

Examiners' Report
June 2019

IAL Economics WEC12 01

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Introduction

This is the first series that this unit, Macroeconomic Performance and Policy (WEC12), has been assessed. The standard of work seen has been very good considering this unit is being assessed for the first time. A number of new concepts were assessed and different ways of assessing the work were used. This did not have a negative impact on the performance of candidates.

In Section A, the multiple choice section, the candidates performed best on the output gap and inflation questions. The question on the percentage change in unemployment was the question that candidates performed the least well on and may need attention in centres. Questions on inflation and the balance of payments typically saw candidates perform well.

Section B, the short answer section, saw some very mixed performances on the questions. Candidates performed best on the questions requiring them to explain an effect of a change in the macroeconomy. In these questions, candidates often gave strong definitions and were confident in selecting an appropriate change in the macroeconomy. However, many candidates did not use application in their answer, and this may need to be addressed in centres. Most candidates only achieved two or three marks for Question 9, although most candidates could provide a correct SRAS and AD diagram, very few included an inward shift in AD after an increase in the price of oil. In question 10 a large number of candidates were not able to provide a clear definition of the savings ratio and defined savings instead. They did not fully address the question and many candidates did not comment on the overall trend in the data provided, but instead referenced two changes, therefore achieving one application mark. Many candidates offered excellent answers for question 11, however, a large number of candidates could calculate the multiplier but failed to apply it to fully answer the question. A few candidates were unable to calculate the multiplier. Candidates will need to practice at this style of question.

Section C, the data response section is based on information provided in the source booklet. Candidates could typically access at least one mark on 12(a) to show knowledge of fiscal policy with stronger candidates able to offer more precise definitions. 12(b) needed an explanation real GDP growth and most candidates were able to achieve one mark for their definition of real GDP and two marks for application to Figure 1. Only a few candidates achieved both knowledge marks for defining real GDP growth. 12(c) was answered well by a large number of candidates. Most candidates offered a strong definition of an indirect tax and identified a suitable change, enabling them to achieve both knowledge marks. It was pleasing to see a significant number of candidates supporting their answer with a shift in the SRAS curve, and this received one knowledge and one application mark. Most candidates were able to offer linked analysis of their chosen macroeconomic effect. A number of candidates did not offer any reference to the context and lost application marks. Many of the candidates included evaluation in their answers, this is not rewarded on a six mark question and centres should encourage candidates not to include it. On 12(d) most candidates were able to define investment and linked it to either AS or AD. Many candidates drew a diagram accurately in their response and achieved two analysis marks for this, this was not required to achieve full marks. Many examined one impact from Extract A or B. Stronger candidates fully integrated the evidence into their answer and were able to reference the investment into the technology industry. Many candidates offered evaluation but this was often underdeveloped. 12(e) is the first question to be marked using the level descriptors. Candidates were asked to discuss the likely effects of the increase in the rate of inflation on Romania's economy. Although most candidates were able to offer plausible effects of inflation, many did not do this in enough context to achieve a Level 3 response. Those able to achieve a higher score were able to draw upon the case study e.g., candidates referenced the effect of the increase in food prices on consumers standard of living. Better responses would also reference the context when offering evaluation.

Section D, the essay section offered candidates the opportunity to choose between two questions. This section was more demanding and this is reflected in the scores. Candidates tended to perform better on Question 14 on the benefits of rising consumer expenditure than on Question 13 addressing macroeconomic conflicts. In both cases the economic knowledge was secure but candidates found it difficult to apply their knowledge in the context of the question. The quality of analysis was also a problem, and candidates often offered superficial chains of reasoning. Evaluation was offered, but often generic and not in context. Some candidates developed their evaluative arguments, but many were not able to offer logical chains of reasoning.

Most candidates were able to complete the paper in the time available. We did however see several unfinished or very brief essays suggesting that some candidates had not planned their time well.

The performance on individual questions is considered in the next section of the report. The feedback on questions shows how questions were well answered and how to improve further.

Section A: Multiple choice

Question 1

The question required candidates to identify the cause of a deficit on the current account of the balance of payments. Many candidates selected the correct answer, although a number selected an increase in government spending confusing the fiscal budget deficit and a deficit on the current account.

