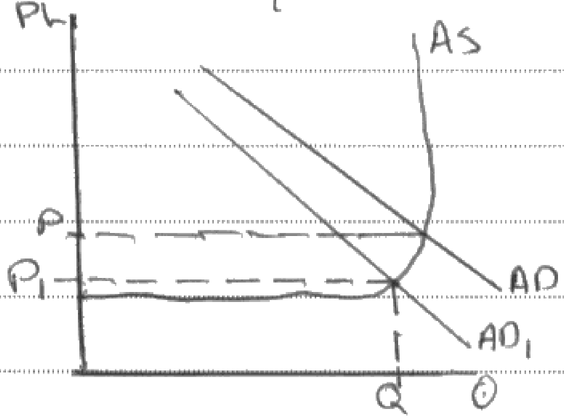
Make sure you have two distinct reasons. In the pressure of an exam it can be easy to forget what you have already written about.

Inflation rate is defined as the rate at which prices are increasing. From the data ~~[illegible]~~ provided ~~[illegible]~~ I can see there has been a heavy fall in the Rate of inflation between the years of 2011 to 2015 dropping from Just above 3% in 2011 to below 0.25% in 2015.

One factor which may explain this change would be a heavy appreciation in exchange rates. If the cost of the ~~pound~~ Euro increases, this would increase imports as more can be bought with the euro as it ~~was~~ ~~[illegible]~~ is stronger, also exports would decrease as it now costs more to purchase from europe due to to the strong euro. This would then lead to a ~~[illegible]~~ decrease in the net exports, which is a component of AD. If AD decreases so does the price level leading to a decrease in the rate of inflation.

Another factor maybe a reduction in government spending. If government reduce their spending on the country this will lead to a fall in price level. This is because government

Spending is a Component of Aggregate demand (AD), if government spending decreases then ~~Ago~~ AD will also fall leading to the fall in price level and thus ~~a~~ a fall in inflation rate. AS shown in the diagram as any component of AD falls AD shifts to the left from AD to AD_1 dropping the price level from P to P1



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Examiner Comments

This answer scores 6/8 marks. The candidate offers 2 good reasons, along with analysis and application. Unfortunately there is no evaluation, so they cannot gain more than 6 marks.

ResultsPlus
Examiner Tip

Always remember to evaluate in these 8-mark 'examine' questions.

Question 6 (c)

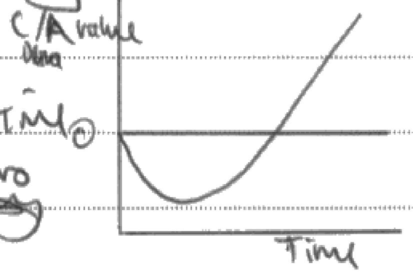
This is the first of the 'levels' marked questions on this paper. This means examiners are not looking to award specific marks for knowledge, application, etc. but that the focus shifts to the level descriptors. Candidates need to ensure they are familiar with these descriptors and that they understand what is required to reach the top levels. For this question specifically, candidates needed to explain how an appreciation would affect the balance of payments of Eurozone countries. So the focus should be on changing prices of imports and exports. The majority of candidates picked up on this but the stronger ones were able to clearly explain the process and put their answer in context. There are 6 marks for KAA here and 4 for evaluation.

(c) Since mid-2015 the euro has appreciated. Assess the likely impact of an appreciation of the euro on the current account of the balance of payments for Eurozone countries.

(10)

An appreciation of the Euro means that it has increased in value therefore is worth more in comparison to other currencies globally.

One impact this could cause to the current account is a worsening. This is because if the Euro is increasing in value as it did by 3% against the US dollar in 2015 after the ECB Monetary stimulus announcement, this means the price of imports will fall and price of exports will rise. This then means for the Eurozone countries they will be less internationally competitive due to their relative Export prices being higher. This impacts on the current account as higher export price means lower demand and therefore ~~possibly lower~~ a worsening of the current account as the opposite happens to imports as ~~imp~~ demand will rise so causing more money to leave the Eurozone Countries than Come in. This may be unlikely as if the Marshall lerner condition is applied it states that the combined Price Elasticity of Demand for exports must be over 1 in order for any change to occur to the current account. Also ~~this~~ a change in currency value takes time for consumption to adjust to it as the J curve states that there will be a time lag between the appreciation of the ~~currency~~ £uro



and its impact on ~~demand~~ price and demand for imports and exports, this could take around 3-5 years so in the short term the current account won't change, but it is likely to in the Long ~~Run~~ Term as more factors of production are varied and change.

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Examiner Comments

This answer scores full marks. The candidate has very clearly explained the impact of an appreciation on the balance of payments, in the process demonstrating accurate knowledge and understanding and linking this in context – which clearly fits the KAA criteria for level 3. They have also convincingly evaluated their argument using the Marshall-Lerner condition and the J-curve.

ResultsPlus
Examiner Tip

This answer is relatively concise yet it achieves very highly – remember the emphasis of the levels mark scheme is very much on quality over quantity.

(c) Since mid-2015 the euro has appreciated. Assess the likely impact of an appreciation of the euro on the current account of the balance of payments for Eurozone countries.

