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Examiners' Report

Principal Examiner Feedback

October 2020

Pearson Edexcel GCE A Level

In Economics A (9EC0)

Paper 3: Microeconomics and Macroeconomics

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Examiner's report 9EC0 03 October 2020

9EC0 03 was seen by many to be an interesting and informative exam paper, which tested a wide range of concepts, including some areas which had not been examined before and some 'old favourites' in a new context.

The paper was to be fairly accessible and most questions were answered with cogent economics and helpful diagrams. The data was readily usable, and the best answers made use of it rigorously. The area causing the most concern was 1a on managed exchange rates, which has not been directly tested until this paper.

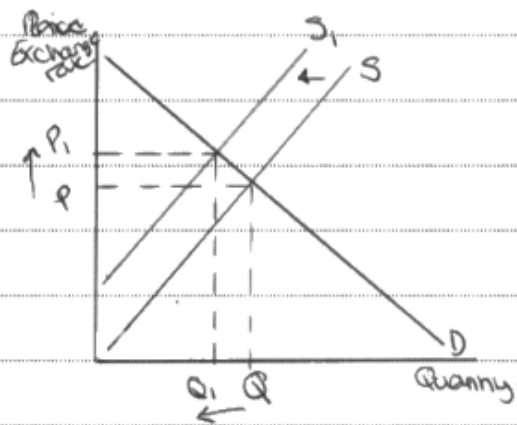
There was a tendency of candidates to write far too much for the 5- and 8-mark questions, running out of time at the end. Candidates should be reminded that full marks can be earned in a fraction of the space available, and there is an especially large amount of space given when diagrams or calculations are required, to allow for crossings out.

Section A - Turkey

1(a) With this question there was a major problem with confusing interest rate policy as exchange rate policy. Some gave purely descriptive answers, and some entirely domestic rather than external. There was some confusion about savings and increased saving as an increase in demand for currency.

A typical mistake was to say that the central bank buys lira and this reduces the supply:

The Turkish central bank intervenes in the currency market to keep the Turkish lira stable by using its resources to buy other foreign currencies. When the lira depreciates, the central bank can use its foreign currency reserves to buy up the lira, reducing the supply of the lira leading to appreciation. When the



central bank buys up the lira, this reduces the supply of the lira, causing the supply curve to shift upwards from S to S_1 . This then causes the price of the

lira to increase from P to P_1 .

This scores (2) marks for the reference to buying of lira (1) to raise the price (1).

- 1 (a) Explain how the Turkish central bank intervenes in the currency market to prevent 'excessive appreciation or depreciation of the Turkish lira' (Extract A, lines 7-8).

(5)

Controlling inflation (appreciation or depreciation) of a currency is a monetary policy problem. In order to help control it, the Turkish central bank has to either ~~buy~~ ^{buy} or ~~sell~~ ^{lend} currency to or from other countries. ~~Buying~~ ^{Borrowing} currency will add further to the national debt, but can decrease inflation, making the lira more valuable. Likewise, lending money ^{or raising debt} will decrease the debt but devalue the lira.

The above scores (1) mark for the sense of buying and selling currency. The rest is based on domestic monetary policy.

1(b)

The following scored 5+2e = 7/8

Worsening current account (1) with application (1)

(1) confidence falling

(1) for financial stability

(1) for analysis AD falling

eval given 2/2

(b) Examine **two** reasons why the Turkish government may want to avoid a significant fall in the exchange rate of the Turkish lira.

(8)

One reason for avoiding a significant fall in the exchange rate is to avoid worsening the current account deficit. With the lira falling by '50 percentage points' (Fig 2), imports will be more expensive relative to exports. This will also result in a fall in the terms of trade.

Another reason to avoid a significant fall is to ^{maintain} 'it increases' financial stability. With a significant fall suddenly occurring, investors may be wary to invest due to a lack of 'confidence'. Hence, with reduced investment, there will be reduced AD ($\because AD = C + G + S + (X - M)$) and so such reduced domestic growth.

However, a fall in exchange rate may make Turkish goods relatively more price competitive and there may be increased demand for domestic goods which could stimulate economic growth in the country.

7/8

1(b)

(1) for international competitiveness – wrong because competitiveness is improved but correct that, foreign goods are more expensive (1)

Exports of certain goods negative impact – wrong (0)

(1) for cost-push imported inflation at the end – sense of imports expensive overall

(b) Examine **two** reasons why the Turkish government may want to avoid a significant fall in the exchange rate of the Turkish lira.

(8)

The exchange rate is the value of different countries currencies pegged against each other. One reason why they may want to avoid a fall is because of their international competitiveness, if the exchange rate falls, purchasing foreign goods will become much more expensive. Since Turkey relies heavily on exports of certain goods, this will negatively impact their economy by pushing the government budget into surplus.

Another reason why they may want to avoid a significant fall is due to their balance of payments. If they fall in their currency value...

They would want to avoid it due to inflation.

