

Examiners' Report
June 2018

GCE Economics A 9EC0 03

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Introduction

The June 2018 9EC0_03 paper was seen by a large of majority candidates as being very accessible, who appeared on the whole to find the topics central to the themes on the specification. This was evidenced by a rise in the mean to 66.3 (June 2017 63.5). The standard deviation fell, to 12.0 from 13.3 in 2017.

The paper complemented well the questions on the other papers, and there was no obvious overlap or lack of balance with the specification as a whole. It was more 'micro' in feel than 2017, and there were no complaints that it did not meet both sides of the specification equally this year.

1(c) and 2(c) both asked for plural *effects*, which meant many answers were somewhat shallow rather than in depth in their analysis. In future the question might be expected to state how many benefits or advantages the candidate should use, as some candidates gave far more than the two minimum that were required.

The essays mainly had a standard deviation of over 4/25 and they worked in a similar fashion (SD 3.72 on 1(e)). The relative popularity of the questions was 1(d):1(e) at a ratio of 3703:7047 and for 2(d):2(e) it was 3629:6885. The mean score for all essays was 15-16.3/25, with the highest scoring essay being 1(e) on the increased demand for branded coffee shops.

Question 1 (a)

Many candidates scored well on this question (mean 3.8/5), with the analysis mark being the main discriminator. For the fifth mark, candidates needed to go beyond listing characteristics of the market structure identified and instead develop the explanation, for example, by explaining interdependence or identifying price rigidity. If the candidate chose monopoly they could earn the 5 marks but they tended to be less able to talk about the process linking the market structure to the behaviour or the firms, or any other analytical process.

Over 67% of answers scored 4 or 5 out of 5, meaning that most candidates were confident in the area of market structures.

A significant number of candidates took the approach of describing a legally-recognised monopoly, either the 25% CMA figure or the more relaxed EU definition (40% of the market is unlikely to be a dominant position, Article 102 of TFEU – both definitions were equally acceptable), although the *legal monopoly* had to be clearly linked to the concept of market power or dominance rather than pure monopoly power to gain full marks. Candidates using the oligopoly approach found accessing full marks very straightforward when accompanied by a calculation of concentration ratios and a brief development of the explanation of the market structure.

Oligopoly was the most common answer – and the evidence fitted well with this approach.

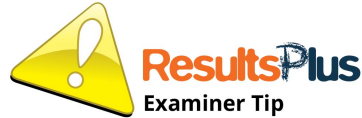
(a) With reference to Figure 1, briefly explain the market structure that best describes the UK branded coffee shop market.

(5)

The UK branded coffee shop ^{market} is best described ~~as~~ oligopoly market structure, as there is a collection of firms, who have some market power, and some say within the market. The 6 firm concentration ratio is 71%, which suggests there is a limited number of firms who have some market power. Firms are likely to engage in ~~some~~ non-price competition, for example loyalty schemes, in order to retain customers. An oligopoly market structure will also mean the firms are producing a similar range of goods and services, however there may be some ~~non~~ price product differentiation. For example, the use of branding.



This is a clear 5/5.



Calculate the concentration ratio and if five or fewer firms have 50% of the market then you know it is oligopoly.

Some answers chose the market structure of *monopolistic competition*, and indeed whole centres seemed to think this market structure was appropriate, although few economists would argue that this 'best describes' the market structure even if a few elements are not inconsistent.

(a) With reference to Figure 1, briefly explain the market structure that best describes the UK branded coffee shop market.

(5)

The market structure is an ~~oligopoly~~ monopolistic ^{competition} because ~~(there are major firms that)~~ there are only a number of firms within one market that share the market percentages. This ^{market structure} ~~firm~~ would have ~~high barriers~~ barriers to entry and there would be ^{high} sunk costs when leaving the market. Other coffee chains make up a large percentage of the market at ~~the~~ 29% which are individual firms. ~~which show the~~



This approach was not awarded, unless, as in the example shown, the answer moved on at some point to more secure reasoning or used some data in the correct context (1/5).



Use a concentration ratio calculation to make up your mind about which market structure you are analysing.

Question 1 (b)

The mean at 8.68/12 was very high on this question and was a key reason why the mean on the paper overall was significantly higher than 2017.

Strong answers here used the context, in particular the Figure 1 data on prices in branded coffee shops. This was often supported by relevant diagrammatical analysis to show the explicit link to *profit* on the firms' strategies. Weaker answers either lacked the focus on the question which needed to be on profit (for example by talking about price cuts in isolation from other firms in the market, or PED), or made links to revenue without completing the chain of reasoning. Many candidates made no reference to the context despite the plethora of information provided. Candidates should be encouraged to fully develop a small number of points in depth instead of listing various strategies, and to use diagrams or other extended analysis where possible. For example some very effective use of price discrimination diagrams were seen, linked to the idea of changing prices for students, and in non-price competition, the Starbucks' multi-use cup (Extract C) was seen as a means to develop loyalty despite the 'discount'.

Logical, developed answers which explained the link between limit or predatory pricing and future profits were often able to access the top level of KAA. However many candidates confused limit and predatory pricing, and the accompanying diagrams were often indistinguishable.

Although game theory was used well by some candidates to gain top level analysis and evaluation, this was very rarely seen, with candidates preferring the use of the monopoly diagram (e.g. higher AR and MR due to advertising). Given the table of prices in the paper, there was scope to apply this to a simple two-firm game theory matrix to illustrate strategies, such as collusion or undercutting, for a high scoring response.

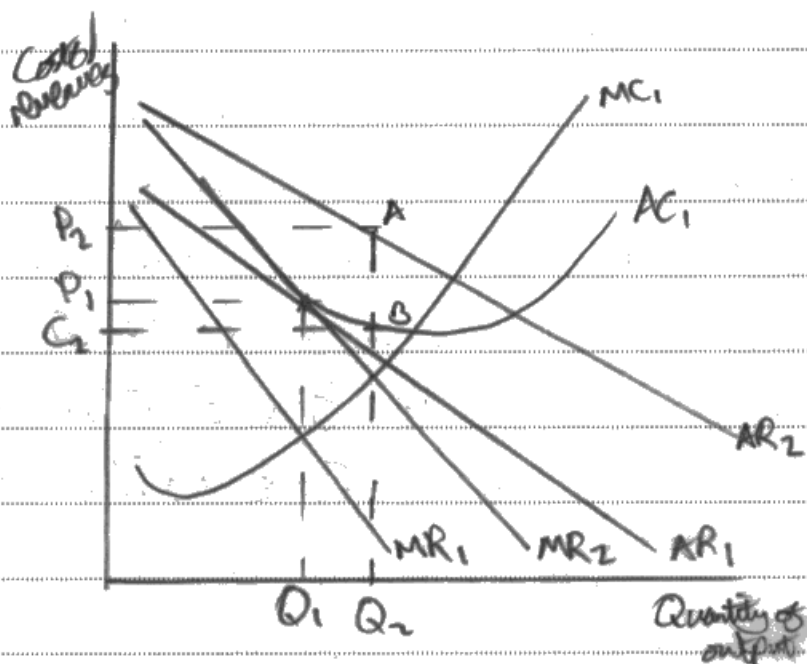
This starts with superb Level 3 analysis, and the evaluation is strong in disputing the rise in profits.

However the non-price point is only linked to revenue and not profit (so Level 2) and the description of substitutes would fit well with cross elasticity of demand rather than PED, although this evaluation was still awarded at Level 2.

(b) With reference to Figure 3 and other information provided, discuss the price and non-price strategies that Starbucks may use to increase profitability.

(12)

Starbucks could run advertising campaigns showing how they are promoting "multi-use cups". This would help to improve customer opinions



on them, especially after their reputation was harmed in the UK after "tax-avoidance allegations". Consumers may switch to Starbucks due to their ethics of reducing environmental damage, increasing demand and shifting AR_1 and MR_1 right to AR_2 and MR_2 , and moving ^{from} normal profit to supernormal profit of C_2P_1AB .

However advertising is expensive and has an opportunity cost of investing in more efficient coffee grinders, so the cost of advertising might not be covered by increase in sales so less profitable.

Starbucks could reduce their prices eg. Latte Large from £2.60 to £2.30. They now appear as a cheaper substitute to their rivals (especially Costa Coffee in the UK), causing an extension in demand and an increase in sales as consumers switch to buying Starbucks (lower opportunity cost).*

However, Costa Coffee's coffee may have inelastic PED* so consumers still purchase their coffee despite lower substitute price so Starbucks don't see large increases in sales and profit

* Their revenue has risen so profits may have risen.

* as they are a monopoly



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6/8 KAA.

3/4 Eval.

9/12 overall.



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Examiner Tip

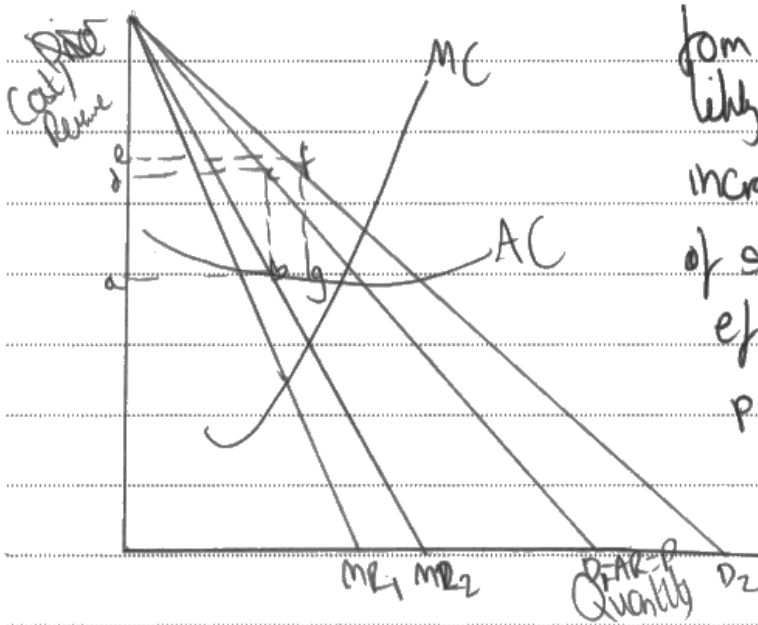
Focus on the key term in the question – profitability.

Although there are several faults in this answer, it still gains full marks.

(b) With reference to Figure 3 and other information provided, discuss the price and non-price strategies that Starbucks may use to increase profitability.

(12)

Starbucks has 13% market share, it may try to increase its profitability by reducing the cross elasticity of demand of its products by engaging in non-price competition. Starbucks may use a loyalty scheme which encourages repeat custom or advertise the unique qualities of its coffee beans. This should help to differentiate Starbucks from the other firms in the market. This differentiation should reduce the cross elasticity of demand between Starbucks coffee and its competitors, enabling it to increase the price without causing a contraction in demand.