(10)

Balance of payment is a record of all financial transaction of a country. Current account record the transaction on ~~trade on visible~~ payment of sale and purchase of goods and servies, investment income and transfers. According to the extract A, since mid-2015 the euro rose almost 3% against the dollar to \$1.08. This is known as an appreciation. Therefore the price of Euro increases and it is more expensive to ~~buy~~ ~~imports~~ imports from Eurozone, demand for Eurozone export falls. Also, it becomes cheaper for Eurozone to buy imports from other countries, demand for imports rise. ~~So the net export (X-M) will decrease. And this will cause a current account deficit when imports are consume purcha~~ has a bigger ~~volume than exports.~~
So the price of Eurozone export is less competitive than price of other countries's export. Export volume will fall. And import volume will rise. There fore a current acount deficit will occur when volume of imports is bigger than exports.

However, if the exports of Eurozone is price inelastic, a change in ~~price~~ demand of export won't effect as much as the change in price of export. So the impact will be less. Also, since the exporter may have stockpile of ~~pr~~ goods and servies with lower cost, they may sell it at a cheaper price in the short run. And it takes time for people get used to buying ~~exports from~~ Eurozone export to switch to lower-price alternate. Therefore it will not have the deficit in a short time. This is according to the inverse situation of the J-curve.

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Examiner Comments

This is a good, solid answer but not quite up to the same standard as the previous one. It reaches level 3 for KAA but for evaluation only level 1. The points are relevant but they are really just stated and lack relevant reasoning. The overall mark for this answer is 7/10.

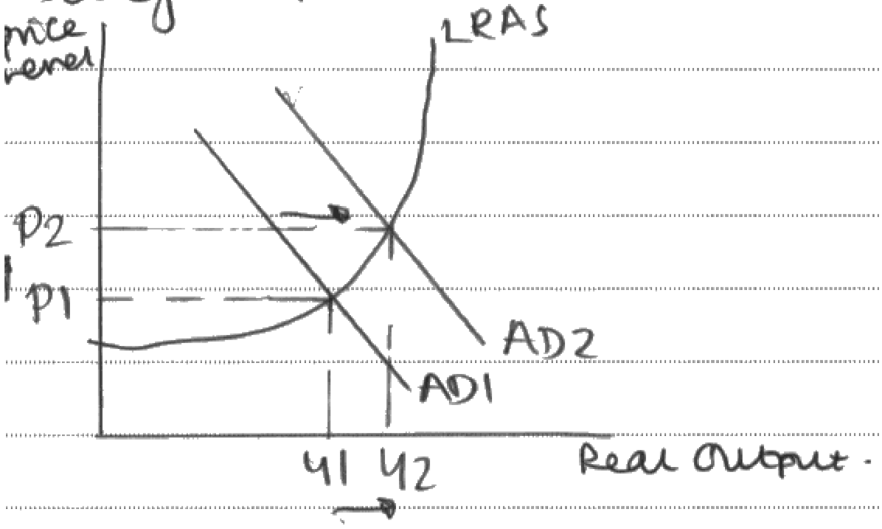
Question 6 (d)

This question is focused on the effectiveness of quantitative easing in impacting upon Eurozone inflation. The stronger answers showed an understanding of what quantitative easing is and how it works, whilst the weaker ones were not at all certain about the process. This was the main obvious issue in this question. Evaluation was generally present and relevant; although sometimes candidates need to be sure they are explaining/justifying their evaluation points – not just stating them.

(d) Discuss the likely success of the ECB's quantitative easing programme in moving Eurozone inflation closer to 'the central bank's ceiling of 2%' (Extract A, line 17).

(12)

The ECB has followed a relatively aggressive scheme of asset purchases with €1.1 trillion estimated to be spent on the scheme by the end of 2016, with an additional €60bn extension of 6 months. This scheme is likely to be successful in stimulating aggregate demand and reaching the inflation target due to the transmission theory of QE. The purchase of the government bonds of European countries by the ECB using electronically generated money has the effect of increasing their price, and as a result reducing the yield on these bonds for investors. As a result, investors may turn to corporate bonds, which would ~~do~~ have the same effect: increasing their prices and decreasing their yields. This will eventually encourage banks to make credit more widely available at a cheaper cost to firms and households (as the rates of negative interest have not already encouraged this enough). This will disincentivise saving and ~~will~~ should encourage the consumption of big ticket items such as cars and electronics as it is cheaper to borrow. The rate of return upon investment will also be higher for firms and will encourage them to invest in capital. This should increase AD as consumption and investment are key components (consumption can account for up to 70%) and so will cause an inflation rate rise, as shown by the following AD/AS diagram:



However, in practice the policy may not have moved inflation as close to the 2% target as the ECB may have liked. The economists even reduced their inflation targets as the stimulus was 'weaker than expected' with consumer prices rising just 1% in 2016 and 1.6% in 2017. Perhaps the stimulus would have been more successful if it increased the 'size of monthly asset purchases rather than just extending the scheme.

Moreover, the QE scheme may have had the opposite effect as Italian and Spanish bond yields actually jumped by 0.25%, suggesting they are now more attractive for investors to buy, reducing the credibility available for firms and households and therefore likely increases in AD and ultimately, inflation.