Question 2

The question required candidates to understand the difference between inflation, deflation and disinflation and apply this to data. This was answered well for the majority of candidates, though some candidates confused deflation and disinflation.

Question 3

Candidates were unsure on the link between a negative output gap and GDP growth and productive potential. A few candidates linked the negative output gap to inflation and falling unemployment. Candidates would benefit from learning the definition of negative output gap with a LRAS/AD diagram.

Question 4

Most candidates answered this question well. They were able to identify that a significant fall in exports would cause a fall in both employment and inflation.

Question 5

This question required candidates to interpret data showing the current account on the balance of payments for Hong Kong. Candidates found this challenging and many opted for option D. Candidates must read questions carefully to ensure they are not caught out by the distractors. They must also understand the difference between a budget deficit and a current account deficit.

Question 6

This question required candidates to calculate the percentage change in the ILO Claimant Count. Many candidates failed to answer this question correctly. Centres should practise calculating percentage change to ensure candidates can address this accurately.

Question 7

Candidates were asked to explain one effect of the change in base rate of interest. They were told in South Korea the base rate of interest had changed from 1.25% to 1.5% in 2018. Most candidates were able to define the term interest rate, the candidates obtaining the highest mark were able to explain the connection between the change in the base interest rate and the change in the commercial banks interest rate. Most candidates were able to identify one effect of the increase in interest rate; however, this was often part of the analysis and therefore the mark was not awarded twice. Some candidates included application to South Korea for the final mark. When teaching interest rates, it would be worth emphasising the distinction between the base interest rate and the commercial interest rate.

- 7 In January 2018 South Korea's Central Bank raised its base interest rate from 1.25% to 1.5%.

Explain **one** likely economic effect of this increase in the base interest rate.

The Base interest rate refers to the interest rate set by the central bank and where commercial banks must follow. Due to the rise in the base interest rate from 1.25% to 1.5%, it will mean that the reward for savings will be greater and the cost of borrowing will be greater, therefore leading to a fall in investments in the economy causing a fall in aggregate demand, which will prevent demand-pull-inflation.



This candidate was awarded full marks for this response. The definition of base rate of interest is good, and it clearly links the base rate to the central bank. The candidate then clearly made reference to the increase in the base interest rate. They then analysed this impact on the cost of borrowing and reward for saving for a first analysis mark and developed their point for a further analysis mark.

Question 8

Candidates were asked to explain one effect of the change in net migration. They were told net migration was 73,000 in New Zealand. Most candidates were able to define the term net migration, often including a definition of unemployment, although only one is needed. Almost all candidates were able to explain an impact of net migration on either increasing or decreasing unemployment, with some development. Candidates need to be careful to ensure all their points are including economic arguments. Stronger candidates were able to confidently use the context in their answers.

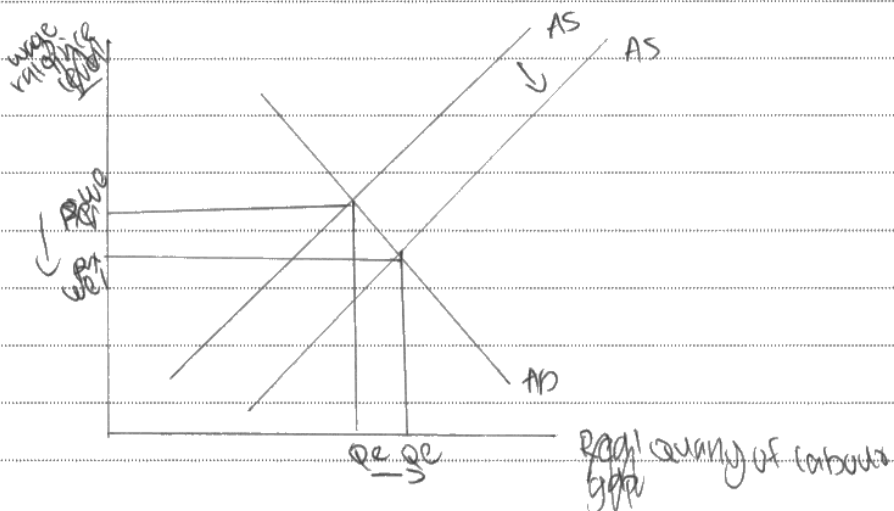
8 New Zealand has a population of 4.693 million people. In 2017 its net migration was 73 000, with more individuals arriving than leaving the country.