This increase in demand from D_1 to D_2 is likely to lead to an increase in the supernormal profit of Starbucks from $abcd$ to $efga$. This increased supernormal profit may be reinvested by Starbucks to achieve dynamic efficiency & organic growth moving closer to

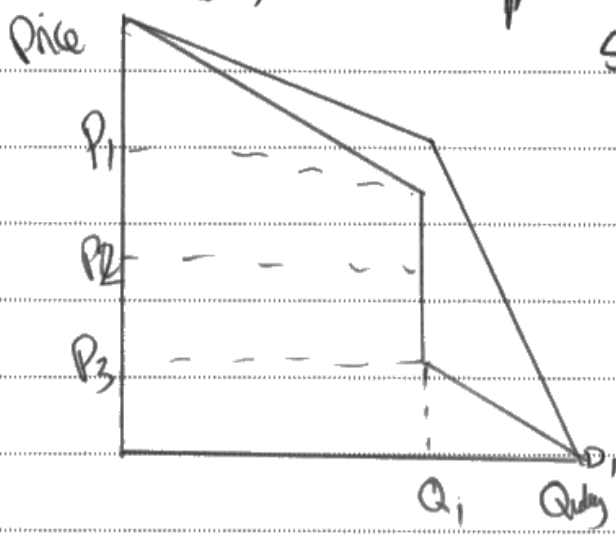
productive & allocative efficiency & thereby future profitability.

However, the non-price strategy may not be successful at increasing profitability as any increase

is unlikely to take coffee cubes away from Macdonalds when offering espressos at £0.99, less than half the price of the Starbucks alternative. Moreover, other firms may also use similar non-price competition strategies which will reduce the impact of the Starbucks strategy.

In the short term Starbucks may try to compete on price to increase future profitability. Starbucks may use predatory pricing, to do this is use Starbucks' large advantage of its economies of scale & low average costs to set prices at below the average costs of smaller firms such as Pret-a-manger with only 5% market share. This may lead to them reaching their long run shut down point if average total costs are greater than average revenue. This reduces competition in the market & allows Starbucks to increase its price in the future due to less competition leading to increased profitability.

However, as the coffee market is an oligopoly with a ^{small} Starbucks is unlikely to be CR5



of 66% so Starbucks is unlikely to use price strategies to increase profitability. If Starbucks choose to increase its prices, up from the £2.80 for a large latte then demand

is price elastic above a certain point so demand would fall drastically leading to a reduction in profits. Similarly, if Starbucks choose to reduce its prices

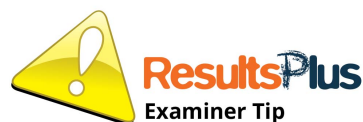
demand is price inelastic as does follow the price fall
lead to a price or loss reduction in profitability - in
the long run.



This fulfils all the assessment objectives and demonstrates many of the points above.

Evaluation was often effective on this question, with better answers giving context to their answers and using the case study to help them e.g. referring to brand issues of Starbucks, and the damage to its reputation caused by the transfer pricing issues; and in evaluation, the observation in the data that the headquarters were moving from Amsterdam to London. There were good examples of kinked demand analysis, used to explain somewhat 'sticky' prices in the cases where Starbucks and Costa are charging the same price for an Espresso Double (Figure 3), which made a very effective evaluation point.

The main problem with the question was the opportunity cost, with candidates spending more than the 12-15 minutes they should allow, which was reflected in a higher than normal frequency of unfinished answers at the end of the paper.



Check the MC=MR points are extended to the horizontal axis, and if using the kinked demand curve (not required but can be used) then the angle of the MR will change after the kink to become steeper.

Question 1 (c)

Good answers used the case study effectively to ensure they picked up two clear benefits or advantages, and two application marks (these could be awarded as 1+1 or 2), as well as drawing on the issues of the tax to score two evaluation marks (e.g. use of inelastic PED issue). However, there were many answers that gave far more evaluation than required for the two marks available, some devoting a whole side to alternatives to taxation or the disadvantages that might ensue because of the indirect tax.

Many answers used diagrammatical analysis to aid their explanation, this was *rewarded* but not *required* to get full marks. Diagrams were often very useful and could earn up to two marks (as application or analysis, depending on which would score the highest mark for the answer overall) but many candidates showed an *ad valorem* tax despite it being a 5p or 10p charge as the point of discussion in Extract B. Showing a parallel shift in supply was the most effective approach in a tax diagram.

It is important that answers relate to the question carefully and do not rely on stock answers about indirect taxation. Many candidates discussed the effects of the tax and not the advantages of using a tax, and some were more focused therefore on the price change or changes in welfare (producer/consumer surplus) losing sight of the request for advantages. Several candidates said there would be a fall in demand – often even so far as to draw an inward shift in demand – which could not in itself be seen as an advantage nor even in this latter case, valid economics.

Answers need to focus on the question asked, many answers did not clearly identify two advantages of using tax to reduce disposable cup usage, as in this example – beyond repeating the point in the question in that the tax will reduce the use of disposable cups.

ad valorem
specific tax

(c) Examine the advantages of using an indirect tax as a means of reducing the use of disposable coffee cups.

(8)

The advantage of using an indirect tax which here would be a specific tax on coffee cups would be highly impactful. This can be shown by the "Spence a bag charge" that led to an 8% reduction. ~~Disperses~~ Consumers would not want to pay \$1 extra for their coffee cups as well as the prices for coffees from places such as Starbucks are already high.

The environmental impact would be high as well as people will be less polluting with disposable cups and take into account the implications that could arise from not reducing ~~the~~ recycling their own cups. It would make the demand for disposable cups to decrease and

therefor increase for recyclable cups.

However it will depend upon the elasticity of demand for the coffee. If there is a 5 pence increase on coffee but the good is inelastic ~~it won't~~ the indirect tax would not make much of a difference on the ~~the~~ amount of disposable cups people will use.



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Here there is good application and the analysis is clear, but the benefits are not identified. The evaluation based on elasticities is not a secure 2/2 (it is not referring to the price element of PED) but does gain this mark.

4/6 KAA.

2/2 eval.

= 6/8 marks.



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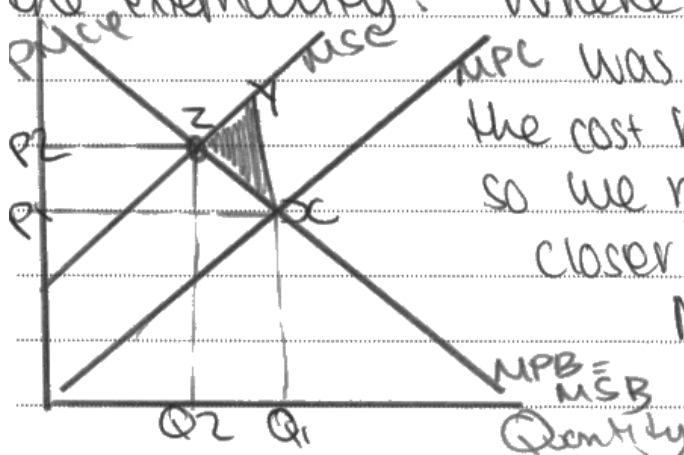
Focus on the key word in the question – advantages.

Many candidates tried to use externalities diagrams but faced issues with the fact that negative externalities in consumption is not required for this specification in diagrammatic form. Such an approach tended to lead to confusion and was rarely fruitful, and it is advised that candidates try not to learn diagrams that are specifically not required for this exam.

(c) Examine the advantages of using an indirect tax as a means of reducing the use of disposable coffee cups.

(8)

An indirect tax is on the expenditure of a good. It is a regressive tax usually, so affects the poor more as is a higher percent of their income. One advantage of an indirect tax as means of reducing use of disposable coffee cups is that it internalises the externality. Where as initially, the UK was consuming at Q_1 , the cost has been internalised so we may consume closer to social optimum, Q_2 . MSC represents the marginal social costs, the effects the use



of disposable coffee cups on the third party eg CO_2 . The indirect tax increases the cost of coffee within that cup, hopefully ^{decreasing} ~~increasing~~ the demand. It allows the negative welfare triangle, γ, x, z , to be addressed and hopefully reduced.

However, as suggested in the extract if the increase in price changes coffee from £2.60 to £2.65 it is such a small proportion of disposable income and a small percent of

the price of the good that consumers will probably still buy. Therefore, demand won't fall and instead the private costs will still increase.

Another advantage would be the revenue made to the government. An indirect tax on coffee cups would provide tax income to the government which could be used on research and development for cleaner disposable cups and towards reducing the problems already caused.

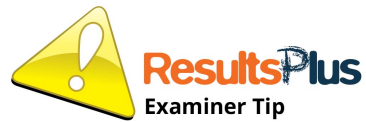


ResultsPlus
Examiner Comments

There are many points to raise in this answer:

- definitions are not required (indirect tax) but they can help the candidate focus on the question.
- reducing the use of cups is in the question and is not therefore a benefit, but the answer is awarded for 'internalising the externality' – a clear benefit in this context.
- the diagram does not show the effect of the tax, and a shift would be an effective way to pick up a second diagram mark. However it does illustrate the social optimum issue and is therefore awarded (deadweight welfare loss area).
- The diagram shows production externalities but the discussion is not explicitly about production. However there is an oblique reference to contraction of demand so credit is given here.

There is enough here to score full marks.



There were several other diagrammatic approaches that were valid, such as negative externalities in production as shown here, and indeed a diagram was not needed at all to gain full marks although it can be an efficient way to score two marks.

Question 1 (d)

It is important to remember that synoptic essays are broad-ranging and may or may not be focused on economic causes or effects, as has been shown in both Paper 3's since the beginning of the examination series. Preparation of questions with a focus on macroeconomic and microeconomic factors would be good practice; many candidates could not reach the highest level because of the omission of either a convincing micro or macro element in the answer.

Answers focused on factors that could explain both microeconomic and macroeconomic factors that would influence decisions. It is worth noting that some of these factors could be considered as either microeconomic or macroeconomic, and if there is doubt, for example in the area of labour markets, the examiner will allow a broader understanding rather than a narrower one.

Common themes identified by candidates included the level of demand, competition and costs on the microeconomic side and economic growth, protectionism and taxation on the macroeconomic side. Other effective answers involved sunk costs of advertising and transfer pricing which was heavily indicated in the Extracts.

One issue with this question was answers evaluating the economic effects of Starbucks expanding rather than the factors influencing this decision of whether to expand within or into a particular country.

Evaluation was often done very well, and almost all answers made some attempt at this if they had left themselves enough time. A very effective answer was to talk about the level of GDP either in the country or globally, and in some cases excellent use was made of Figure 2 showing the fall in the number of shops opened by Starbucks in the years following the 2008 crisis, or the doubling of shops in China to 5000 by 2021, accompanied by own knowledge about growth rates currently experienced in China.

Many answers came across as a list of factors. The main problem in this essay was the repeated use of chains of reasoning beyond the context given, often without paragraphs or other structuring, so that the end point of an argument was often very questionable having started from an effective premise at the outset. A surprising number of candidates did not use diagrammatic analysis, and some did not sustain their use of the context given.

Write your answer here:

A microeconomic factor that may influence Starbucks to expand in a particular country may be the price of coffee.