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Examiner Comments

This is a very high quality answer that clearly demonstrates a solid understanding of quantitative easing, as well as its effect on AD and therefore inflation (including an AD/AS diagram). The answer is also in context, both in the KAA and the evaluation. Overall this answer scores full marks – 12/12.

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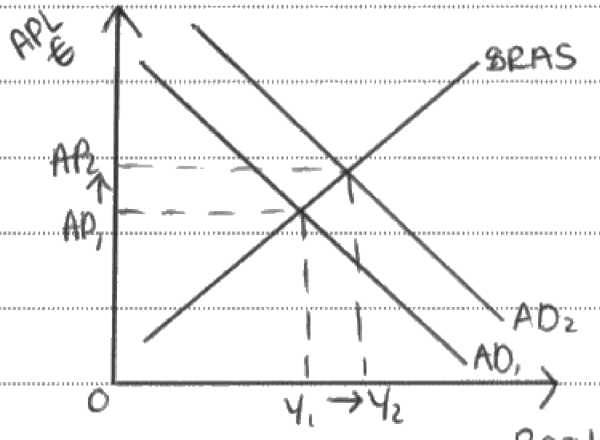
Examiner Tip

Where relevant, always draw diagrams to aid your explanation.

Quantitive easing is the government buying securities of banks and bonds to increase the supply of money, this is a type of expansionary monetary policy

To try and reach the 2% ceiling of inflation rates which is similar to that of the UK's at 2%, Mario Draghi has increased the length of period by 6 months at €60 million. Through increasing the supply of money, it tries to generate the multiplier effect that is where the injection into the economy is smaller than the ~~increase~~ change of national income. There shall be more money in the circular flow of income that means that households shall suddenly have more money through possibly rising real incomes that have been generated through the multiplier effect, as real incomes rise they feel richer and thus increase their consumer confidence, which in the UK has risen by 2.6%. Consumers there on increase consumption through increased disposable income and decrease savings which in the UK is 0.4 of the multiplier.

As consumers increase consumption, businesses too believe in the prosperity of the economy and increase investment. Consumption and investment are both parts of AD and shall see AD shift right as shown below.



~~Through ag~~ Aggregate demand increasing shows an increase in actual growth which in MEDC is aimed at 2%.

unemployment shall begin to decrease and increasing number of people shall increase consumption thus AD and lead to demand pull inflation which shall rise to 2% target. However, this shall depend on the size of the multiplier as in the eurozone it could be smaller, than pridicted. Secondly, with monetary policy you do not know the impact due to time lag that it takes to increase and for people to adjust to, and it may not be that effective if it were to end in september but has been carried on.

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Examiner Comments

This is a reasonable attempt to answer the question which includes good context. However, it is lacking a clear explanation of the process of quantitative easing. There is some brief evaluation at the end about the size of the multiplier and short/long run. Overall this answer gets 4 marks for KAA and 2 for evaluation – 6/12.

Question 6 (e)

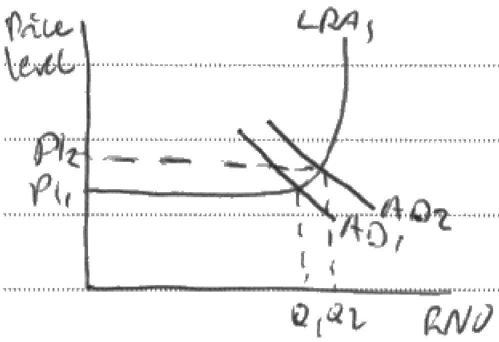
There are two parts to this question, and it is important that candidates discuss both fiscal and supply-side policies. Candidates also need to remember that the question specifically asks how they could be used to increase economic growth, so this needs to be part of the explanation of the policies. The policies also need to be evaluated, and here the number of marks for evaluation has increased to 6.

(e) Discuss 'looser fiscal policy' and 'supply-side reforms' (Extract A, lines 20 and 21) that may be used by governments of Eurozone countries to increase economic growth.

(15)

Fiscal Policy is a Policy which the government can implement to either shift out aggregate demand or shift ~~it~~ ~~inwards~~ inwards. This is done through changes in taxation and government spending. Supply side policy also uses taxation ~~and~~ and government spending but is used to either shift out or in ~~to~~ LRAS.

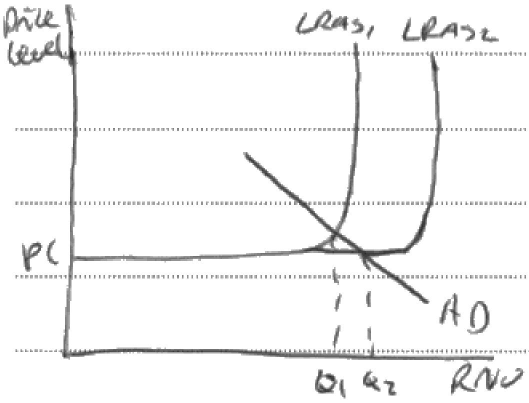
Extract A talks about looser fiscal policy and supply side policies meaning that ~~[illegible]~~ the policies needed to be implemented in order to boost AD and LRAS. ~~If there~~ with expansionary fiscal policy this means that taxation will be lowered e.g income tax and ~~corporation~~ corporation tax. This would ~~shift~~ cause a increase in consumption and investment as households would have more disposable income and firms would have more profit meaning they can invest more. ~~[illegible]~~ Consumption and Investment are the two biggest components of AD so would cause AD to shift out ~~there~~ there for increasing economic growth. The government would also increase it's government spending which