Explain **one** possible impact on the level of unemployment of this net migration.

level of unemployment refers to the number of amount of workers, in the working age who are willing ^{and} able to work and actively ~~search~~ ^{search} searching to work, ~~however~~ ^{but however} unable to find a job.

If immigration is higher. The 4.693 million people will multiply. therefore increasing the total workforce, the supply of labour will ~~use~~ ~~therefor~~ therefore wage rates fall.

Employers costs ~~fall~~ ^{fall}, ~~the~~ costs fall, they demand higher labour, consequently ~~unemployment~~ ~~falls~~ ~~for~~ ~~the~~ unemployment falls





This candidate was awarded full marks. They achieved a knowledge mark for a full definition of unemployment. This could have been accessed by defining net migration. The candidate clearly made reference to the increase in the size of the population in New Zealand with reference to the stimulus material. Two marks were awarded for analysis of one impact. Though a diagram was not necessary for this answer, it did add to the candidate's analysis.

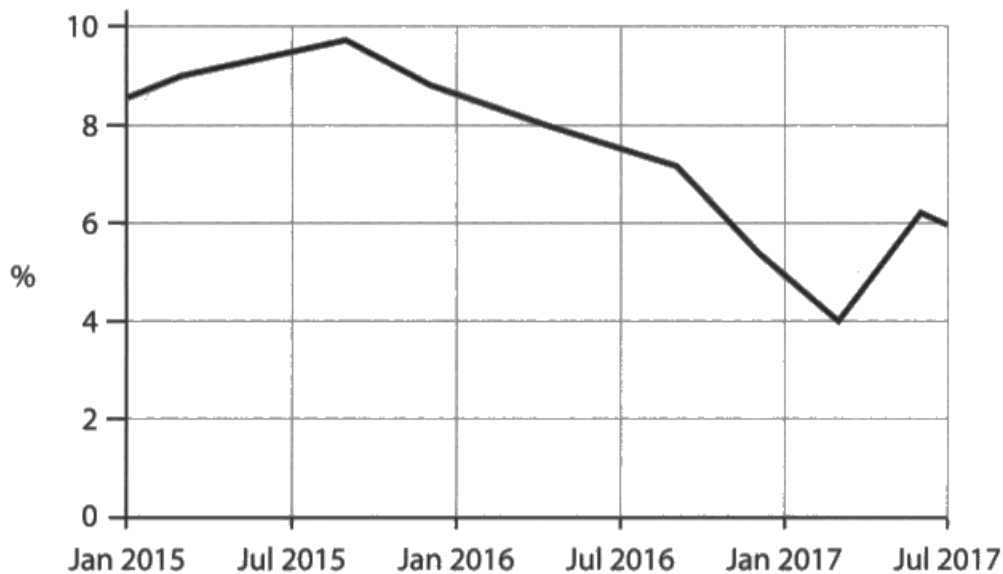
Question 9

Understanding of short-run aggregate-demand and aggregate-supply was tested in this question. Candidates need to understand the impact of an increase in the price of oil on the price level and real output for France. It was impressive that most candidates could accurately construct a short-run aggregate-supply and aggregate-demand diagram with correctly labelled axes. All candidates identified the inward shift in the aggregate supply curve, however, only a few candidates achieved full marks by including an inward in the aggregate-demand curve. It would be beneficial for centres to revise the impact of changing crude oil prices on the macroeconomy. Many candidates offered extensive supporting written explanations but this is not needed as all the marks can be awarded for the diagram alone.

Question 10

This question considered the change in the savings ratio for the UK. It required candidates to be able to describe the overall trend in the data offered. Almost all candidates could confidently apply the data to this answer and read points off the graph to include in their answer, however, not all candidates commented on the fall in the overall trend for the second application mark. Candidates are asked to carefully read the question to ensure they include all the necessary information in their answer. Very rarely did candidates accurately define the savings ratio, those that did often went on to achieve full marks. Many candidates were able to obtain one knowledge mark for a definition of saving.