1(c)

Level 3 diagram – although it does not show social optimum it is implicit
Correct use of externalities description
Application to the UK is strong

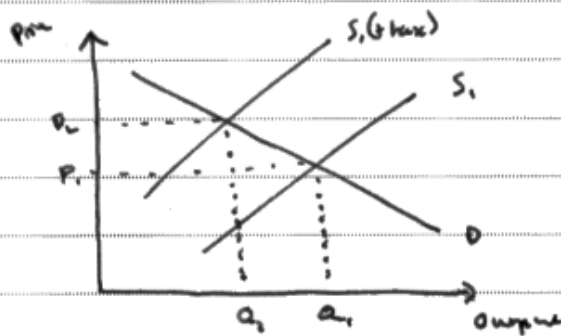
L2e cannot pass on the tax

Ban – well applied, unintended consequences – well applied but not as good as point 1 and only Level 2 on black bags – good point but needed some development, Level 3

(c) Discuss the likely success of policies to reduce the consumption of single-use plastic bags in cities such as Istanbul.

(12)

One policy is that of raised taxes. An increase in tax could be passed on by supermarkets by 'charging consumers for the bags' in the form of higher prices ($P_1 \rightarrow P_2$). As such, there should be a ^{consumer} reduction in the quantity demanded ($Q_1 \rightarrow Q_2$).



However, this may depend upon the price elasticity of demand. If there is high inelastic demand, then a tax may be ineffective.

For example, if people ~~do~~ buy many things, and they do not ^{bring} a bag, then the tax may only reduce quantity demanded slightly.

Another policy would be a complete ban. This should be very effective in reducing the '950 tonnes' of plastic waste. If break this ban, there could be 'heavy fines' which acts as a behavioural nudge for others not to break the law.

However, a complete ban may result in people turning to other substitutes which contribute to other forms of waste. As such, the ban could have high unintended consequences, ~~as~~ as alternative bag substitutes may have even more waste.

1(c)

Level 1 – just identifies increases tax. Very odd diagram.

1 + 1e for sense that it perverse effects of increasing output.

(c) Discuss the likely success of policies to reduce the consumption of single-use plastic bags in cities such as Istanbul.

(12)

~~This would lead to a positive externality~~

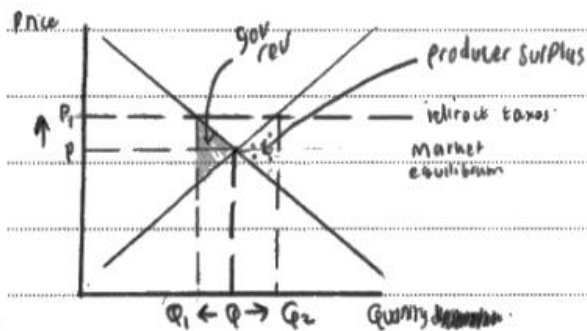
Policies to reduce single use plastic bags would have some major positive externalities in the form of reducing the environmental damage an ~~excess~~ excess of single use plastic causes

This could mean that cities would be less dirty / polluted with trash which could mean an increase in the tourism sector in Istanbul. This is because ^{it could} ~~it shows~~ that Turkey cares more about the environmental impact than the Turkey's tourism competitors.

This could however lead to a reduction in the marginal propensity to spend, This is because some of the policies implemented may cause an increase in taxes for plastic goods that consumers may enjoy buying (demonstrative goods).

This could mean that demand for those goods falling which would negatively effect the producers of those products, especially if they are already getting increased tax for producing these demonstrative goods

that shows that the Demand for demerit plastic goods would decrease by the indirect tax and the Quantity supplied by producers would likely increase in order to make the same amount of Revenue.



Price would get forced up to P_1 from P .
 Quantity demanded (Q_1) would
 fall to Q_1 , & Quantity supplied (Q_2)
 would rise to Q_2 .

1(d)

Level 3 clear and coherent but a few gaps

E2- illogical to increase rates

Level 2e fiscal policy would be much better

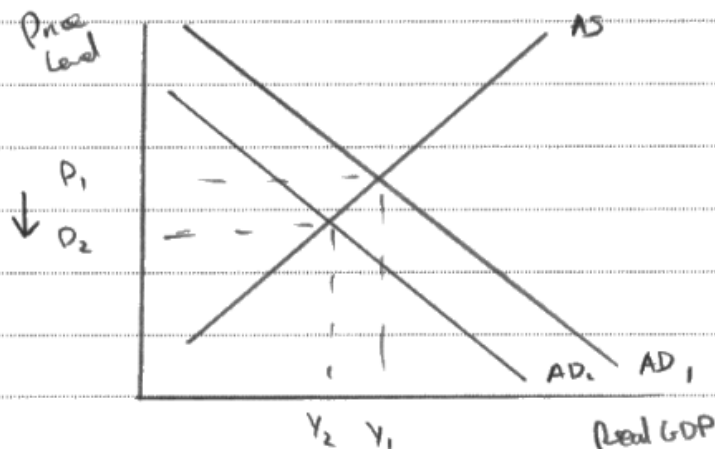
Micro - confuses rise in interest rates with rise in inflation.

Businesses are impacted by rising costs. L2-

Economies of scale not relevant at all.