This is a major factor as it is important Starbucks know how much they will be able to charge for a coffee so they have a rough idea as to whether it may be profit making or not.

Another factor may be the price of retail units. This is a major factor as it is important to know their up-front costs and if the rent is too high then it may have an impact on their profits so they may not be able to run here for too long.

On the other hand, a macroeconomic factor may be the country's unemployment rate.

This is important as it is a requirement that they have staff working in their stores.

The unemployment rate will be able to show them how easy it is to get employees in that country and also how much they may cost.

A further macroeconomic factor may be the national minimum wage.

This is important as it signifies how much their labour costs will be. They may have a limit as to how much they spend per hour on labour. Price of labour is important as it will let them know how many people they can hire and if it is enough to keep the store running at all times.

~~Another~~ Another macroeconomic factor may be the market share. It is important for Starbucks to know their competitors and how much market share they have. This is a factor as they may be able to work out if they can compete by lowering their prices and gaining some of their market share.



This starts at Level 1 but then becomes a consistent Level 2. It reaches the top end of Level 2 but only through implicitly recognising the context of a service industry in strong competition with other similar stores.

8/16 KAA.

Zero evaluation.

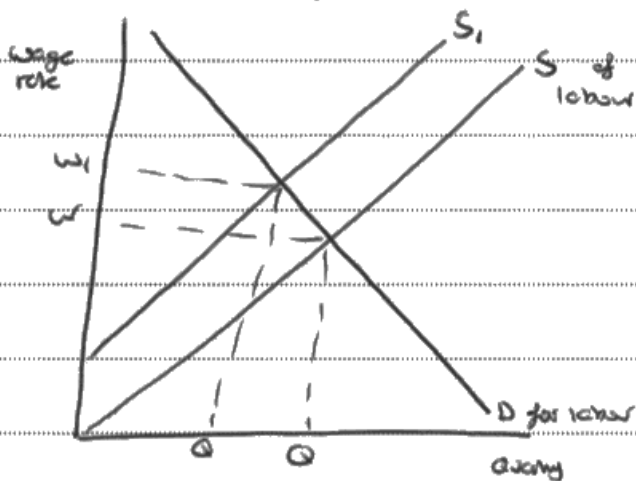


Use the context explicitly at all times in your analysis. Fewer well developed points are more likely to score well than a list of relevant 'possibilities'.

This answer tries a range of micro and macro approaches and reaches Level 4 on two occasions. Evaluation does link to the points being made.

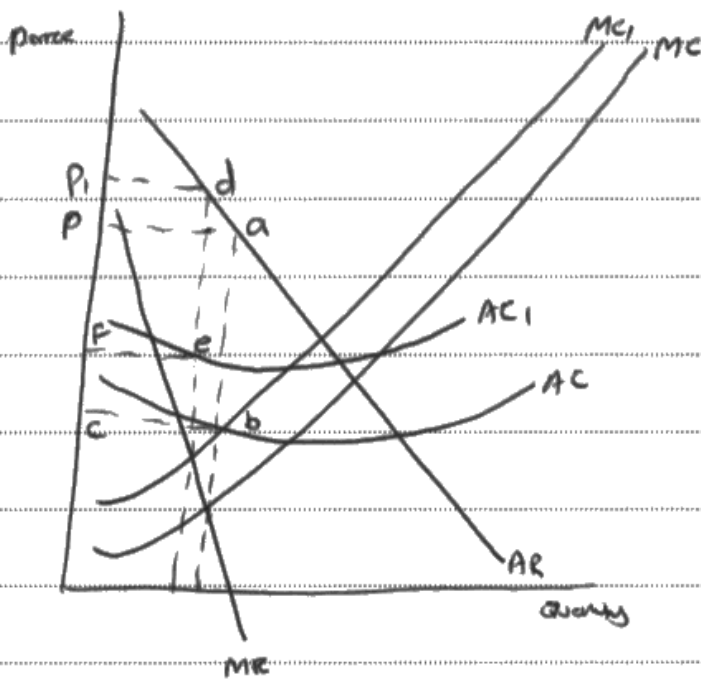
Write your answer here:

One microeconomic factor that might influence whether Starbucks chooses to expand the could be the supply of labour.



If there is a low supply of labour, it is likely to increase the wage rate of workers in that particular country. This could potentially be due to a low participation rate in that country, perhaps

if benefits are high and income tax is high. This would increase wages for Starbucks ~~and Starbucks~~ from w to w_1 . AS a result, Mrs could increase their ^{variable costs} ~~needs~~, as
(next page)



they have to pay more for materials within a country. This could increase AC, and result in a lower area of supernormal profit from $pabc$ to area p_1def . This could also raise prices from p to p_1 , which could be

harmful to demand as prices are

already above those of Costa and Greggs. The reduced area of supernormal profit could make Starbucks less dynamic efficient, and could leave them with less profit to reinvest into reusable or biodegradable coffee cups, which could cause them to lose out to rivals who may be doing

so. The wage rise could also be caused by a national minimum wage, which would particularly ~~raise~~ raise costs for Starbucks due to its high amount of low skilled workers.

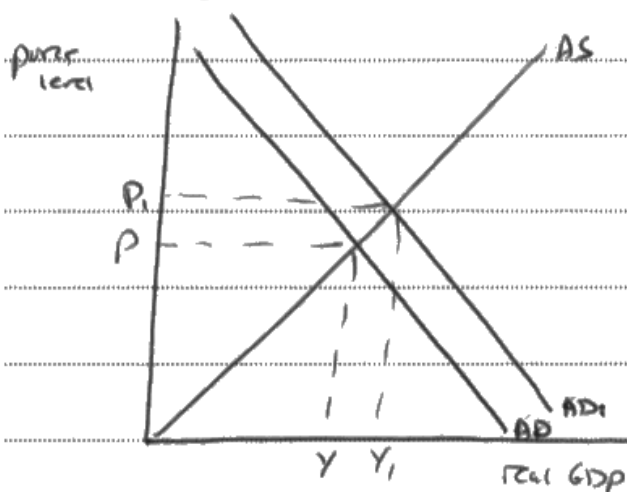
However the impact of the depends on how large the wages are, as any ~~small~~ small increase in wages abroad could be outweighed by other factors,

such as less competition. As a result Starbucks may continue to put its expansion into that particular country.

Additionally Starbucks could work a way around higher wage costs, such as by moving to a more capital intensive means of production, which does not require the

the need for as high total wage costs. This could be by developing say - service coffee machines. Wage rates will also increase all firms in the country, and so it may not reduce the competitiveness of Starbucks.

One macroeconomic factor that may be influential could be the interest rate in a particular country. If interest rates are low, like the ~~0-5%~~ ^{0-5%} in the UK, then there may be a rise in ~~the~~ consumer spending in that country, as there is less reward for saving in banks. As a result this could lead to higher sales for Starbucks in that country.



This rise in the components of 'C' and 'I' could result in greater aggregate demand in the country, increasing real GDP from ~~Y~~ Y to Y1.

This could suggest that there may be higher economic

growth ~~the~~, which could suggest that interest is increasing and so demand may also increase. The low interest could also ~~reduce~~ ^{make it cheaper for} Starbucks to invest themselves into new stores or machinery.

~~£~~ ~~£~~ High quality infrastructure ~~in~~ in a country could also be beneficial for Starbucks, as it would leave them in a better position to transport goods, and could make labour in ~~the~~ the country more

geographically mobile.

However, Consumer Spending may not increase due to the low interest rates. If there is high unemployment and weak employment protection laws, then there could be high uncertainty amongst consumers, which could reduce consumer confidence and lower the levels of spending. ~~Additionally~~ Additionally there could be an ~~unstable~~ ^{unstable} financial system in the country, which could reduce the incentive for firms to invest.

This would also increase price levels from P_0 to P_1 , which could ~~increase~~ increase prices of suppliers in that country, making costs of production and they may have to increase prices themselves.

Overall I would say that there are more macroeconomic factors to analyse before entering a potential country, as consumer spending, exchange rates, economic growth and inflation will all have ~~the~~ impacts on Starbucks. However, the macroeconomic factors may be more directly concerning if it raises costs, but there are things they can do to reduce the impacts of this, such as moving to a capital intensive means of production. Macroeconomic factors are likely to fluctuate in the long run, especially in a developing country, and so Starbucks may not be put off by slight macroeconomic differences in the short run.



Level 4 15/16 KAA.

Level 3 evaluation – just makes Level 3, therefore
7/9 Eval.

= 22/25.



Use diagrams and data to support your response.
Evaluation must try to link to your points made.

Question 1 (e)

1(e) was very popular (ratio of almost 2:1 over 1(d)) but there is a huge logical step between a micro change in demand at branded coffee shops to the macro effects (AS, Balance of Payments etc.) – many answers were, however, completely unconvincing in the link between the micro concept of demand and the macro impact. Some consideration of the issues before starting the answers is advised to candidates, as some links were much easier to make, for example those based on the transfer pricing of Starbucks described in the extracts, and the likely impact on IPD in the current account.

Many answers were able to explain the effects on firms, with the best answers using monopoly diagrams and knock-on effects (e.g. on labour market, dynamic efficiency) in order to gain the top level. A very effective approach was to discuss the likely cross elasticity of demand with the demand for disposable or reusable cups, and with other non-coffee products such as high calorie cakes and snacks with the resultant externalities. It was a way to develop answers into the long-term effects of government spending on healthcare, and therefore a macro argument could be drawn from micro tools, which was a clever approach to this question where it was clearly challenging for many candidates to bring in valid macro points.

The best answers could look at macroeconomic effects too, on what is a microeconomic topic, by linking coffee to the macroeconomic objectives, such as employment, growth and demand-pull inflation and using AD/AS analysis. These answers would often judge that these were much smaller effects on the wider economy, with the branded coffee shop market being only one microeconomic sector.

Although the mark scheme clearly allowed an increase in AD as an impact of increased microeconomic demand, and many candidates did effectively argue this, only the stronger answers highlighted the fact that branded coffee prices would have a relatively small input into CPI inflation and have a very small contribution to consumption and this AD. One of the most effective micro approaches was to discuss the externalities approach, developing the micro analysis in 1(c), with arguments developing the material outlined in the data about the Freiberg cup or the problem that only 1 in 400 cups is recycled in the UK. The weaving of data into an argument is the preferred approach.

The main problem candidates had was trying to develop macro points using micro analysis. Some of their explanations were tenuous and could be better supported with diagrams and clear use of the context. Diagrams if drawn were not always integrated into the analysis.

An effective approach often used was a careful discussion of labour markets, either as a derived demand or in terms of marginal propensity to consume. These were especially effective when used with a diagram showing a change in variable or fixed costs (preferably explicitly linked to whether the costs were seen as fixed or variable) and these answers were sometimes very effectively linked to average and disposable incomes in the countries into which Starbucks might choose to expand. For example, low labour costs might be a good reason to expand, but given that the product cannot be exported, the sales will rely on high incomes.