10 This chart shows the savings ratio for the UK between January 2015 and July 2017.



(Source: <https://tradingeconomics.com/united-kingdom/personal-savings>)

With reference to the overall trend of the data, explain what is meant by 'the savings ratio'.

The savings ratio refers to the amount consumers save in comparison to what they spend, if consumers are willing to spend more than their income it could be described as dis-saving. It could be seen that the savings ratio has been fluctuating, as it has come to a peak between July 2015 and Jan 2016 to about 9.5%, then followed by a drop till between Jan 2017 and Jul 2017 to about 4%.



This candidate was able to offer a definition of saving and was awarded one mark for this; however they would need to clearly define savings ratio for the additional knowledge mark. At the end of the response the candidate identifies the downward trend in the savings ratio for one mark and receives the additional application mark for a further link to the data.

Question 11

The question looked at being able to calculate the final increase in national equilibrium after a large investment using the multiplier. Candidates were awarded one mark for calculating the multiplier then a further two marks for using this to calculate the final change in national income. Stronger candidates were able to accurately calculate the change, including the correct use of units. Some candidates calculated the correct value, but didn't include the correct LE or billion, these candidates were awarded three marks. Where candidates could not complete the calculations they commonly achieved a mark for defining the formula for the multiplier.

- 11 The Central Bank of Egypt has estimated that the marginal propensity to consume for Egypt's economy is 0.6. In October 2017, the Egyptian Government announced a LE11.9 billion investment into renewable energy. (LE = Egyptian currency).

Ceteris paribus, calculate the final increase in the national income resulting from the LE11.9 billion investment.

Multiplier could be defined as the number of times

change in income exceed net injections.

$$\text{Net Multiplier} = \frac{1}{1 - MPC}$$

$$= \frac{1}{1 - 0.6}$$

$$= 2.5$$

$$2.5 \times 11.9 = \text{LE } 29.75 \text{ billion} //$$



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Here the candidate has clearly shown all their workings and included a formula. As marks are awarded for calculations, candidates should be encouraged to do this. They achieve full marks for a correct answer with units.



ResultsPlus
Examiner Tip

Always include units in your answer.

Question 12 (a)

Candidates were required to define the term fiscal policy. These were typically a good quality of response with most candidates being able to access at least one mark. Most made reference to fiscal policy being the use of taxation and government spending. Stronger candidates were able to state that fiscal policy is used to influence aggregate demand. A number of candidates wrote very extended answers for this question, centres are advised to encourage candidates to write short responses to two mark questions.

12 (a) Define the term 'fiscal policy' (Extract A, line 6).

(2)

Fiscal policy refers to changes in government spending and taxation to influence the level of Aggregate demand in an economy. The government of Romania carried out expansionary fiscal policy (cut Vat from 24% to 20%.)



This candidate gains a mark for making reference to government spending and taxation. They gain a further mark for reference to government policy to increase aggregate demand. This is a particularly good example as the candidate has written a concise definition.

Question 12 (b)

The question required candidates to explain the term real GDP growth. A number of candidates did not read the question closely enough and only discussed real GDP. A number of candidates did discuss real GDP growth and were able to offer a definition of real GDP rising over time. To gain the two available application marks candidates needed to make reference to the data available in Figure 1. Most were able to provide strong references to the data and achieved full application marks.

(b) With reference to Figure 1, explain the term 'real GDP growth'.

(4)

Real GDP refers to the total value of goods and services produced in a year expressed at constant prices i.e. it has been adjusted for inflation.

Real GDP growth means output increased.

For instance in 2017 the GDP in all quarters has increased as compared to 2016. In Q1, it increased from 4.3% to 5.7%; Q2 from 6.0% to 6.1%, Q3 from 4.3% to 5.8% and in the last quarter, Q4 from 4.8% to 6.9%



ResultsPlus
Examiner Comments

This candidate gained one mark for a clear definition of real GDP in the first section of this answer. The definition did not include the percentage annual increase; therefore, it could not achieve the second knowledge mark. This was a very common error. This candidate offered two clear references to Figure 1 and was awarded two application marks.