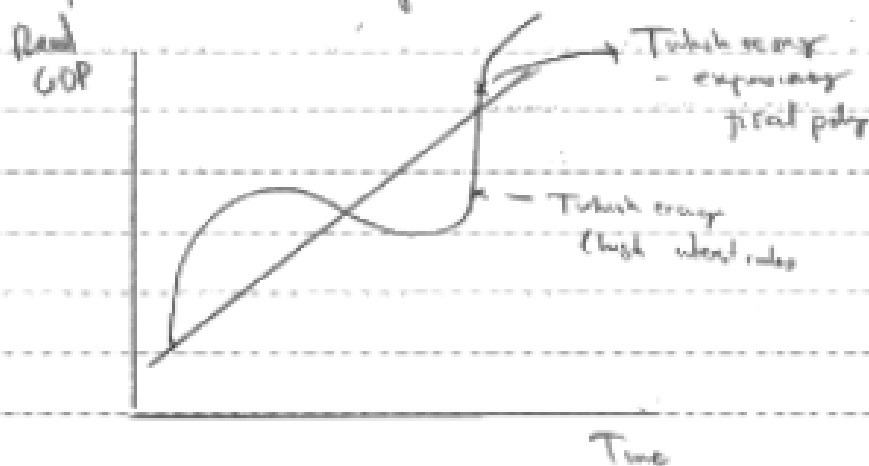
Could lower interest rates at end is just saying the opposite l1e

One macroeconomic effect is the decrease in Aggregate demand. This would deter investment due to the high cost of borrowing. As a result businesses will be unable to ~~reinvest~~ finance expensive capital projects (research and development) putting a huge constraint on economic growth.

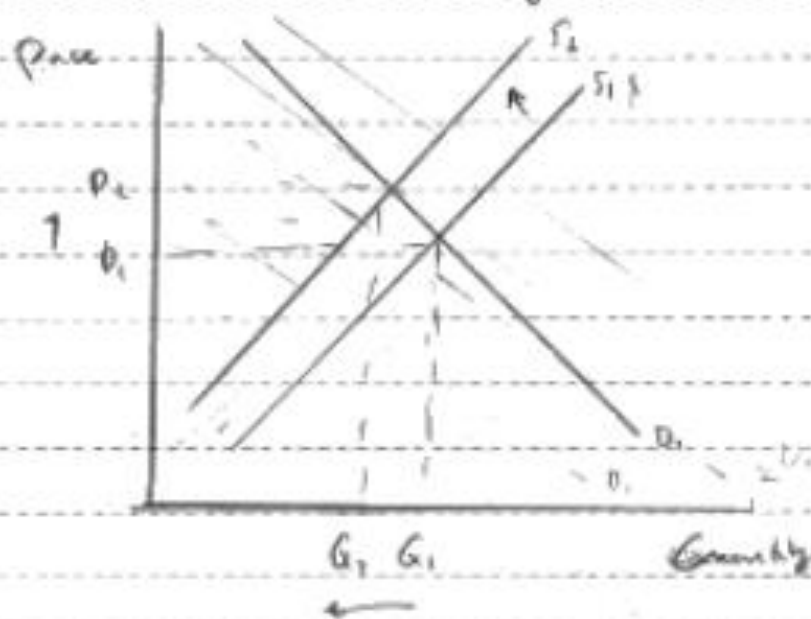


From the diagram, it is evident that the macroequilibrium has shifted from $V1P1$ to $V2P2$ (indicating an 'economic slowdown').
 Furthermore it would ~~increase~~ ~~unemployment~~ decrease business confidence as they become less optimistic about the Turkish economy resulting in a fall in entrepreneurship behaviour.

However a rise in interest rates would be 'allogeneal' because the Turkish economy is already experiencing a severe slowdown causing the economy to collapse even more. Furthermore the government could impose expansionary fiscal policy which would have a more noticeable impact on the Turkish economy. In which government expenditure increases in public works schemes - business grants / financial schemes to ~~stimulate~~ ~~the~~ ~~economy~~ provide more stability within the economy. As well as this the decrease in taxation will encourage much more consumer expenditure resulting in a ~~potential~~ ~~recovery~~ in a potential recovery.

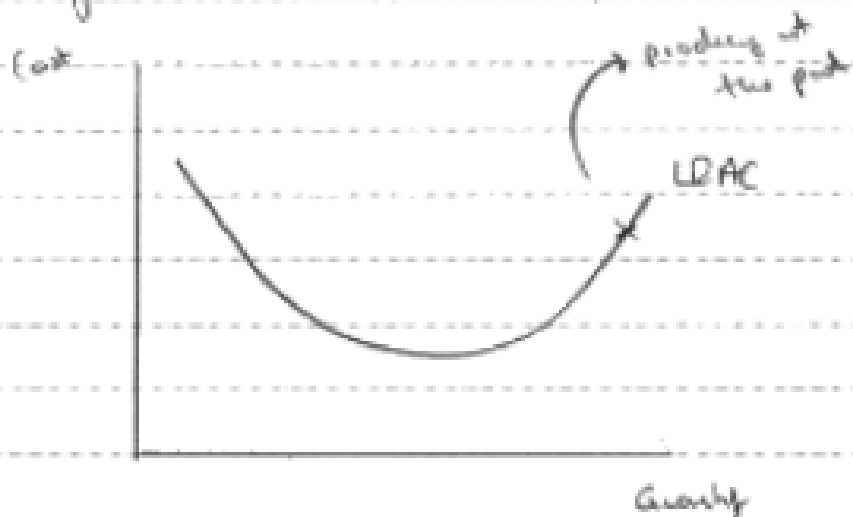


One macroeconomic effect is a fall in society's standard of living. This is because the price of Turkish goods rises, we incur more expense resulting in a fall in disposable income. Furthermore, consumer surplus would decrease because business responds through ~~lower~~ p_c by passing the price onto the burden onto the society. $\$$