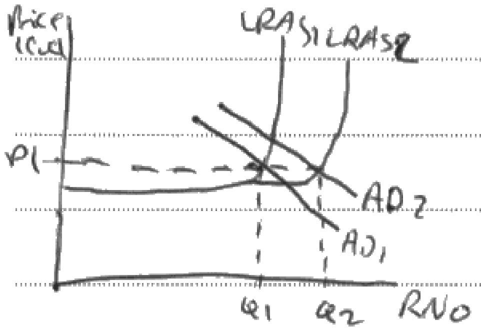
Could be an ~~Subsidisit~~ Subsidising firms giving them more money to invest there for also causing economic growth. The government could also spend more on health-care there for allowing more people to stay at work as less people will be ill there for causing increases in consumption. Government spending also makes up AD so increases in government spending will cause economic growth.

On the other hand expansionary fiscal policy conflicts with other macroeconomic objectives such as inflation as economic growth causes a increase in inflation and ~~defeate~~ could cause inflation to go over the target. Also government spending on things such as healthcare have a time lag and a opportunity cost to the government as this money could be spent elsewhere such as education.

Supply side policies are also used to increase economic growth. ~~as supp~~ A supply side policy which is lowering taxation such as corporation tax is good for firms as it gives them lower costs and they have excess money which they can invest allowing them to be more productive in the ~~long~~ long run. This along with increasing government spending on such things as ~~infastructure~~ infastructure and education would benefit firms as a increase in infastructure would cause transport costs to decrease e.g new ~~motorways~~ motorways and a increase in education would cause the labour force to become more productive there for ~~causing~~ together causing a ~~big~~ big



increase in LRAS. This helps firms achieve economies of scale as firms can now produce more for a cheaper price. This then causes economic growth as this cheaper price in transfered onto the consumers which would then cause a increase in consumption as goods and services are now cheaper. there for causing a shift out in aggregate demand.



On the other hand there is a time lag with supply side policies and a high administrative cost to the government. All of the government spending would cause a budget deficit which is fine in the short run but in the ~~longer~~ longrun could be destabling as if your national debt gets too high the amount of interest each year you'd have to pay on your debt will start to take up more and more of the goverments budget which there for has huge opportunity cost and could cause government failure.

ResultsPlus

Examiner Comments

This is a high quality answer that clearly addresses the demands of the question. It starts off with an explanation of fiscal policy, both in terms of less tax and then increased government spending. There is also an AD/AS diagram to back up the explanation. This explanation is a solid level 3 answer. This is followed up by some brief evaluation that is only really worthy of level 1. The candidate then goes on to discuss the supply side of the economy, talking about infrastructure and education. However, this is much less well-explained than the previous part and is only a level 2 response. This is evaluated with a discussion about time lags and a good, detailed evaluation in relation to the budget deficit. Overall this answer is level 3 for KAA and level 2 for evaluation.

A looser fiscal policy could be the reduction of progressive and regressive tax to increase disposable income of consumers and hopefully increase Aggregate demand

A way in which 'looser fiscal policy' could promote growth could be the reduction of income tax which could see a increase in disposable income for consumers which could see a increase in consumer spending domestically which could lead to a increase in investment from businesses as consumer + business confidence may be seen as high resulting in additional FDI resulting in

growth in these economies.
However this would depend on
the reduction and amount that
income tax went down by
as a reduction in 0.5%
could see little or no impact
in a economy and could
result in withdrawals from
a economy.

A supply side policy which
could encourage growth
in the Eurozone could be
a implementation of a Subsidy
as this could result in
infant industries (Renewables) to
grow as the cost would be
reduced by the subsidy given
which could lead to increased
jobs resulting in more
consumer spending which
could lead to domestic
businesses growing. However
this depends on the
consumers Marginal Propensity to
import as the amount of
money injected only a

small proportion may be spent on domestic industries which could lead to a increase in the trade deficit.

In Conclusion I believe the 'looser fiscal policies' may have a greater impact on domestic businesses. In the short term demand may increase slightly as uncertainty may arise however in the long run consumer spending could rise therefore unhealthy growth. This depends on the consumers marginal propensity to import.

ResultsPlus
Examiner Comments

This answer is less weaker, achieving level 2 for KAA and level 1 for evaluation. Fiscal policy is fairly well-explained although there is a lack of context, so overall a level 2 answer. The evaluation regarding magnitude is relevant but only at level 1. There is then some mention of subsidies for renewable energy but it's not clear how this is a supply-side policy. This is followed by an attempt at evaluation. The conclusion is not needed and it doesn't really add anything to the answer.

ResultsPlus
Examiner Tip

Conclusions are not needed in these questions. A judgement is needed in the 25-mark questions only.