Question 12 (c)

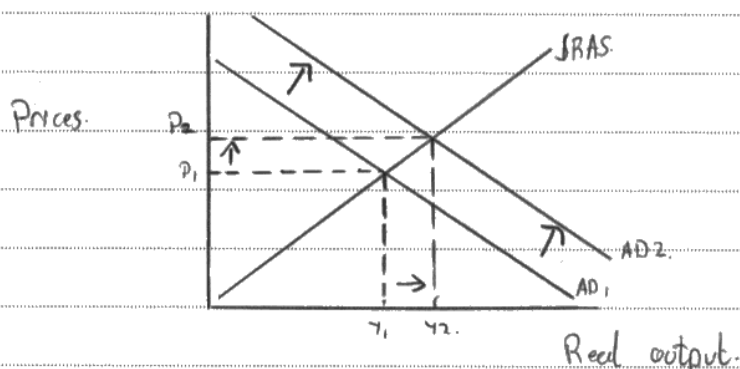
This six mark question had two marks available for each of knowledge, application and analysis. In this question candidates needed to analyse one macroeconomic effect of the reduction in indirect tax. Most candidates were able to achieve one knowledge mark for an accurate definition and a further mark for identification of one macroeconomic effect. A number of candidates identified a microeconomic effect, and this was not worthy of credit. Many candidates confidently linked the change in the tax level to a shift in the SRAS/AD diagram, this was worth one knowledge mark and one analysis mark. Most candidates were able to explain how a fall in indirect tax would cause the macroeconomic impact identified and achieved two analysis marks. However not all candidates were able to offer enough application to the context to achieve full marks. Most candidates identified the decrease in VAT, the best answers supported this with reference to the data.

(c) With reference to Extract A, analyse **one** macroeconomic effect of the reduction in indirect tax.

(6)

Indirect tax is a tax levied/charged on expenditure.

It is evident from the extract that in 2015 the Government of Romania cut VAT from 24% to 20%. As a result of this cut in VAT the level of unemployment in the Romanian economy may have reduced as goods become slightly cheaper since the tax rates are reduced and as a result the consumption in the economy increases and it is evident from the extract that there was increased household consumption which led to increased demand and the AD curve shifting to the right from AD₁ to AD₂ and as a result unemployment reduced as firms hired more workers to help meet the rise in demand and low levels of unemployment is a macroeconomic objective hence when unemployment reduces the macroeconomic objective is met.





This answer starts with a clear definition of indirect tax and achieves one knowledge mark for it. The candidate then achieves two application marks by referencing the cut in VAT support by reference to the data. The candidate identifies that the fall in VAT may reduce unemployment for a second knowledge mark and then explains how the fall in VAT increases consumption and AD increasing demand for labour. This chain of reasoning gains both analysis marks available. The candidate would have also achieved one analysis mark for the diagram.

Question 12 (d)

The question required candidates to examine the impact of an increase in investment on the economy of Romania. Most candidates defined investment accurately and were often able to link this to either aggregate supply or aggregate demand. Better responses tended to pick this mark up by offering an AS/AD diagram and supporting analysis.

Many candidates were able to link the evidence effectively into their answer with reference to the technology industry or increases in education. The better answers explored the increase in investment into technology and the impact this would have on LRAS for Romania. A large number of candidates offered generic responses and did not score any application marks.

Examine questions require some evaluation. The most common evaluations were magnitude and time frame. Often these points did not include any development and did not score highly. Better responses were more critical of the points they had raised and explored the likelihood of the impact occurring. Candidates could either offer two evaluation points underdeveloped to access the two marks or offer one and develop this.

(d) With reference to the information provided, examine the likely impact of increased investment on Romania's economy.