From the diagram, it is evident that consumer demand has decreased. The shift from Q_1 to Q_2 shows the diminishing marginal utility. Moreover, this would decrease the ^{int} ~~the~~ c_s had profitable business could be. As ~~the~~ ~~the~~ ~~cost~~ ~~of~~ ~~business~~ ~~the~~ ~~the~~ ~~will~~ ~~be~~ ~~unable~~ ~~to~~ ~~access~~ ~~credit~~ ~~lines~~ ~~diminishing~~ ~~the~~ ~~not~~ ~~allowing~~ ~~them~~ ~~to~~ ~~use~~ ~~meet~~

their business objectives. In addition to the
this would put a huge constraint on
economies of scale, as ~~the~~ they ~~will not~~ be
limited ~~prices~~ (as above the average output, LRAC π)



Overall, I would argue that both macro
macro effect of rise in interest rate would
decrease AD and reduce the standard of living.
However, this could be tackled through expansionary
monetary policies in which the Turkish government
can lower interest rates and increase the
QE (money supply) to tackle the economic
collapse, instead of letting it rise.

2(e)

Level 4 Diagram is appropriate, and it is in context and explain with application

Level 3 ev - benefits outweighing cost with application

Level 4 macro AD shift. Lovely use of context

L3 ev crowding out.

EITHER

(ii) Evaluate the likely microeconomic and macroeconomic effects of a rise in interest rates in Turkey.

OR

(ii) Evaluate the microeconomic and macroeconomic impact of large infrastructure projects such as the building of a third airport in Istanbul.

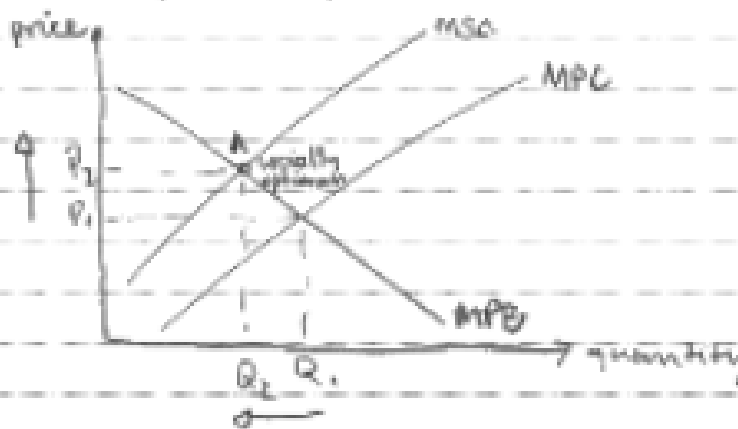
externalities
job creation
ADT capacity
social externalities
crowding out

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 1(ii) Question 1(i)

Write your answer here

A microeconomic impact of building a third airport in Istanbul could be ~~positive~~ negative production externalities



Negative production externalities can be shown in the diagram above. The marginal social cost is higher than the marginal private cost meaning

the socially optimum position is at point A on the diagram. Examples of the negative production externalities that come from building a large airport are excessive ~~pollution~~ air and noise pollution due to ~~construction~~ construction. Furthermore, ~~the rush to meet the government's deadlines is causing accidents on-site which is not accounted for in the costs.~~ An externality is an impact on a third party not ~~therefore, the costs of the site~~ involved in the ~~to~~ production, in this case, the environmental degradation on 76.5 million square metres of land will be destroyed.

However, the costs of the ~~to~~ airport ~~of~~ construction may not outweigh the benefits as there will be significant economic ~~gross~~ benefits to building an airport in this area. The ~~construction~~ ^{site} employs 34000 people which will have a ~~big~~ knock-on effect on the economy. Their wage employment will add to the

multiplier effect as ~~they~~ they will spend their money ~~to~~ back into the economy, stimulating growth ~~and~~ AD.

A macroeconomic effect of building a third airport would be increased tourism for Turkey. This new airport is going to be the "most important hub between Asia and Europe". ~~First~~ The annual passenger capacity of up to 200 million people will ~~significantly~~ allow for a higher volume of people entering Turkey. The modern and award-winning design may attract increasing tourism. This will benefit the economy because ~~tourism~~ increased tourism is a boost on exports as foreigners must exchange their currency for Turkish liras to spend ~~while~~ on the airport or on holiday in Turkey. A boost on tourism will increase exports which ~~will~~ is a ^{component} ~~component~~ of AD. When AD increases there is going to be economic growth in the country.

However, ~~a huge~~ this is an example of expansionary fiscal policy and a consequence could be resource crowding out. As the government ~~spends~~ employs 36,000 people ~~in~~ ^{in all} sectors to build this airport, the private sector is left with few resources to continue their business ventures in Turkey. If the economy is at full capacity employment, there may be little room left for private sector growth. This could potentially see capital flight as FDI leaves the country ~~to~~ if there are no resources to exploit.