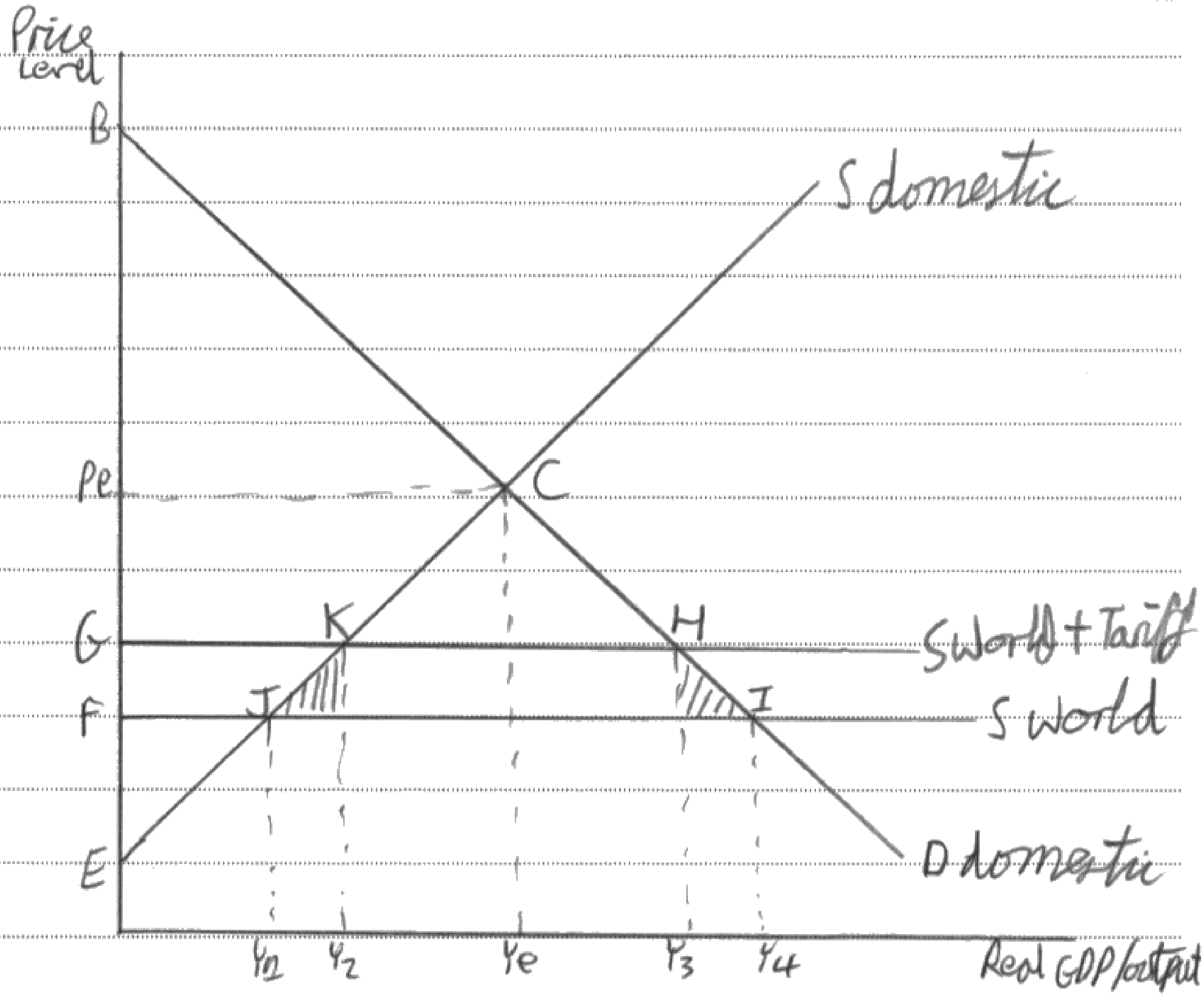
Question 7

This question was the more popular of the two essay questions. Candidates are asked to evaluate the effects of an increase in protectionism on the economy of a developing country of their choice. One point to note here is that this question asks specifically for an evaluation of the effects. This question is not asking what the benefits and downsides of protectionism are. This is where many candidates struggled with their evaluation points. As always, it is important to read the question carefully and make sure you are precisely answering what you have been asked. Many candidates drew a tariff diagram and used this to help them explain the effects of this method of protectionism. It is also important to note that candidates could answer this question either from the point of view of a developing country imposing protectionist policies on imports or on a developing country having protectionist policies placed on its exports by other countries.

Write your answer here:

Protectionism is a form of ~~the~~ introducing barriers on trade for example tariffs and quotas. A tariff is a tax on imports in order to reduce the level of imports in a country.

Zambia is a developing country who recieve 84% of their export revenue on copper. This shows that Zambia are ~~dependent~~ suffer from primary product dependency and without protectionism they may lose money as they have to trade their copper for free. However, protectionism can provoke retaliation from other countries because a tariff will mean that the country trying to export to Zambia will suffer from a lower export revenue as Zambia imports less. They could retaliate by either using their own tariff ~~on~~ or refusing to trade with Zambia.