(8)

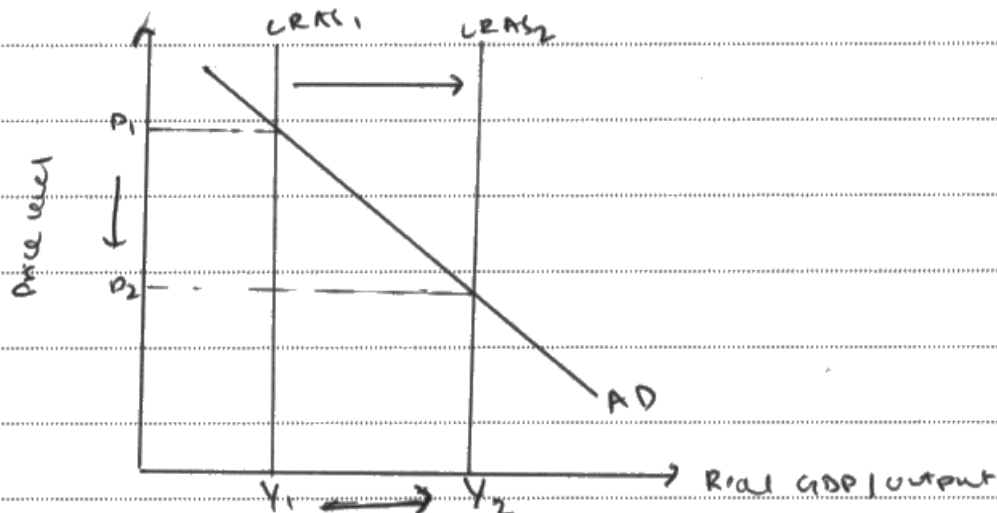
Investment is spending by firms on capital goods for example - machinery,

Let's paribus, An increase in Investment could result in Actual growth. Since Investment is a direct component of Aggregate demand, for example, an increase in investment by firms ~~and~~ could result in output rising in the long ~~run~~ run,

Hence, ~~thereby~~ the derived demand for ~~an~~ labour ~~may~~ would increase

furthermore, An increase in investment is also ~~a~~ a supply side policy to increase long run Aggregate supply, ~~An increase in~~

~~investment~~ ~~and~~ since it improves ~~the~~ Romania's productive potential, ~~since~~ ~~for~~ for example, an investment of training and educating ~~will~~ the workforce would boost human capital ~~and~~ the knowledge and skill of the workforce ~~thereby~~, making the workforce more efficient and ~~also~~ therefore increased output. This could be shown by a rightward shift in the LRAS curve from Y_1 to Y_2 ~~as~~ as shown ~~below~~ below



However, if there is an increase in Actual growth in the economy it could lead to demand pull inflation as ~~the~~ when Aggregate demand rises, firms could raise their prices to meet this increase in demand and to increase their profits. This could erode Romania's price competitiveness in the international market thereby decreasing the value of export expenditure ~~from~~ and since exports is a direct component of AD, the total demand in Romania would fall partially offsetting the initial benefits of investments.



This candidate was able to offer a definition of investment in the first paragraph and linked investment to both LRAS and AD, although only one link was needed to secure the second knowledge mark. The candidate received one application mark for mention of the investment into education. The candidate did not make a second link to the evidence; therefore, the second application mark was not awarded. This candidate offers a lot of analysis in both the second and third paragraphs explaining both increases in output and productive potential. The candidate needed to develop only one point for both analysis marks. The candidate failed to offer any evaluation. This candidate received 5 marks in total.



Remember to include evaluation in an 8 mark question.

Question 12 (e)

This 14 mark question required a discussion on the likely effects of the increase in the rate of inflation on Romania's economy. This question caused a problem for some candidates who did not read the question closely enough. Some candidates explored the causes of inflation and not the effects. This was only able to access Level 1 as it was not answering the question.

Most candidates were able to define inflation and provide possible effects of inflation. Most made reference to the level of inflation and the impacts for businesses and consumers. A number of candidates did not reference the case study, while a large number made a very small attempt to include evidence in their response. Candidates achieved a Level 1 for a generic answer or the bottom of Level 2 for some reference to context. A number of very successful candidates referred to the increase in food and non-food items in their answers linking this to the negative impact on standards of living for those on a fixed income. These responses were often awarded Level 3. Most candidates could explain the impact of the increase on prices on fall on consumer demand and negative impact for the business, but very few did this in context with developed chains of analysis. Diagrams were often included; however, these were not fully utilised to explore the effect of inflation and often only explained the cause. When used well, these diagrams enhanced the candidate's response.