In conclusion, the building of Turkey's third airport will be more economically ~~beneficial~~ beneficial than not due to the export opportunities it brings ~~the~~ ~~advances~~ ~~however~~, it depends on the economic ~~strength~~ ^{position} of other countries and whether they can afford to go on holiday.

24/25 - as it needs not a summary but an overall judgement. Concise and well written.

Section B - UK

2(a)

- 2 (a) With specific reference to Figure 3, explain why productivity is measured by 'GDP per hour worked, nominal values at PPPs'

(5)

Productivity is the output per hour worked. It is measured by GDP per hour worked, nominal values at PPPs' since the foreign MRP of a worker decides wages and so GDP can be used to measure productivity. Nominal values are values not adjusted for inflation. PPP or purchasing means that the GDP produced per hour is adjusted to the living costs of individuals living in the country. For example, Italy and the UK could have similar GDP per hour worked, nominal values but goods could be much cheaper in Italy, meaning that their productivity is 12% larger.

Efficiency 1

PPP 1

Nominal - not adjusted 1

5 even though no GDP per head.

No reason WHY but fulfils mark scheme.

2(b)

Firms are not investing - 1 knowledge due to 'lack of'

Good analysis and data is slightly erroneous as figures are percentages not percentage points.

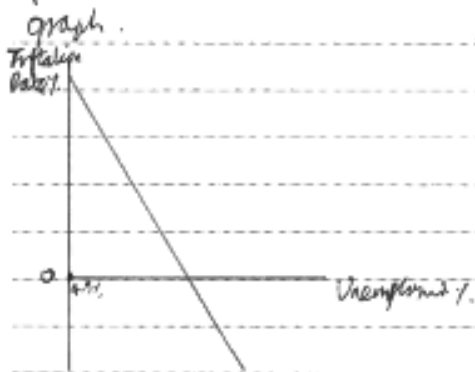
2nd application mark for knowledge of financial crisis

Evaluation is good.

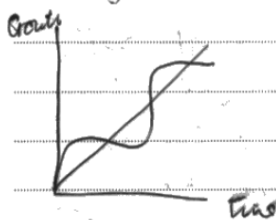
(b) Apart from literacy and numeracy skills in young workers, examine **one** reason for the trend in productivity in the UK, over the period shown in Figure 4.

(8)

One reason for the trend productivity in the UK is that the 2008 financial crash occurred where the UK and many other countries suffered a deep recession, where ~~there~~ ^{classified as} ~~there~~ ~~was~~ negative economic for at least ~~2~~ ^{on} 2 consecutive quarters. In a recession, unemployment tends to be extremely high, ~~and~~ interest rates are low in order to try stimulate demand. Productivity would have decreased due to the lack of confidence of what the future held for individuals for some people on lower incomes their work rate may have reduced because the idea of a promotion or rise in wages would have been an ~~small~~ even smaller chance. In a recession, inflation rates are low and ~~however, there may have been a proportion of people who~~ employment can be compared in this



However those who became unemployed may have seen this as an opportunity to work even harder, so in the possible case of a next recession, their job security may be much higher. Also figure 4 does not give the full picture of a trend showing economic recessions and booms.



8/8 - only one point is needed.

2(c)

Two level 2 points without the diagram

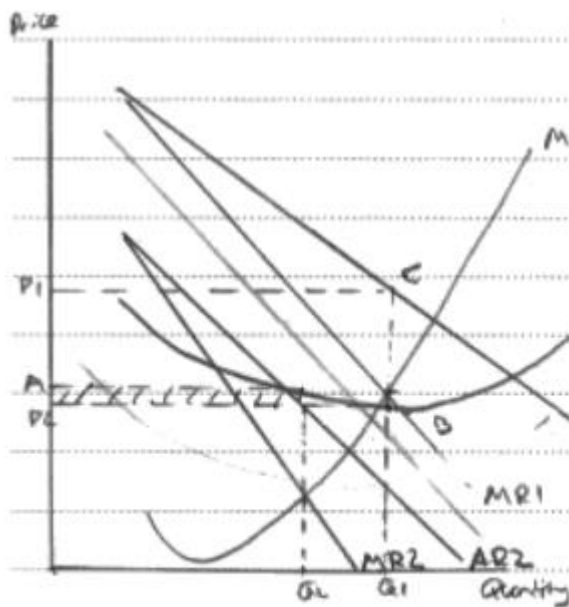
Diagram is acceptable L3 with the explanation on previous page

(c) Discuss factors that are causing many high street retailers in the UK to close some branches or shut down completely. Use a cost and revenue diagram to support your answer.

(12)

One factor firms shut down when $AR < AVC$. For many high street retailers in the UK has shut down due to a fall in sales. For example, in LOIP Monobase saw a 10% reduction in sales. This is likely down to low consumer confidence causing them to save rather than spend.

This is shown in the diagram below. As



Consumer spend save rather than spend AR falls from AR_1 to AR_2 and MR falls from MR_1 to MR_2 , causing AC prices to fall from P_1 to P_2 and quantity to fall from Q_1 to Q_2 . This has also caused profit to fall from $P_1C_1BP_1$ to $P_2C_2BP_2$

turn to sub-economic losses shown by the shaded area.