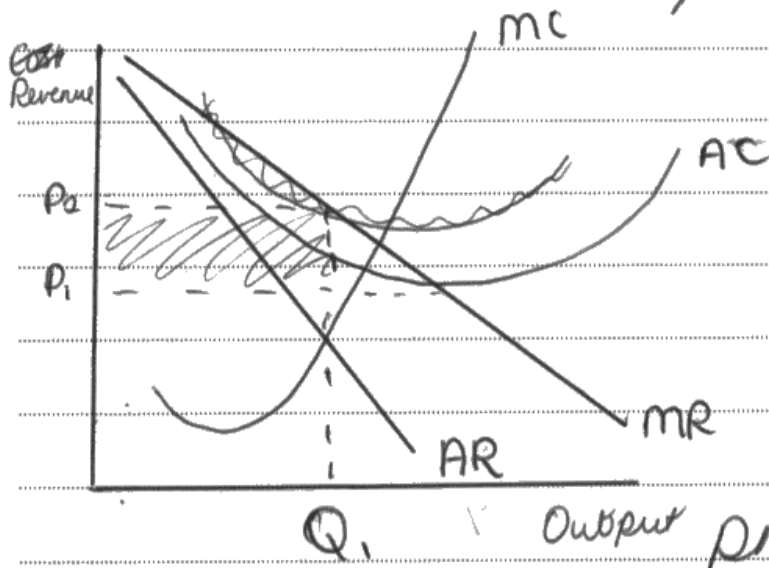
This essay demonstrates a typical response which failed to answer the question and showed real confusion between micro and macro – for example with D on a diagram with LRAS, and many other fundamental errors.

Write your answer here:

A microeconomic effect that could (~~the~~) increase UK demand for coffee at branded shops would be firms using limit pricing to increase more demand.

Limit pricing would make prices much lower for consumers than usual that could beat individual ~~private~~ self owned coffee chains and increase their demand. This increased demand would mean firms would be able to ~~in~~ long run ~~to~~ supernormal profits as consumers would stay with the branded coffee shops as they would have chased out self owned coffee shops as they

would make losses throughout the short run and then exit the market after they reached their shutdown point.

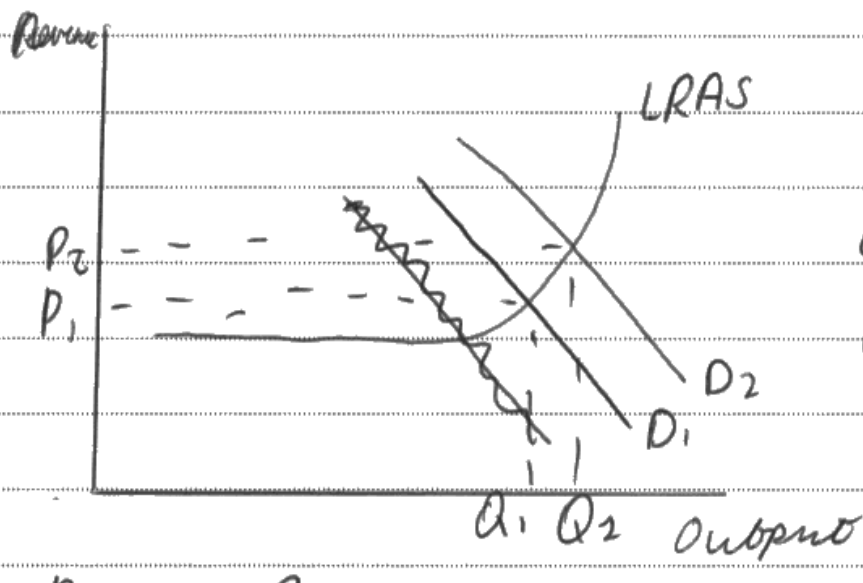


This shows the supernormal profit that would occur from P_1 to P_2 . The increased

profit could give firms more money to invest to increase productivity within the business, by giving workers incentives or bonuses.

In addition, another microeconomic effect from increased demand would mean that firms could use economies of scale, as they would have increased demand they will have ~~the~~ to bulk buy which is a type of internal economy of scale. This would also increase their long run ~~profit~~ ~~margin~~

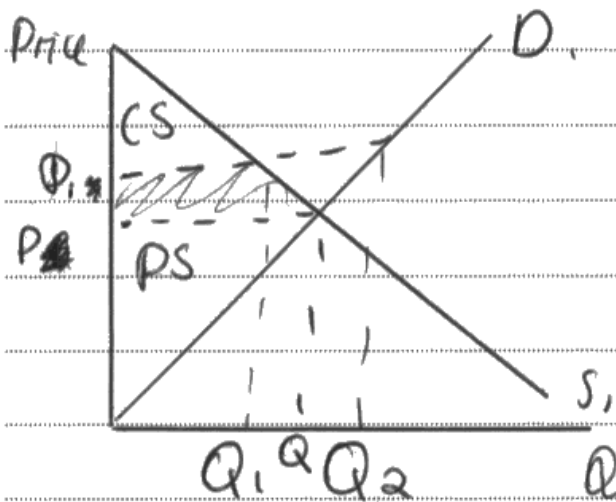
~~Supply~~ demand curve to shift outwards.



This increase in demand could mean they would be able to raise their

prices to P_1 to P_2 which would increase firm revenue.

A macroeconomic effect would be that the demand will increase aggregate demand in the economy. The demand for coffee shops that are branded will increase producer surplus as if the good is inelastic. If the good is inelastic producers can increase their prices and not risk the thought of generating less revenue as they may have consumer loyalty to the branded shops.



from the increase in price to P_1 , the producer surplus

Quantity increased

from P to P_1 . This would mean they have more investment to put into creating more jobs for the firm which decreases the unemployment rate and people have more disposable income in the economy to consume and spend which, therefore increases aggregate demand.

However it may give negative complications as there may be less competition within the market as individual self owned coffee shops demand will decrease and forced to leave the market from the ~~loss~~ amount of loss

They are making



There are lots of effects and no context. The evaluation attempt was not regarded by the committee as a valid approach.

KAA 7/16 (Level 2) was awarded as there are three instances of Level 2 work in the effects of increased demand.

Ev 0/9.

7/25.



Build your answer around the data provided in the extracts and figures.

This is a wide ranging and carefully reasoned answer. It is fully applied and the diagrams are relevant.

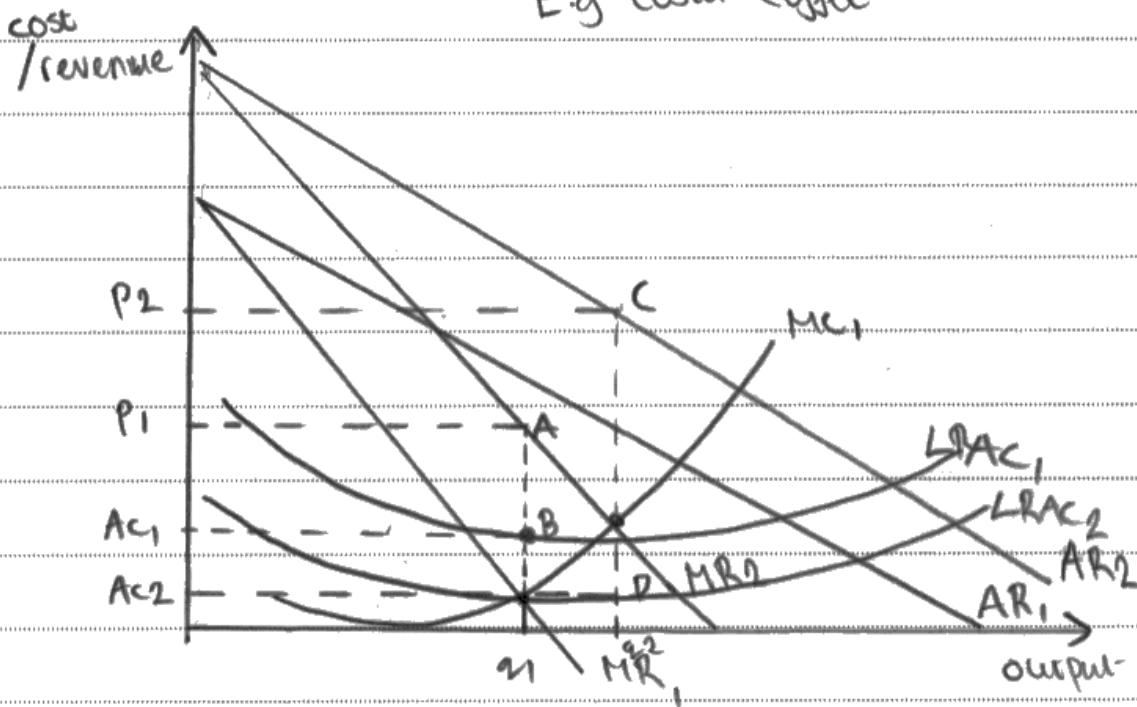
Write your answer here:

One likely impact of increased UK demand is increased profitability. Since it is an increase in demand for coffee as a whole this may lead to external economies of scale. There may be an improvement in ancillary/supporting industries such as the disposable multi-use cup market, this may lower long run costs of production as many coffee shops can benefit due to lower cup prices and better transportation infrastructure. ~~For example the number~~

~~of coffee shops has increased from 1225~~

This coupled with increased consumer demand also ^{could} leads to an increase in average and marginal revenue for coffee shops, for example Starbucks in the UK has increased from 1 outlet in 1998 to 849 UK outlets currently. These impacts can be shown below:

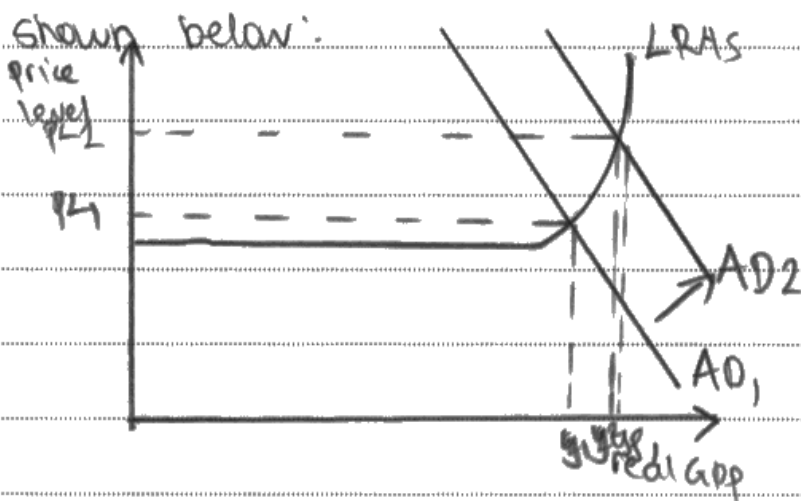
E.g. Costa coffee.