In terms of evaluation, up to 6 marks are available across 3 levels. There were candidates offering generic and undeveloped evaluation points that achieved only Level 1. Others offered more development to achieve Level 2. Those candidates achieving Level 3 not only identified evaluative points and developed these, but they were fully in context of the question in regards to the Romanian Economy. Many candidates offered magnitude and time frame, with the amount of evidence available, however these were not worthy of high marks. Stronger candidates discussed the significance at 3% and how this would limit the negative impacts. Other candidates discussed how the rise in interest rates may offset the inflation in the long run.

(e) Discuss the likely effects of the increase in the rate of inflation on Romania's economy.

(14)

Rate of inflation is the percentage ~~rise in~~ price change in prices over year. Between Jan 2016 and July 2017 the rate of inflation in Romania has risen from ~~-2.7 to 0.5~~ -2.7% in Jan 2016 to 1% in Jul 2017. This is an increase of 3% but this might be beneficial for Romania and it depicts that economy is growing prior Jan 2017 there was deflation in Romania which shows a vicious cycle of underinvestment and under spending in the economy. However ~~rise in~~ rate of inflation kept rising in Romania and has gone to a 2.5% after Jul 2017.

Rising inflation rates may have adverse impacts on the Romanian economy. This might create a wage spiral. Due to rising cost of goods and services workers may demand higher wages which will increase costs for firms and this will increase the prices further and workers will demand more wages and this cycle may continue increasing the prices in the economy. Furthermore, a rising rate of inflation may lead to a deterioration of Romania's trade in balance of goods and services in the current account as now Romanian goods are high ~~expensive~~ expensive it may lose its price competitiveness and will be less appealing.

to the foreign buyers. so this will reduce export earnings and as domestic goods are high priced as Romania will demand more imports causing import expenditure to outstrip export earnings.

Furthermore rising rate of inflation may increase govt. spending in Romania due to increase wage demands in labour intensive public sector so this will create a opportunity cost for government spending on other areas like health and education.

However wage price spiral may not arise if there is significant level of unemployment in Romania, because workers may fear that they might be replaced by the unemployed who are ready to work for lower wages.

Furthermore price is not the only factor affecting the demand for Romanian exports, and the fall in the exports may depend on the PED for Romanias exports and the non price competitive factors like quality and design.

And the deployment CB's rep return increasing the base rate for the first time in 10 years with curb inflation from 1.75% to 2%. will curb inflation for a certain extent in the future.



The question is marked using levels based marking. This candidate provided a Level 3 answer for both knowledge, application and analysis. The response starts with a clear definition and links to data provided in the extracts. The candidate explores the negative impact of a wage price spiral using clear chains of reasoning. The candidate then links the rising costs to international competitiveness and the negative impact on the balance of payments. The candidate clearly demonstrates accurate knowledge in context with multiple chains of reasoning. This answer could be improved by providing more evidence throughout. The level of application was not sufficient to access full marks so they achieve the bottom mark in the level. 7/8 marks achieved.

Three evaluation points were offered by this candidate, each was critical of the points raised in the analysis and had links to the evidence. The evaluation could have been improved by including more developed chains of reasoning. The evaluation was not supported by a logical chain of reasoning and achieved Level 2, 4/6 marks.

Question 13

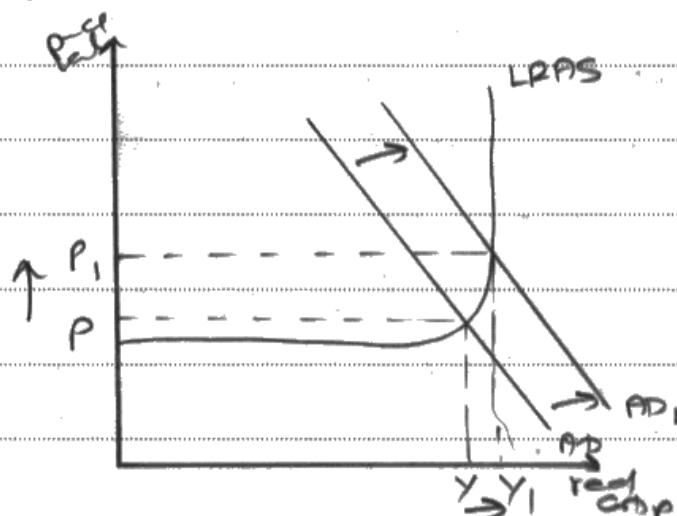
This was the least popular of the two options, with only 35% of candidates selecting it. The question required candidates to evaluate the view that conflicts between macroeconomic objectives are inevitable. Most responses focused on the conflict between economic growth and the environment, and many candidates used the application provided in the question stimulus. A large number of candidates linked a negative externalities diagram into their response. Many candidates failed to address the question and explored the negative externalities caused by excess pollution rather than the conflict between economic growth and the environment.