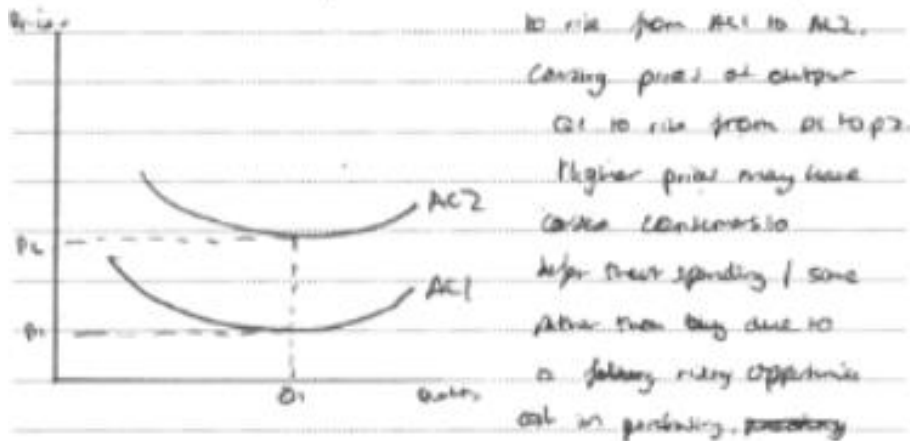
2(c)

Evaluation is L2 - as a weak point 3/4

On the other hand, the fall in sales due to a fall in demand may be caused by shifting consumer behaviours rather than consumer apathy. For example, people may instead purchase more products online rather than visiting them. This could be due to them having less available time or as for online stores being more convenient.

Another factor could be because high-street retailers may have seen an increase in production cost.

These may have been caused by 'increasing rents' and higher business rates. These factors could have caused average costs



meaning that profits would have fallen causing some stores to close.

On the other hand, the closures may have been caused by poor business decisions. For example, M&S may have as well known more than stop selling popular goods. This may have caused consumers to visit their stores less frequently since their favourite items are no longer being sold, causing a fall in sales and therefore profits causing store closures. But this is unlikely to be the case for a very important high-street brand.

2(d)

Comparative advantage and more competitive, and more efficient. Diagram does not show the change – just shows the effect of free trade. Explanation is so good that the marks are given. Allow L4.

Good point that wages will rise, with a correct diagram, so L3e.

Changes in income tax as micro point – well linked to labour market effects.

Corporation tax has also fallen

Diagram showing fall in AC shown (although shift not very clear) – analysis is correct, so L4

Eval slightly weaker as you cannot claim JSA if in labour market

Some confusion on data. L2e-

L4 for both, L3 + L2 eval so 16 + 7e – we are not penalising but would suggest that shifts are shown arrows.

(d) Evaluate possible microeconomic and macroeconomic policies which could be used to improve UK competitiveness. (25)

OR

(e) Evaluate the microeconomic and macroeconomic effects of a decline in the literacy and numeracy skills of a country's young workers. (25)

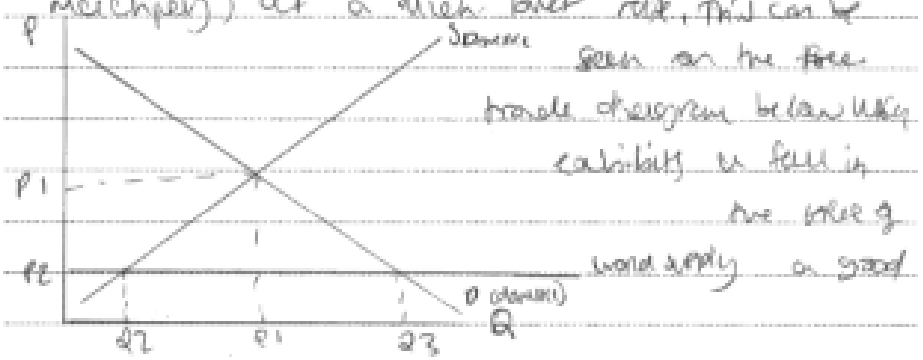
Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 2(d) Question 2(e)

Write your answer here:

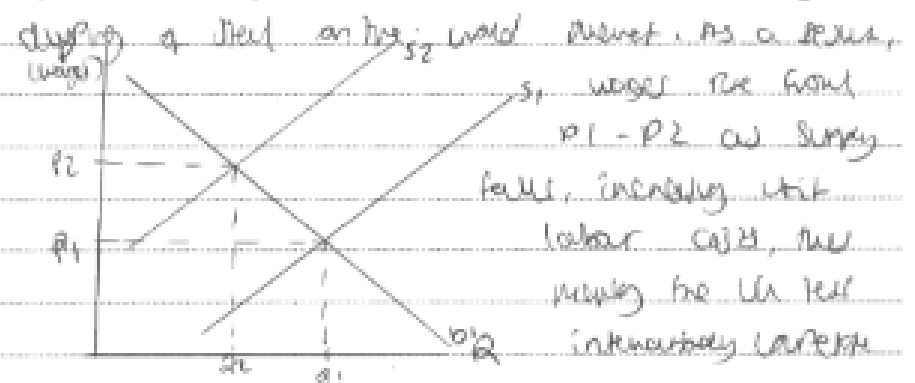
One macroeconomic policy the UK could employ to boost competitiveness is trade liberalisation. In allowing free trade and removing protectionist policies (e.g. tariffs), the UK is becoming more integrated with the world economy. This would allow the UK to become more competitive and to drive costs and prices down. By exposing domestic firms to more competitive foreign ones, the UK would allow its less 'home grown' industries to collapse, and allowing for the reallocation of resources towards more profitable industries which the UK has or is able to obtain a comparative advantage in (e.g. financial services). This theory is supported by economist Schumpeter (although he applied it on a micro scale), which who some claims that by allowing new entrants