This increase in average revenue and fall in long run costs of production means that quantity may increase from q_1 to q_2 and the fall in costs may lead to a fall from AC_1 to AC_2 , this in turn may lead to an increase in super normal profits from (P_1, A, B, AC_1) to (P_2, C, D, AC_2) . This extra profit may be reinvested which could lead to dynamic efficiency in the coffee industry. However, firms such as Costa coffee may not see a large increase in average revenue. The UK coffee market is quite contestable so these increases in consumer demand may result in new entrants entering the market due to low barriers to entry, this could lead to increase consumer choice and competition for large % market holders such as Costa and lead to a possibly more monopolistically competitive market especially on a local level, this ^{super normal} profit may increase

more for the smaller firms than the larger ones

A likely macroeconomic ~~effect~~^{effect} could be an increase in aggregate demand and economic growth. This increase in demand for coffee may increase consumption in the UK economy as more people will buy and consume coffee, this may increase SNP for firms as previously mentioned, this could lead to a macroeconomic effect of these coffee firms hence increasing investment, and the government may gain more tax revenues from the corporation tax of coffee firms hence allowing the government to spend more without incurring a larger fiscal deficit. This leads to a multiplied effect on AD as the initial consumption increase could lead to greater G and I, this multiplied increase on AD is



This increase in AD may lead to an increase in real GDP from Y_1 to Y_2 hence representing economic growth and an increase in inflation by price level rise from P_1 to P_2 . Hence benefiting the UK economy, however the UK has been thought to be

close to full capacity by the Bank of England due to a 'loose' labour market, as such this may not lead to significant economic growth as there is little capacity for this hence it is more likely to lead to demand-pull inflationary pressures as seen by above target inflation, this point is even more valid from a classical viewpoint as they believe the economy is always at full capacity in the long run hence it may just lead to inflation and not economic growth.

In judgement, in the short run this increase in consumer demand may increase large coffee companies e.g. Starbucks profitability, but over the long run new firms may simply enter the relatively contestable coffee market so in the long run major coffee firms may not reap the benefits. Furthermore the microeconomic effect is more considerable than the macroeconomic effect as coffee is a relatively small part of the UK economy. Weighing up the evidence, it is likely the size of the coffee sector will increase and demand-pull inflation will occur.



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Examiner Comments

There are clear Level 4 passages, with carefully argued chains of reasoning, fully in context. There is a sound judgement after each piece of KAA, and a judgement at the end to consider the overall impact.



25/25 is clearly deserved, even though the answer is not over-long or complex. Simple is good.

Question 2 (a)

There was a clear difference between those candidates who understood the price issue rather than the value issue on the terms of trade and those who digressed into causes of changes in the terms of trade or the likely effects on the balance of trade.

Having said this, many candidates were able to access the top marks, even without an explicit definition, by effectively using the data and linking their explanation to both the price of exports and imports.

There were many answers that were unable to go beyond gaining the two application marks due to a lack of understanding of the terms of trade, and a significant number of candidates knew the formula but could only apply this to values and not prices. Whilst this is a concept that has been taught by many centres through the Prebisch-Singer theory, it is a new topic for the specification, and the concept did not seem to be well understood conceptually. There seems to be a misconception that a weak terms of trade leads automatically to improvements in AD, which might be a corollary but is clearly not the main subject of discussion when considering a worsening of the terms of trade. A far more productive approach was to consider the concept in terms of the country's purchasing power of imports, for a given amount of exports, a simple statement of which gained the 2 analysis marks on the mark scheme.

This answer illustrates the mark scheme effectively.

- (a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

Indonesia's (~~terms of trade~~
~~has probably~~) price
~~for~~ exports are made up
of 11% of coal and since
2011 the world price for
coal has slowly been declining
ever since. Their terms of
trade have probably decreased
as there is maybe not enough
revenue coming in from the
exports of coal.



There are two marks available for application, and these are clearly earned. However the 3 marks (Knowledge + Analysis) are not all earned as although there is the sense of rescued money coming in for the same amount of exports, the terms of trade is not explicitly given or outlined.



For terms of trade, make sure that you discuss the price of exports relative to the price of imports, and if there is no mention of a change in either then you should assume that the other stays constant – and state this, to explain why the relative prices are changing.

This example shows how to earn full marks.

(a) Using the data in Figure 4 and other information provided, explain the likely change to Indonesia's terms of trade since 2011.

(5)

Terms of trade is how much needs to be exported in order to pay for all the imports. The fall in coal price from \$175 to \$50 would damage Indonesia's terms of trade as now coal now needs to be exported to generate the same revenue to purchase the imports.

$$\text{Terms of trade} = \frac{\text{index of exports}}{\text{index of imports}} \times 100.$$



The formula is not perfect (no reference to prices) but prices are discussed in the answer so the outlining of the meaning of the terms of trade is valid.



Terms of trade worsening might mean the balance of trade actually improves. Don't be caught out by these apparent contradictions. It is this kind of reasoning that makes economics a logical challenge, and therefore very enjoyable.

Question 2 (b)

With a mean of 5.1/8, this was one of the most challenging questions on the paper. Many candidates in fact left it blank or crossed out large parts of their answer having realised there were inconsistencies. Many candidates did not draw a cost and revenue diagram at all.

The best answers could effectively use diagrammatical analysis in this question and it is a key requirement of the Theme 3 course. A variety of approaches were acceptable, with more answers explaining the impact of efficiency on MC and AC, with very few answers explaining the link to MR and AR due to more harvests to sell in the sense that the demand faced by the individual firm was greater — clearly there is a mistake in the answer that simply shows an increase in supply leads to an increase in AR/MR. This fundamental misunderstanding meant that many answers contained an error that made the diagram and its description invalid; indeed some candidates went so far as to suggest there would be an increase in supply, a fall in price and therefore a rise in demand. Although the mark scheme made it possible to discuss the fact that individual competitive firms could face increased revenue, this was not owing to a shift in demand but a movement along a demand curve. Monopoly diagrams were accepted but to show a change in demand in this context, a more sophisticated approach was needed to show increased revenue for individual firms, and a rightwards/downwards movement of MC and AC along a price taking AR was certainly very effective.

A surprisingly large number of answers showed a shift in marginal but not average costs (which could not be credited) or static diagrams. Answers which shifted FC or VC were equally acceptable, although it is important that the explanation does not contradict the diagram, for example by discussing a fall in the overheads for the farmers but showing a shift in MC and AC. It was important to show the shift correctly and the new area of profit. This question caused quite a bit of confusion with many crossed out diagrams and more answers without any diagrams at all than might have been expected when the diagram was specifically requested. There was also a surprising large number of supply and demand diagrams, which cannot on their own be credited as cost and revenue diagrams – although as part of a wider perfect competition analysis or as part of evaluation they were credited if valid.

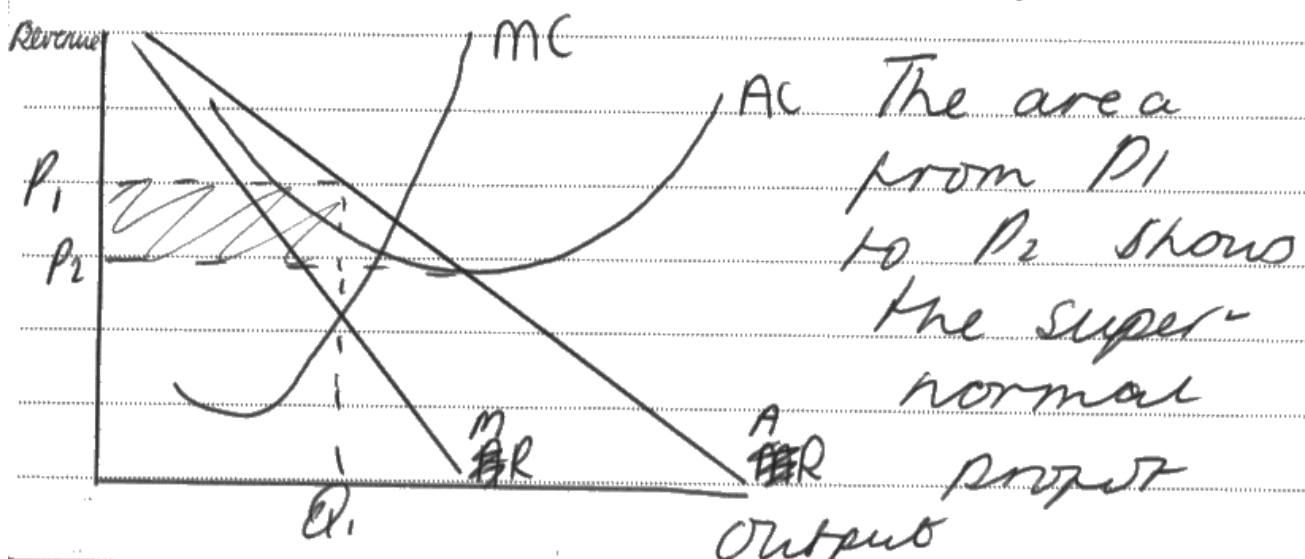
Evaluation marks were scored consistently well on this question, with many answers offering one relevant point with explanation to gain both marks. One effective argument was to suggest that Indonesian rice farmers are likely to operate in a highly competitive or contestable market, and therefore any supernormal profits would be eroded in the long run.

This answer was fairly representative in that the diagram was static. The economies of scale diagram is partially valid as there is a cost curve, but again it was not used effectively nor was it related to the context so it did not attract marks. There were two marks available for the diagram, either as 2 application or 1 An and 1 Ap.

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer.

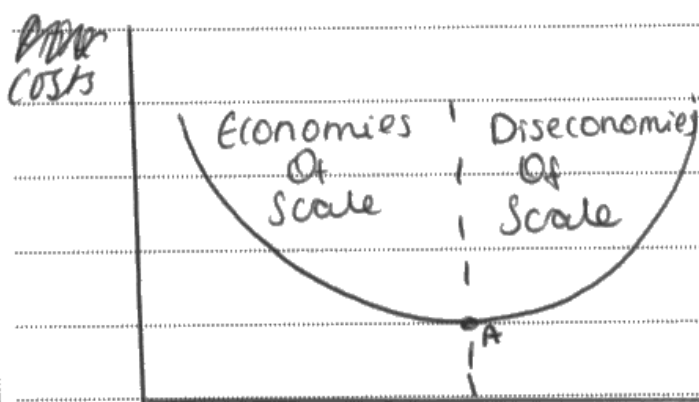
(8)

The profitability of farmers may increase from the increased investment in dams. This is because now the focus has come of exporting coal agriculture is the next investment. In the long run these farmers will have supernormal profits as now the government has invested its own money rice farmers are able to keep costs down and are able to produce "90 000 hectares of rice paddy"



that would occur in the long run for the rice farmers.

Farmers will also be able to keep their costs low because they would be able to use economies of scale ^{from lack of their own investment} such as technical economies of scale therefore where they could use more specialised equipment to increase their productivity of workers with easier machinery meaning more output. ~~(workers work faster)~~ More output would mean more revenue for the rice farmers and with their low costs they would have increased profitability.



Point A is the minimum efficient scale ~~that~~ where costs are at their

lowest

for the rice farmers.



This gets a mark for saying that the profit increases from the investment (1), that costs fall (1) and the application to 90 000 hectares of rice paddy (1).



Make sure that the diagram shows a SHIFT and a NEW PROFIT AREA.