The diagram above shows the effect of a tariff. If Zambia were to introduce a tariff the price level would increase due to the added cost of a tax. Zambia were previously importing Y1 to Y4 and as a result of the tariff are now importing Y2 to Y3 showing that the level of Zambia's imports has decreased. This can result in an increase in the current account of balance of

payments as imports have "decreased".
However, the introduction of a tariff has reduced consumer surplus from BIF to BHG as the price the consumer has to pay is now higher. As well as this the ~~govern~~ Zambian government suffer from a net welfare loss of the two shaded triangles ~~KG~~ KJ and HI. This means that protectionism can result in a net welfare loss for the government.
Zambia produce primary commodities which tend to have a lower income ~~ea~~ elasticity of demand which means that as prices increase consumers are responsive to the change. This means that in order to maintain its copper revenue, protectionism needs to be introduced.
Quotas are ~~a set level~~ where a government set a limit to how much a country can import. This means that countries can only import a certain amount therefore decreasing its level of imports and improving its current account position. However, ~~than~~ these forms of

protectionism may make it increasingly harder to trade with other countries as ~~they~~ other countries may not want to pay the tariff. This could mean that Zambia become less integrated and interdependent within the economy and therefore restrict the level of globalisation.

In conclusion, an increase in protectionism is likely to improve Zambia's current account position however, it may provoke retaliation from other countries and could mean that Zambia struggle to export their copper. Their primary product dependency means that this will have huge effects on their current account position and AD and could push the economy into decline.

ResultsPlus

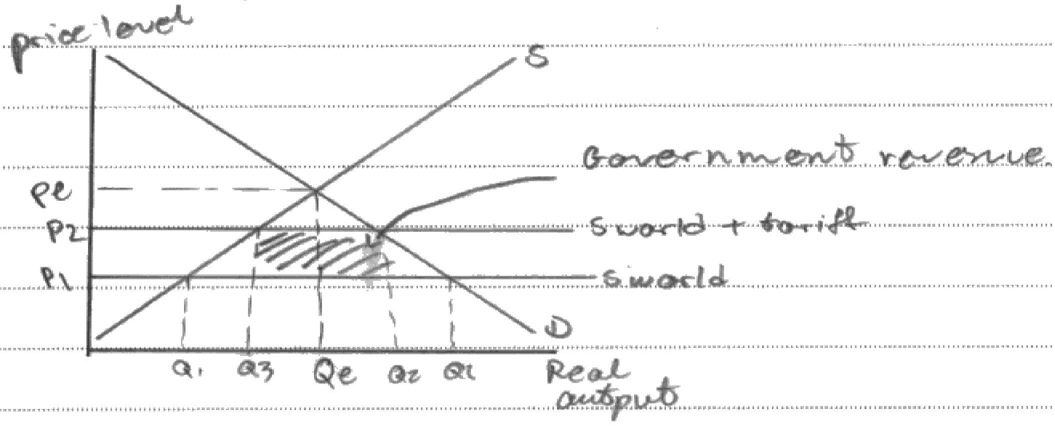
Examiner Comments

This answer starts off rather vague with some attempts to make points which are partly relevant to the question. It gets better when we have a tariff diagram and relevant explanation of the effects of a tariff, using the diagram to aid the analysis. There are some errors in this answer, for example the discussion about elasticity. The candidate doesn't fully address the demands of the question; as such this answer overall is a level 2 answer for both KAA and evaluation. It does display elements of knowledge and these are related to the economic problem in context. However it is fairly narrow and not focusing on the broad elements of the question. Similarly for evaluation, there is evidence and it has some supporting reasoning but it is not fully developed.

Write your answer here:

One effect of an increase in protectionism is that by increasing tariffs on imports governments can have an increase in government revenue. An increase in tariffs means that countries will have to pay a higher level of tax on imports. Developing countries such as Kenya could use this revenue from tariffs to develop industries. For example Kenya has increased spending on solar panels and it has led to a decrease in imports of fuel oil ~~to~~ from 51% to 14%.

Government revenues from tariffs could ~~develop~~ be used to develop infant industries in developing countries such as Kenya and its investment in solar panels.



However an increase in protectionism will lead to retaliation. This is because other countries will not see an incentive to trade as it will be more expensive. This will not have a beneficial effect for countries such as Kenya which rely on ~~Ba~~ primary products such as 21% of tea exports from Kenya. This means that exports will fall and it will decrease injections into the country and it will reduce economic growth ~~competitiveness.~~

Another effect of increase in protectionism will be that it will lead to a decrease in the level of international competitivenes. This is because protectionist measures ~~a~~ such as regulations/ red ~~ret~~ tape lead to increased transaction costs. This will make it more difficult for countries to trade and so it will have a negative effect on international competitiveness. This is as countries will stop ~~exporting~~ importing goods from ~~a~~ Kenya, but it ~~However~~ will also reduce Kenya's ability to export its goods.

This might however not be the case as the quality of the goods may over ride the extra costs of trading. Although there might be more protectionism the level of exports might not decrease as quality is more important.

In conclusion protectionist measures could be beneficial for developing countries as it would allow them to protect infant industries and ensure that government revenues will be used to improve domestic industries. This will be beneficial as it can lead to increased economic growth.