to the market which have better ideas and a greater capacity to innovate. Inefficient and most industries are pushed out (create demand). Similarly, in establishing mutual free trade, the UK allows UK firms to benefit from lower costs as they can import the raw materials required for production (e.g. oil, wood, coffee, machinery) at a much lower rate. This can be



from $p_1 - p_2$ as a result of free trade (as it can be obtained from a country that has a comparative advantage in it, e.g. German machinery). This in turn means that UK firms are able to offer lower prices and the resources ^{released} ~~released~~ from the ~~as~~ ~~foreign~~ ~~same~~ ~~them~~ ~~included~~ can be reallocated to ~~produce~~ ~~and~~ ~~to~~ ~~increase~~ ~~production~~ ^{quantity} and quality of production, leading to a fall in UK export prices. Making the UK more globally competitive.

However, this has extreme adverse impacts as
 allowing 'Zambia' industrial to die out is likely
 to lead to mass unemployment - structural unemployment
 as with what happened to with steel following China

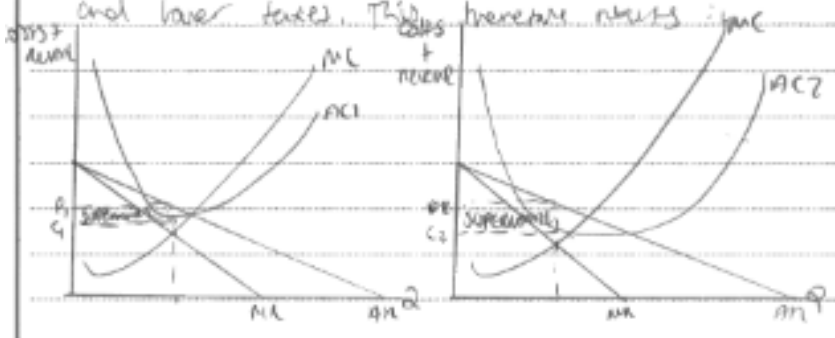


and of setting the benefits of trade liberalisation.

One micro economic policy which can be used
 to increase international competitiveness is a fall in
 lower direct taxes, e.g. income tax and corporation
 tax. This is likely to be a benefit as those
 not in employment (voluntary unemployment) are
 attracted by the prospect of higher rewards.

In the form of higher disposable incomes and
 lower taxes this is especially true as the current
 rate of voluntary youth unemployment
 is 16.3%, equivalent to millions of young people.
 Subsequently, once these young consumers can be
 more free, the supply of labour rises.

which leads to a fall in wage rates. This, accompanied with lower corporation taxes (e.g. the UK lowered taxes from 21% to 20% - recent in recent years, one of the lowest in the G20), is likely to attract FDI to the UK and may be attracted by the prospect of lower wages for firms and lower taxes. This increases returns to



a fall in average cost for firms operating in the UK ($AC1 - AC2$), which leads to higher supernormal profits. These retained profits can be used to finance research in capital and training for human capital in order to reduce costs further and offer even lower prices for consumers. As a result, the UK firms became much more internationally competitive, offering unbeatable low prices.

However, it can be argued that this depends on the extent to which taxes are reduced by a 0.5% reduction in high taxes for incomes as well as business profits is unlikely to be feasible enough to allow the 'MEETs' and other unemployed people to enter the workforce as the utility gained from entering the force may be lower than that extracted from claiming JSA. Similarly, an intensive fall in corporation tax may mean that firms do not have enough marginal retained surplus profits with which to reinvest in order to further lower costs, thus limiting the extent to which a fall in direct taxes would increase international competitiveness.

2(e)

(e) Evaluate the microeconomic and macroeconomic effects of a decline in the literacy and numeracy skills of a country's young workers.

(25)

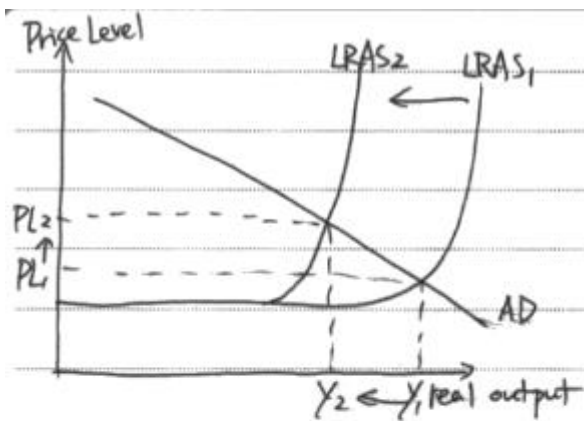
Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 2(d) Question 2(e)

Write your answer here:

There might be many various effects brought by a decline in the literacy and numeracy skills of a country's young workers, since the literacy and numeracy skills is a crucial indicator of the development in a country. According to Figure 5, in many countries, young workers between 16-24 have higher literacy skills than ~~the~~ ^{those between} 25-45.