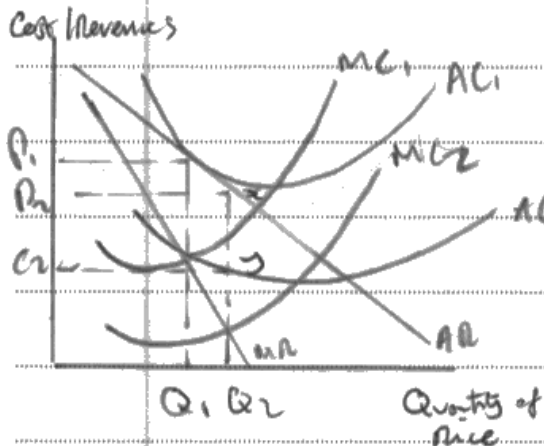
If you are going to argue that the quantity demanded increases (shift along) then do not show a shift in demand. It is clearly a shift in supply as productivity and efficiency increase.

This is a short, clear and effective answer.

(b) Examine the likely effects on the profitability of Indonesian rice farmers of the government's increased investment in dams (Extract E, lines 43-48). Use a cost and revenue diagram to support your answer.

(8)

The increased Gov investment in dams will most likely lead to a fall in variable costs for Indonesian rice farmer. This leads to both



MC and AC shifting downwards for this. Assuming farmer profit maximize, they will go from making normal profit at P_1 to a super normal profit of P_2 , i.e.

This clearly indicates an increase in profitability as farmers now have the ability to make super normal profit, meaning they can be dynamically efficient and so can fund investment in the future, allowing the profitability to stay sustainable with a permanent reduction in costs.

However, the market for rice could be considered ~~perfectly competitive~~ ^{perfectly competitive}, therefore in the long run, low barriers to entry allow new entrants, increasing quantity supplied, lowering the price. Firms being price takers means that only normal profit can be made.



The diagram is clearly labelled. The text describes the diagram. There is a clear paragraph set apart for evaluation. This is a joy for an examiner to read.



Note that you can also score all the marks using a shift in just the FC or AC, although you must be careful not to describe a change in VC and draw just a change in fixed costs, and vice versa.

Question 2 (c)

The average score on this question was 8.0/12.

This was a broad question, with both microeconomic and macroeconomic benefits of aid accepted and different forms of aid mentioned in the case (e.g., bilateral and multilateral).

The best answers used the case effectively to explain two benefits of aid for Indonesia specifically and answers seemed well versed in the limitations of aid, linking to dependency, issues of corruption and the effectiveness of aid spending. There were some very effective pieces of evaluation considering the problems of concessionary loans, the alternatives such as FDI or micro-finance, and the issues of moral hazard and dependency. The best answers put these standard points into the context of Indonesia.

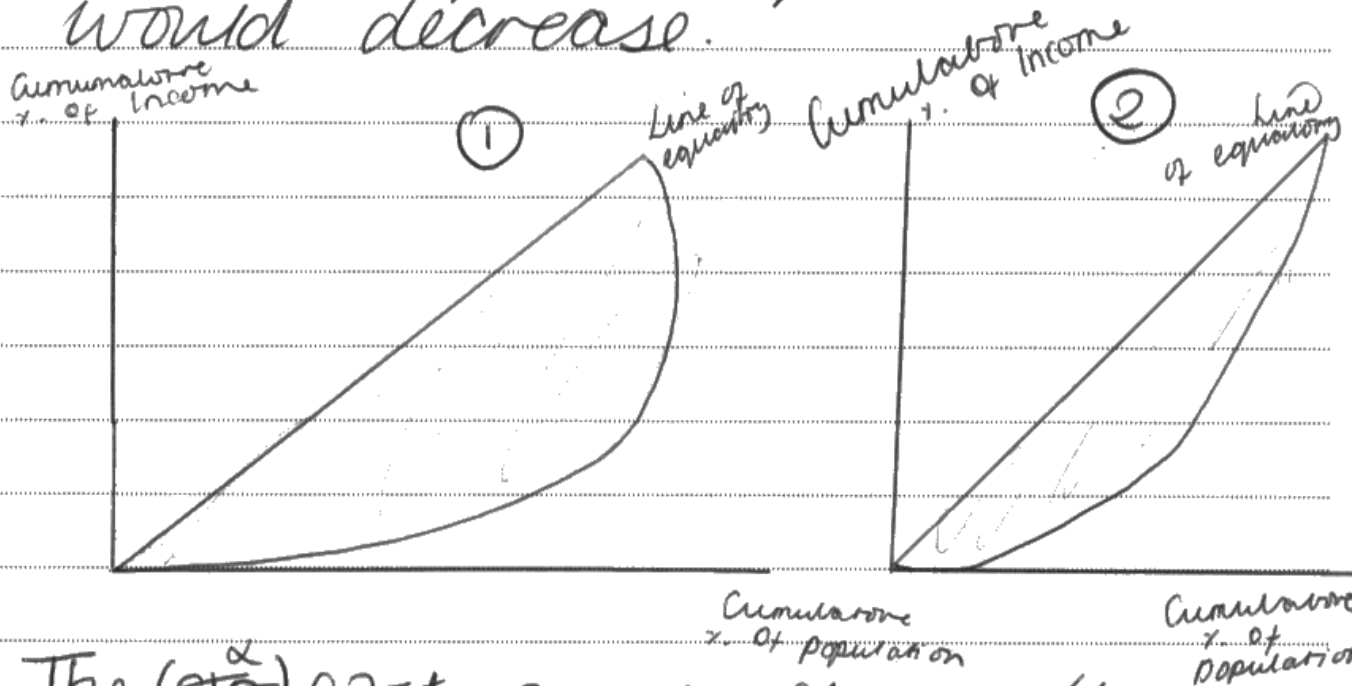
However, there were a huge number of answers that lacked any evaluation beyond throwaway comments about time lags, and there were many textbook answers that completely ignored the context of Indonesia. Those who discussed aid merely as gifts of money were unlikely to have used the data in Extract D, which outlined many types of development aid, some of which came in the form of concessionary loans from Japan. Those candidates who did use this found this a fruitful source of evaluation, although on this question as with the 12-mark 1(b) question, there were many who wrote 50:50 balance in their answers and given that there are only 4/12 marks available for evaluation there was an inevitable opportunity cost. Other unconvincing answers suggested that aid leads to demand-pull inflation.

This is a Level 2 response, and again there is no evaluation.

(c) Discuss the benefits of aid to Indonesia.

(12)

The benefits of aid to Indonesia would be the poverty gap between the people of Indonesia would decrease.



The ~~(1st)~~ first graph shows the unequal distribution of income throughout Indonesia but the second graph shows the ~~but the~~ Lorenz curve is much closer to the line of equality which would mean a fairer distribution of income with the aid. The need for "increased government expenditure" shows many people may not have enough income to support

their families. It will mean that the aid will benefit families to go and work if the aid was invested into the job sector as only "27 million out of 255 million" are actual tax payers.

Aid will also mean that Indonesia will ease of the borrowing as their budget deficit widened to "2.8%" when the legal limit is "3%". It will benefit other countries as well as their as they would not have to lend as much throughout the year when there is an unexpected knowledge of where their economies will be in the economic cycle.



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Examiner Comments

There is use of the context – for example the \$14 cash to families, but the reason why this is a benefit is not explicit. Similarly we are told that jobs are created, but not told how.



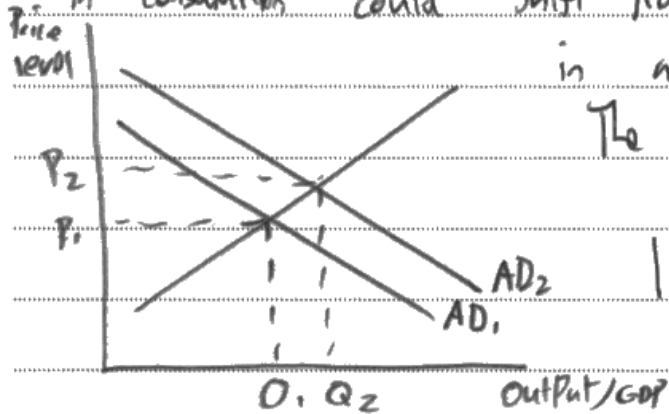
Develop your reasoning and evaluate the points that you make.

This answers well in terms of KAA, seeing a variety of types of aid and applying them well in the context of the data on Indonesia.

(c) Discuss the benefits of aid to Indonesia.

(12)

One Benefit of Aid to Indonesia is The improved Education and Healthcare, Extract D states That Aid will allow for free health care at the point of access for the poorest 88 million people. This will improve the health of the nation allowing people to seek medical help for accidents and injuries, and reduce disease. This will ~~also~~ result in a more fit and able work force, increasing the amount of people able to work. This as a consequence of the productivity of businesses could increase as less workers will be negatively affected by injury or illness. Increased productivity would lead to higher profits being made by firms as more is being efficiently produced. As a result of higher profits wages of workers could be increased resulting in a higher disposable income which could be spent within the economy. This increase in consumption could shift AD to the right resulting in an increase in output and the GDP of Indonesia.



Improved Education could also have large benefits for Indonesia. Extract D says That Aid allows for free schooling up to the age of 12 and tertiary education for students accepted into universities. An increased education in the Indonesian society would allow

more people to have access to higher paying jobs which require higher qualifications. With more people receiving income wages consumption would increase shifting Aggregation to the right resulting in an increased GDP and economic growth.

~~Further more~~ A higher level of income tax would also be able to be collected further contribution to government revenue. Increased education could also lead to an increase in technological and medical advances which could improve the nation's health or increase productivity.

Furthermore, another benefit of aid to Indonesia is rebuilding the damage done by the earthquake and tsunami in 2004. ~~The damage done~~ By fixing this production is able to increase and people can have access to new homes. Increased spending on infrastructure through aid would also make it easier for people to commute to work.



The diagram was useful, if not fully labelled, and there was Level 3 analysis throughout.

Unfortunately there is no evaluation at all – the candidate has possibly run out of time. Two good points are often better than three unjudged ones.



Evaluate each point as you go along, if you can, and shape your answers around the data provided.

Question 2 (d)

This was the less popular of the two essays, in a ratio of 2:3. Many answers failed to access the highest level due to a lack of focus on volatility. The best answers did this by explaining how both microeconomic and macroeconomic effects could vary over time (e.g., growth varying as coal prices change) or linking to the issue of instability of prices leading to issues of underinvestment and market failure.