ResultsPlus
Examiner Comments

This answer initially focuses on the extra government revenue that a tariff would generate and includes a tariff diagram to back up this point. This is followed by some good evaluation discussing the risk of retaliation. There is also good context in relation specifically to Kenya. The competitiveness point is relevant but not as well-explained as the earlier point and it is followed by an attempt at some relevant evaluation. The answer concludes with a reasonable attempt at a judgement. However the rest of the evaluation is not sufficient to push this answer into level 3 for evaluation. Overall this answer achieves a low level 4 for KAA and level 2 for evaluation.

ResultsPlus
Examiner Tip

Remember to use relevant diagrams to explain your analysis, like this answer has done.

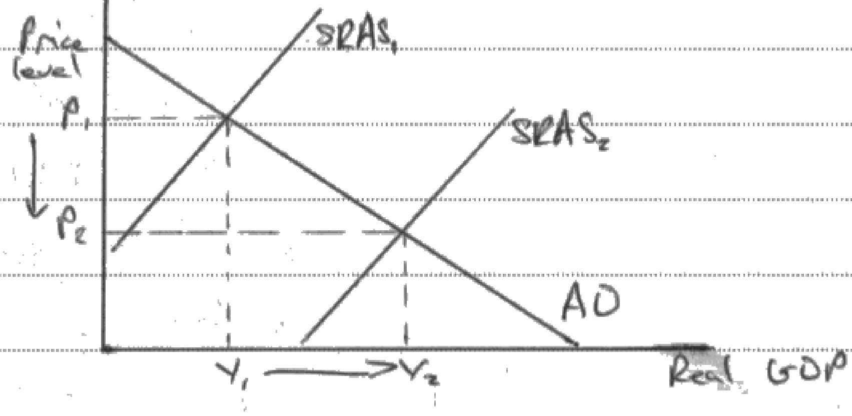
Question 8

This was the less popular of the two essay questions, although it was still completed by several thousand candidates. The focus here is on the significant fall in oil prices and how this might affect the macro economy. It is another broad, open question that candidates can approach from a number of different angles. For example, they could consider oil importers and oil exporters and how they would be affected differently. Similarly to question 7, the focus here is on evaluating consequences – so the evaluation needs to be of the consequence. It was also important for candidates to remember that they are asked specifically for macroeconomic consequences and as such microeconomic consequences are not relevant in this question.

Write your answer here:

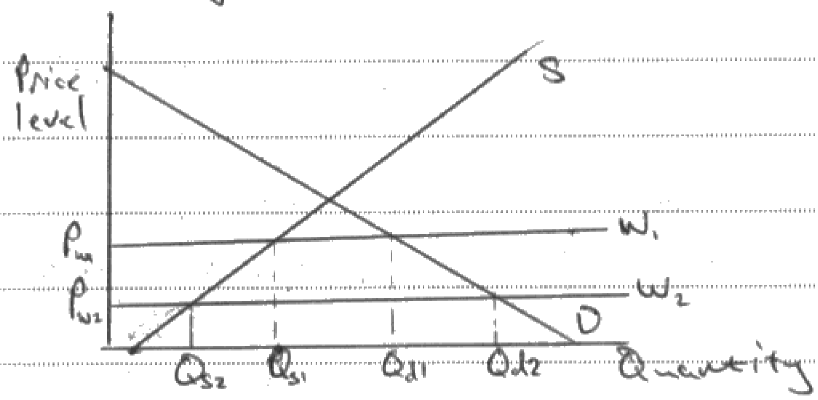
Oil is a key cost of production for most industries worldwide for activities such as transport and energy production, and so when there is such a significant drop in the price of oil, there should be a ~~sig~~ large increase in worldwide aggeragate supply but also a large fall in the economies of key oil producers.

A fall from $147 to $27 of oil barrels from 2008-16 ~~will~~ causes a right shift in short run aggerate supply ~~for~~ as cost of production fall, ~~sig~~ especially for developing economies like India and China.



As shown, the large shift causes world price level ~~and growth~~ to decrease and growth to increase, causing rapid development across much of the world and falling prices in the developed world. This added ~~gdp~~ growth for development should cause ~~a~~ the quality of life of LEDCs to improve to a great extent by increasing demand for labour and therefore wages, ~~and~~ as well as reducing the cost of products, allowing a much higher consumer surplus. It should also provide the investment needed to kick many developing countries out of the development trap if used wisely. However, it is not certain wheather this benifit will be experienced equally, and it may not have a large trickle down benifit for the poorest people in those countries.

~~#~~ The fall in price will also lead to a lower world price of oil, increasing the current account deficits of oil consuming countries as they consume more oil.



The diagram shows an increase in imports of oil from Qs1 to Qd1 to the larger quantity of imports of Qs2 to Qd2. This ~~greater trade~~ higher level of imports leads to lower net exports and a lower current account, as well as a reduction in that county's aggerate demand and therefore growth ate. This could be potentially dangerous following the 2008 global recession, as a significant fall in growth could lead to further recessions, especially in economically weak countries like Greece. However, the growth of alternative fuels and energy sources like natural gas has lowered the dependency of the world on oil and so increased the price elasticity of demand. This change should reduce the effect of a lowering the increase to imports of oil, and so ~~the~~ many nation's current accounts will decrease by a lesser amount.