Firstly, with a declined literacy and numeracy skills of a country's young workers, there might be a rise on unemployment rate since firms may not be willing to employ labours with low education. Those labours may cause a fall on the firm's productivity and output which may influence the firm's profit. * As ~~firms are almost~~ ^{firms in private} sectors are almost aiming to maximise their profit, those labours with low literacy and numeracy skills may not be considered. Therefore, the unemployment rate may increase which could be illustrated as a leftward shift of LRAS curve. As shown in the diagram, the LRAS shifts inwards to LRAS₂, and the real output decreases to Y_2 illustrating a slower rate of



economic growth. At the same time, the price level increases to PL_2 illustrating a higher inflation rate which means consumers are facing ~~so~~ higher prices for each good and service that they

are willing to buy and this may worsen the consumer surplus and the consumer confidence. Further, the consumption may decrease, especially when the unemployment rate is high that more people would not spend money. However, the elasticity of goods and services should be considered. For those necessities with inelastic demand, the price would not influence the demand for that

much, while those elastic goods, for example, soft drinks may experience a huge fall on demand if the price rises. Also, there may still firms employing labours with low literacy skills such as those factories which have low requirement for literacy.

Secondly, a decline on literacy and numeracy skills ~~of~~ a country's ~~young~~ young workers may cause future problems on a country's development. ~~since the science and~~ For example, when a country needs to develop its technology, there might be very few people in the country can help since with low literacy and numeracy skills, ~~the~~ it may be difficult for those people to ~~do~~ do the experiments and calculations required. Therefore, the country may ~~be~~ not catch up with other countries in terms of technology.

which may further harm the country's international competitiveness, since with ~~the~~ poor technology, the quality of goods and services may not be approved ~~is~~ by other developed countries.

Thirdly, with low numeracy and literacy skills, labours may get low wages from firms which may influence their living standards. The low wages may ~~not be enough for labours~~ ^{for labours may increase} the inequality in the economy, and leads to further poverty. However, it can be solved by the government to ~~set~~ set the level of national minimum wage.

To evaluate, a decline in literacy and numeracy skills ~~of~~ ^{of} workers may increase the supply of labours in primary markets to produce basic materials ~~of~~ ^{for} production, since the labour in primary markets are usually not required for high level of literacy and numeracy. Low wage costs may also increase firms' profit since the costs of production are lowered which encourages business confidence instead.

20/25 - well balanced.

2(e)

Effects on unemployment, growth and productivity

Effects on consumer surplus

L3-

Goes off the question L2e- as goes off track but it says some firms will still employ workers as they do not need these skills. This isn't developed.

Does not distinguish labour as micro or macro, but the point is good - L2 for low wages and low living standards. Eval is about a solution rather than the effect so not given.

Last paragraph does develop the point about the skills needed so goes from L2e- to L2e.

L3- 10

Le2- 4

An effect of a decline in the literacy and numeracy skills of young workers could be an increase in income inequality. This is because low skilled jobs are often paid less e.g. cleaners as the workers in these occupations have lower MRP. People with a lack of literacy and numeracy skills will suffer from occupational immobility. This is when workers cannot easily switch jobs. This occupational immobility will keep workers with a lack of literacy and numeracy skills trapped in lower

paid jobs. ~~Although there~~ This is likely to be a big problem for Italy, as over 30% of 16-24 year olds have low literacy or numeracy skills. Although there are some very well paid jobs that don't require literacy or numeracy skills such as professional athletes, the lack of demand for these jobs means people with low educational ability will be stuck in low paid jobs.

This could contribute to the poverty trap, as workers aren't much better off working than on benefits. This means individuals will suffer from the risk of social exclusion and the government's automatic stabilisers (may cause a budget deficit (due to the increase in benefits and reduction in tax revenue)). This would be a problem in the UK as we currently have a huge budget deficit and national debt which has been

made worse by the coronavirus pandemic. However, the extent of the poverty trap will depend on the level of benefits and if there's a national minimum wage or not. If there are high benefits and a low national minimum wage (for example in the UK), then the poverty trap will be larger.

A lack of educational ability could harm a country's international competitiveness, as it will struggle to produce goods with a higher MTR as these other regions more highly skilled workers. However, if a country has invested in infrastructure, then it may be able to export better quality products by using robots and machinery, which should improve their balance of payments.

Overall, if a country ~~is~~ decides to use supply side policies to improve the literacy and numeracy skills of a population, then ~~the~~ should reduce income inequality and the poverty trap and ~~boost~~ international competitiveness. However, the effects of an increase in spending on education for example will only appear after many years. Additionally, the cost of improving education ~~can~~ could have been spent on something else (opportunity cost) such as encouraging enterprise to ~~bring~~ an increased economic growth.

~~U Although this is the best U~~
Although a well educated workforce is vital for future economic growth, so expansionary fiscal policy (at improving education) ~~can~~ could be necessary.

Paper Summary

In future the candidates taking this exam should address the following issues:

- timing. Allow a minute per mark, and this gives 20 minutes reading or correction time. You can achieve all the marks in this time, and 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
- stick to **either** 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 the safest and most reliable option is to 'keep it 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.