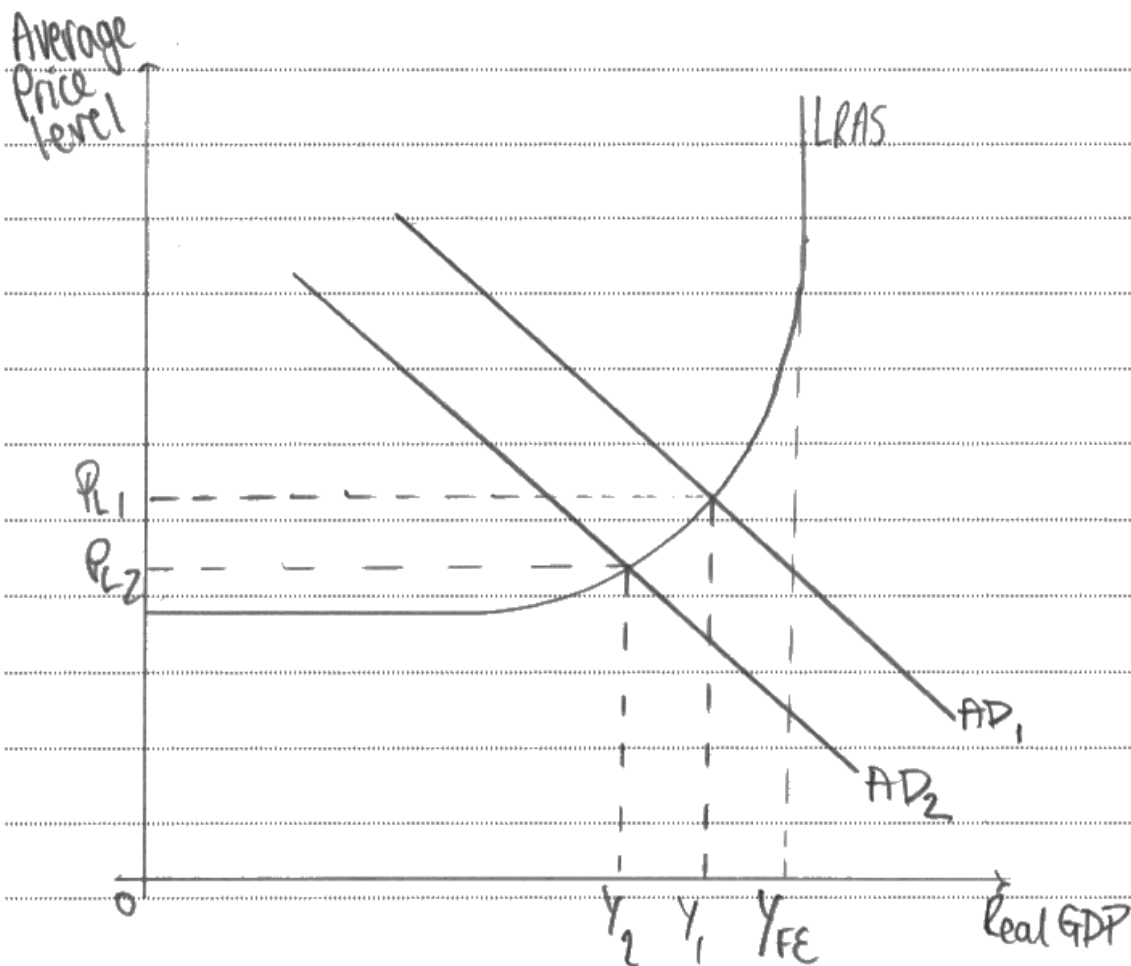
Answers were able to evaluate the problems Indonesia faced as a result of volatile prices, with discussion of buffer stock schemes, futures contracts and comparative advantage adding theoretical content to evaluation points. Some did discuss Prebisch-Singer theory, the problems of sectoral imbalance and primary product dependency, and there were extended discussions by some candidates of the effect on the rupiah and the wider effect that had on exports (Dutch Disease, although the term itself is not required for this explanation).

This response contains some good economics about primary product dependency but focuses on price falls rather than volatility.

Write your answer here:

Commodity prices globally have fallen since 2011 when coal was \$125 a tonne and is now around \$50 a tonne. The value of oil and other commodities have fallen similarly.

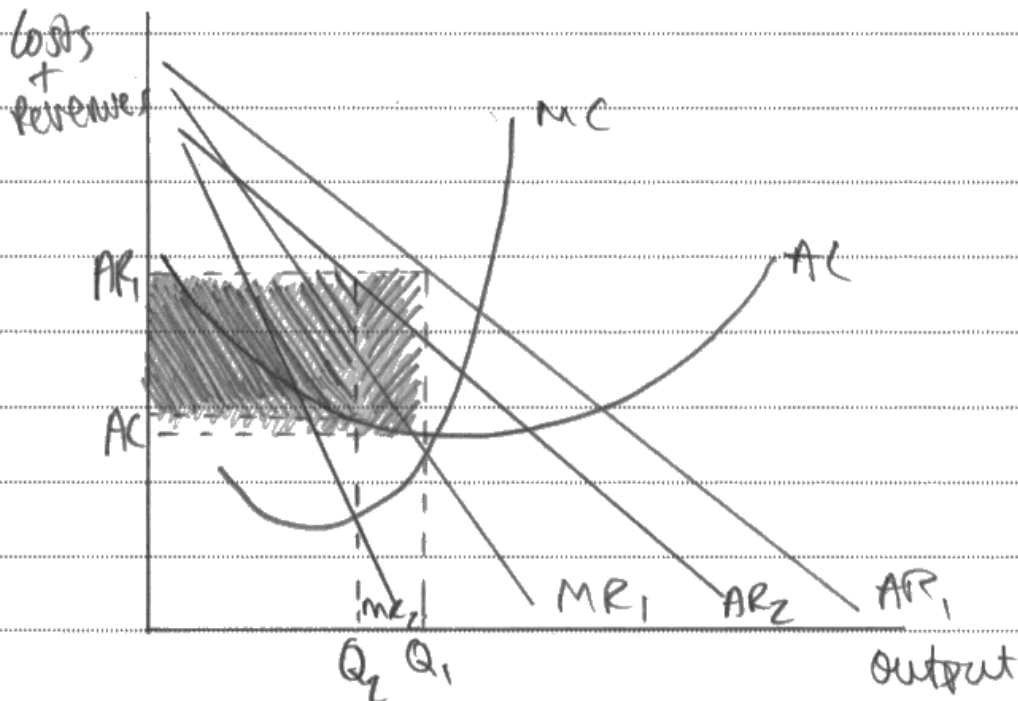
Indonesia suffer from primary product dependency whereby they rely on natural resources as their main export income and driver in the economy. With falling commodity prices, Indonesia's terms of trade are likely to massively worsen as their index price of exports will be outweighed by the index price of imports. This can create a trade deficit on the current account on the balance of payments and aggregate demand is likely to reduce as net exports fall.



As AD_1 shifts inward to AD_2 , real GDP falls from Y_1 to Y_2 , limiting growth which is at about 4.8% down from 6%. Employment falls further away from unemployment (Y_{FE}).

On the other hand, net exports is only a small component of AD and may not have such a large effect resulting in that large of a fall in real GDP. As well as this there is less demand pull inflation in the economy as the average price level falls from P_1 to P_2 .

Firms in Indonesia who are exporters of these commodities will see their average revenue fall due to lower prices.



As AR_1 shifts inward to AR_2 the level of profit once of the shaded area $//////$ has reduced to the shaded area $////$. Super normal profits for these exporters has fallen; this could be a greater issue for firms who are operating at normal profits, if they were to lose revenue they could become loss making and resort to exiting the market in the short run.

~~However due to lower export prices demand could increase for~~

However the price elasticity of demand for such commodities is often inelastic; meaning a change in price will result in a proportionately

lower change in quantity demanded, resulting in little change to firms average revenue.



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Examiner Comments

The fall in AD is typical of a response that looks at commodity price falls and not price volatility. All the relevant economic models are used, but they are not applied to the question set.

KAA 10/16 and Level 1 Eval 3/9.

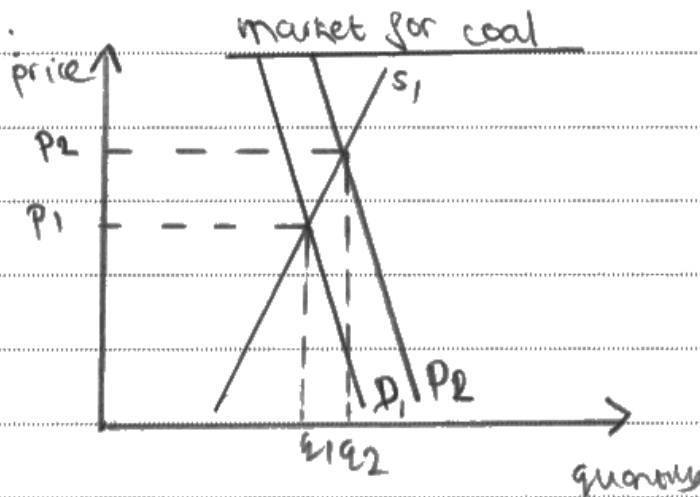


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Examiner Tip

Answer the question set, not a pre-rehearsed question.

This response is full of data, theory and clear development of economic analysis.

One likely microeconomic effect is a lack of investment in ~~the~~ volatile commodity industries. For example coal has both ^{relatively} price inelastic demand and supply as a result these commodity industries can have huge fluctuations in total revenue as shown below:



For example if there was an increase in demand for coal ~~then~~, due to a country demanding more to a fill a temporary energy shortage, then price rises from P_1 to P_2 and quantity increases from Q_1 to Q_2 . This leads to an increase in total revenue.

in the Indonesian coal market from $(p_1 \times q_1)$ to $(p_2 \times q_2)$. This small change in demand has led to a proportionally greater increase in price than change in quantity. These volatile prices have led to coal firms and commodity farmers such as rice having very uncertain incomes as a small change in demand (increase or decrease) has a huge impact on the total revenue they earn. As a result ^{coal} firms will be uncertain about the future as incomes change hence hold off on much needed investment. For example coal now sells for \$50 per tonne as opposed to \$125 in 2011. As a result this lack of investment could lead to lower supernormal profits and worse quality for consumers. Due to a lack of investment in these industries the firms may not be able to have the best capital and most efficient production methods, hence they may not be able to provide as high quality a commodity as if they had stable prices and investment, thus limiting dynamic efficiency. These volatile commodity farmers could also fall into absolute or relative poverty when the price falls. However as the Indonesian economy grows and develops the financial sector may improve and as a result there may be future markets developed for volatile commodity prices. The use of call and put options can be used in commodity markets to set a price for future delivery, this could then lead to less uncertainty in incomes for these commodity farmers/firms hence resulting in more investment, more quality and lower cost of

production.