Overall, a fall in oil prices should cause an ~~[illegible]~~ increase in world growth due to supply increases, especially in developing countries like China or Vietnam. However, while that occurs developing nations will likely suffer more from the worsening of ~~the~~ their current accounts, which is already a very prominent problem in the UK, US and fragile economies like Spain and would be made worse by the cut in oil prices.

ResultsPlus

Examiner Comments

This is a good answer which starts off discussing the impact of the drop in the oil price on aggregate supply, coupled with a relevant diagram. It drifts off-topic towards the end of the point. The next point is better, clearly explaining what the impact on the current account would be. However, the diagram is not relevant to the point being made. There is some good evaluation regarding alternative fuels to oil and also an attempt at a judgement. Overall this answer is nearly there, but not quite. It achieves level 3 for KAA and level 2 for evaluation.

Write your answer here:

On the one hand, ~~fall~~ oil is an absolute essential for almost everyone in developed countries. Therefore, if the price of oil goes down, citizens in ~~that country~~ these countries will have more disposable income, as costs of living goes down, which could reduce inflation for these countries. Oil is also an essential item in the production of many products, so a lower oil price would mean that either the companies making these products keep the extra profit, meaning higher amounts paid in corporation tax, or they pass the saving onto the consumer, meaning a possible reduction in inflation / the CPI. However for developing countries such as Zimbabwe, where not everyone drives a car, the reduction in living costs wouldn't be felt. It's also important to consider that in places like the eurozone, they are actually trying to increase their rate of inflation, so a reduction in inflation is undesirable.

Another advantage is that ~~financial~~ oil would become a profitable commodity to purchase on the financial markets, as it is very volatile so ~~&~~ a reduction in price would likely mean that prices will soon shoot up. ~~Making~~ Banks making smart investments like this would not only increase their profit and therefore the amount of tax they pay, but also could increase consumer confidence in the banks, which in places like the USA, UK, and the eurozone took a massive hit after the financial crisis. However, the reverse of these two advantages would occur in the event of oil dropping in price yet further, which it very well could due to its volatility

However, a bad effect of this reduction in oil prices would be it may cause an increase of oil ~~used~~ consumed, which would increase CO_2 emmissions which have major negative externalities such as air pollution, which is already dangerously high in the UK especially. This does depend though on the price elasticity of demand for oil to be relatively price elastic, which it mightn't be, so consumers don't ~~&~~ actually increase the amount they travel.

Another disadvantage is that oil will now majorly undercut greener alternatives, such as using solar energy or wind power. It will become so ~~much~~ much cheaper to use oil that hardly anyone will desire to switch to less harmful energies. This means that globally the world's economies will continue to depend on ~~OECs~~ OECs such as Saudi Arabia, which is dangerous due to the political volitility of such countries. ~~The~~ ~~T~~ Although, this could be ~~reduced~~ avoided if lower oil prices means the government reaches more tax revenue and ~~d~~ can subsidise alternatives.

I would say that lower oil prices would be bad macroeconomically, and the fact that it ~~would~~ effects ~~our~~ global GDP so much is a sign we depend on OECs for too much. We must come up with alternatives, which won't happen ~~without~~ when oil is this competitive.

ResultsPlus Examiner Comments

This answer starts with the impact on both consumers and firms of cheaper oil prices and does a good job of explaining these. However it then starts to discuss microeconomic consequences for specific firms. In addition, the idea that oil prices will definitely 'shoot up' just because they've dropped dramatically isn't explained. Increased pollution is another relevant issue as well as the possibility of greener alternatives. Overall this answer is a solid level 2 for both KAA and evaluation. It fails to go beyond the criteria for this level and is too microeconomic in places.

ResultsPlus Examiner Tip

Remember this is a macroeconomics paper so your answer needs to focus on this.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Ensure you manage your time effectively: it does say in the exam paper to spend 30 minutes on section A and 1 hour 30 minutes on section B. If candidates spend too long on section A, they are in danger of running out of time for the 15 and 25 mark questions at the end of the exam paper.
- A multiple-choice question is worth 1 mark whereas Q6(f) and Q6(g) are worth 25 marks, bear this in mind in terms of how long you are spending on individual questions – especially those in Section A.
- Ensure you can correctly interpret economic data presented in graphical form.
- Be aware of all formulae and quantitative skills as explained in the Specification.
- Ensure you carefully study and understand the figures and extracts provided in section B. These form the context for the questions, and answers should be related to this context and not be entirely theoretical.
- Remember to keep your answers within the space provided. If you run out of space you should ask for additional paper and clearly indicate which question you are writing about.
- It is indicated on the front of the exam paper that "there may be more space than you need". There is no need to repeat the question back to the examiner – save yourself some time and get straight on with answering the question.
- Don’t spend too much time on long introductions when a question has only asked you to, for example, "examine two factors...". Here, marks will only be awarded for your explanation and evaluation of your reasons so you should start immediately with your first reason.
- Remember that in Section B the 5 and 8 mark questions use a points-based mark scheme whereas the other questions use the levels mark schemes.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx

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