~~Answer~~

The macroeconomic effect again is it causes a lot of uncertainty. Due to volatile commodity prices, export revenues can vary significantly e.g. through lower coal prices export revenue may fall as coal is relatively price inelastic. This fall in export prices means that there is a lower demand for the rupiah, as seen by the "30% depreciation since 2013", so the volatile commodity prices can lead to huge swings in current account position currently around 2% of GDP, and volatile exchange rates. This again leads to very volatile investment in Indonesia, investors may decide to buy the rupiah when the exchange rate is weak, in the hope that it will rise in value to make a profit and sell when at its peak. This leads to a huge speculative buying and could create a market bubble for the rupiah which could lead to huge swings in aggregate demand due to currency value being a huge influence on (x-m), Indonesia may consider short term managed exchange rate in order to reduce this volatility. Furthermore the government collects tax receipts from corporation tax on these industries, such as crude oil, rubber and tin, this again leads to volatile fiscal positions and

could lead to overly cautious 'tight' fiscal policy from the government as they need to save some tax receipts in order to boost the economy through fiscal stimulus'. All this volatility and uncertainty can lead to huge variations in growth and development in Indonesia as when prices are high all macroeconomic indicators will be positive but when it's low these indicators will worsen. However, despite this volatility the Indonesian real GDP has grown by an average of 6% since 2009-2014, despite the collapse in commodity prices. They still had a large and respectable 4.8% growth in 2015 which was the lowest since 2009. This may be a large change, but it is still large positive growth. Furthermore through sound governance the volatility has been offset somewhat. They are fiscally tight during the boom stages of high commodity prices so they can provide huge government spending in slowdowns to offset the weak exports in low price times.

In judgement, the macroeconomic impacts are much more severe. This volatility can cause huge current account fluctuations and currency fluctuations which is really worrying for this economy, ~~because~~ this is because too high a proportion of their exports are volatile. They should consider diversification into services or the Lewis model of industrialisation to reduce the effect of external shocks. The microeconomic impact is still important but it is

Offset somewhat by government provision of
dams for some volatile monies leading to investment



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Examiner Comments

Although it seems that the answer is going to focus on causes not effects of volatility, it is soon clear that the correct focus is there, and the diagram clearly illustrates the impact of low PED on revenues. This is then clearly explained in the text ('uncertain incomes') and the data on coal prices is central to the answer. The Lewis model is used effectively and there are clear micro and macro points.

Question 2 (e)

The case study gave several supply side policies to evaluate the economic effects of, with discussion of education/healthcare, deregulation and opening up to FDI commonly used. Many candidates were then able to apply this knowledge to theoretical models, such as AD/AS, demand and supply and monopoly diagrams in order to provide in depth analysis in the context of Indonesia.

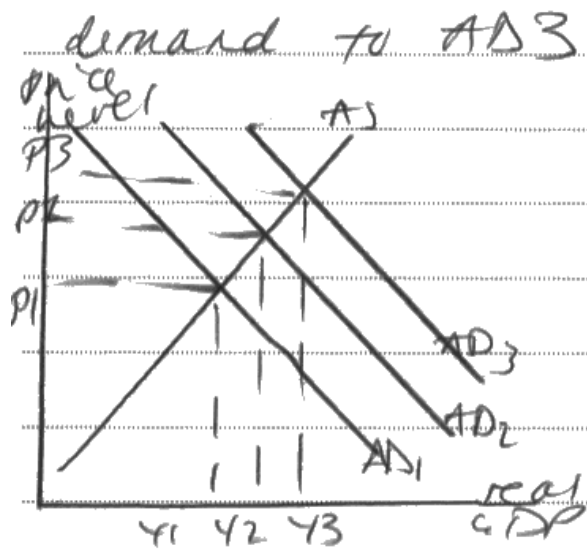
There were a surprising number of answers that shifted AD rather than LRAS. Whilst the effects of supply side policies can clearly have side effects on AD, the more coherent arguments focused on LRAS for the macroeconomic effects given. Rises in AD while of course valid (and on the mark scheme) were unlikely to be convincing when developed into a rise in inflation (given the increase in AS), and some candidates then went on to discuss the costs of inflation, including menu costs, which was highly ineffectual in the context given.

Candidates had clearly learned some downsides of supply side policies, but again the best answers would put these in the context of Indonesia (e.g. the fiscal constraint they face). Extract D clearly spelt out supply side policies (easing regulations, tax incentives and SEZs) and these formed the ideal basis for an essay. In evaluation, one of the most effective answers was to consider the social and fiscal implications of these specific measures.

This essay struggles at first to make it into Level 4 as the focus seems to be on the AD shift. However the chains of reasoning are logical, and clearly an AD shift is legitimate for interventionist supply side policies if government revenue remains constant.

Supply-side policies are aims to increase aggregate supply and can be either market-based or interventionist.

The supply-side policies of increased levels of spending on infrastructure "will help bring foreign investment" as it's easier for firms to set up businesses and is attractive. Foreign direct investment will improve the economy of Indonesia as it will create jobs for the locals who may have struggled before, thus reducing the level of unemployment in the economy. More jobs and income will generate a positive multiplier effect in the economy as it means more confidence and higher levels of spending, increasing aggregate



demand to AD_3 from AD_1 , as consumer expenditure and government spending are components.

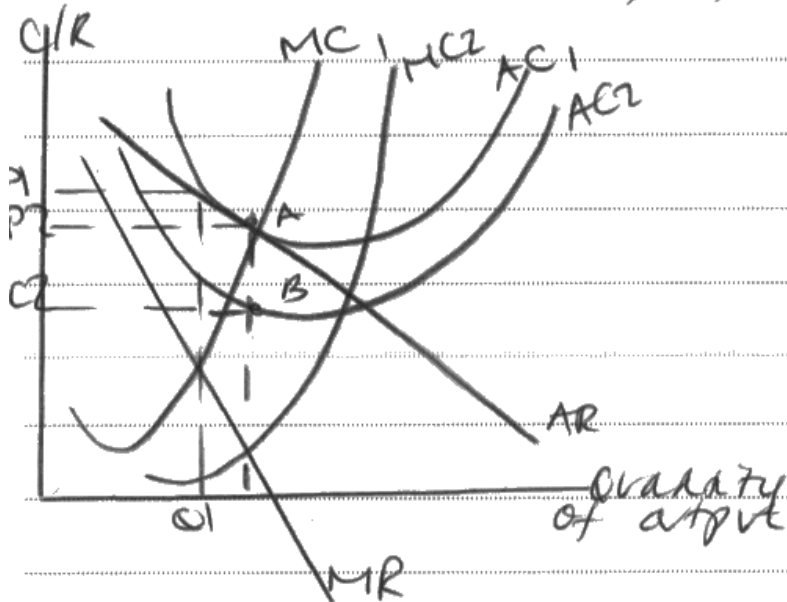
Subsequently, the level of real GDP will rise to Y_3 and actual economic

growth will result and as figure 5 shows, real GDP in Indonesia has risen from 4% in 2014 to 5% in 2016, meaning the supply-side policy of spending on infrastructure is beneficial to the economy.

However, FDI may not increase if foreign firms do not have confidence in the economy of Indonesia. They may not be willing to invest if they think it's volatile and their investments won't be safe, thus the effect of the policy will be limited.

A microeconomic effect of supply-side policies may be business growth and as extract E says, 'are improving the business climate'. Improved infra

structure and education in Indonesia has ~~been~~ ^{meant} - new enterprise is to flourish". Improved infrastructure may lower the ^{average} costs of firms as it's easier



to transport goods and services and make the firms more available to consumers. The AC and MC curves shift

to MC_2 and AC_2 as average variable costs will fall meaning a lower price of P_2 and the potential to make profit of area P_2C_2BA . The infrastructure may have allowed firms to exploit external economies of scale, aiding in the fall in costs and benefiting the firms in the future, allowing them to grow more, which may hopefully help the growth of the economy too if there is more economic activity.

However, business growth may be very slow in Indonesia. For businesses

that new power plants, it still takes 200 days for its approval. This may hinder business development, meaning although the supply side policies are helpful, the time lags that accompany it may reduce their competitiveness and growth.

Overall, for a country like Indonesia supply-side policies are very helpful, despite the cost to the government. They are a great way of encouraging growth and improvements in aggregate supply. The effects may have been even greater if they were accompanied with demand-side policies too like low interest rates which would have borrowing cheaper, encouraging investment the development of the country.



ResultsPlus
Examiner Comments

The AD point needs clearer links, as does the FDI discussion. However the microeconomic argument is better and it is supported by a helpful diagram (Level 4). There is good context but the evaluation tails off on the micro section – time lags are underdeveloped and lose the connection with the thrust of the argument, and it feels as if they are a standard, rehearsed evaluation point that does not convince.

The final paragraph contains convincing judgement and is credited with a L3+.

The 25-mark essay is an opportunity to show off two years' work in 25-30 minutes of developed analysis. This was a very open question, with the chance to use diagrams and tools to illustrate much of the course. This exemplar is very stilted and limited in its development.

In Indonesia they get \$2.3 billion in foreign aid which mainly goes towards education and ~~help~~ healthcare while money is still being pay for the reconstruction after the ^{natural} disasters of 2004 by international institution and non-govt organisations

Some Macroeconomic effect of the Supply side policies introduced are that growth and development will ultimately increase due to the free 12 years of schooling, Infrastructure improvements funded by the world bank will create employment improvements and a ~~ser~~ multiplier effect because it will also speed up delivery times improve connection ~~with~~ around the country and improve the output ~~of~~ coming out of Indonesia

Japan has also contributed \$535 billion to build 2 new power stations which ~~with it~~ is going to improve supply massively as they ~~will be able to do things in~~ will be able to produce goods + services in Indonesia more efficiently and productively which will in turn improve Indonesian trade with the rest of the world helping the to grow more efficiently and develop as an economy with better healthcare, higher skilled workers and a ~~to~~ improve structure in the economy as they could now adapt their output ~~to~~ to suit their strengths.

The macroeconomic effects may not matter if the higher skilled workers decide to leave the country or if the 2 new power stations are inefficient and have X-inefficiency due to their limited competition.



This essay never gets above Level 2 KAA. Although it is applied to the data, the chains of reasoning are not any more advanced than the two-stage 'this leads to that' style of argument. The evaluation points are unsupported and undeveloped so cannot rise above Level 1.

7/16 KAA.

2/9 Eval.

= 9/25.



Start off using a model if you can. Here the obvious place to start is AD/AS with a shift in AS showing a supply side policy. Many candidates then followed this with a possible shift in AD. On the micro side, there is much to be built upon the deregulation described in the passage, and there are the effects on farmers described in the passage. Use the passage to get your argument started.

Section A

This section refers to the cache that held scripts where the candidate did not indicate whether (d) or (e) was chosen. These questions were treated in exactly the same way as any other essays.

Section B

This section refers to the cache that held scripts where the candidate did not indicate whether (d) or (e) was chosen. These questions were treated in exactly the same way as any other essays.

Paper Summary

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

- Timing – allow a minute per mark. This gives 20 minutes reading or correction time. You can achieve all the marks in this time, you do not need to fill all the space available.
- Question spotting does not help. Candidates who think they know how to answer a certain type of question tend to give generic responses and do not read the data available.
- Explain every step in your chain of reasoning. It is most important in the micro/macro essays as it was here that the links were most often broken this year.
- Stick to micro or macro in the non-25-mark questions. The questions are based on the separate four themes and you do not need to mix up your answers. Of course synoptic answers are valid, but they can be kept simple.
- Structure your answers around the material provided, rather than trying to pin the data onto a pre-learned theoretical answer.
- In your 25-mark essays, write an informed, critical conclusion weighing up your argument, **not** a summary. Return to the question and answer it (avoiding the personal pronoun is preferred) in an informed and reasoned framework.

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>