Many candidates included the Phillips curve in their response and were able to explain the conflicts between inflation and unemployment. This was often superficial, and the diagram was not integrated into their answer. Very few candidates offered any other conflicts, and many provided narrow responses or superficial responses reaching Level 2 with 4-6 marks for knowledge, application and analysis. Only a very small proportion of candidates reached Levels 3 and 4. These candidates often offered examples of conflicts and provided clear well-developed chains of reasoning. Diagrams were clearly drawn and integrated into their answers.

Evaluation was often more limited compared to the quality of knowledge, application and analysis shown. Common evaluation explored government subsidies into green technology, and the ability to reduce the negative externality. This again was not fully addressing the question as it did not focus on resolving the macroeconomic conflict between economic growth and the environment. The magnitude of the conflict between unemployment and inflation was often used, as was the difference between the short run and the long run. Some of these evaluation points were generic and lacked context. For many candidates their evaluation was supported by a partially-developed chain of reasoning. Very few candidates achieved Level 3 evaluation.

Write your answer here:

Macroeconomic objectives are the objectives a economy hopes to achieve in the foreseeable future. conflict in objectives refers to the trade off of one objective when trying to pursue another. due to increased economic growth conflict between macroeconomics is inevitable such as the conflict between economic growth and inflation. china's rapid economic growth will lead to the disposable incomes of people rising thereby leading to an increase in consumption and the ~~the~~ aggregate demand of china's economy increasing. since consumption is the major component of AD accounting for 67% of AD, when AD increases the general price levels of china's economy increase ~~due to~~ caused by demand pull inflation or simply put



Secondly conflicts are inevitable as BOP stability conflicts with economic growth. This happens due to the disposable income of consumers increases, which means that the demand for imports will rise and simultaneously the demand for China's exports will fall. So when demand for imports increases it is a net leakage of the circular flow of income causing ~~AD to fall~~ Aggregate demand to fall thereby leading to a deficit of the balance of payments on the current account since the value of ~~exports~~ ^{imports} are greater than the value of exports.

Thirdly another clash is inevitable which is economic growth and income inequalities. This can be seen when the richer part of the diverse population gain more opportunities. Each can run their businesses thriving and which enables them to generate more income due to the increased consumption caused by economic growth. But the poor people are not benefiting from these effects since they mostly work in unskilled jobs and get fixed incomes. This causes the gap between the rich and the poor to increase resulting in a clash of macroeconomic objectives.

Further the macroeconomic objective of economic growth and pollution can be seen conflicting. This is seen as economic growth rises more firms or ~~plants~~ production more to satisfy the rising aggregate demand caused by the increased consumption, thereby ~~releases~~ releasing more harmful pollutants to the environment causing severe air pollution with climate change.

However macroeconomic objectives may not occur if the Chinese government intervenes and tries to reduce the clashes between objectives such as economic growth and air pollution. This can be seen when the Chinese government introduced legislation in order to protect the environment by reducing pollution thereby making macroeconomic objectives conflict ~~is~~ inevitable.

~~being~~ conversely it also depends on the magnitude of economic growth. If the growth rate is sustainable then conflicts may not clash ~~is~~ further it also depends on the time duration. If economic growth increases in the short run the conflict of objectives will not be seen in the long run such as BOP instability. It will take some time for

consumption to increase causing Aggregate demand to increase which leads to the input rising due to increased disposable income. And the BOP may not suffer if the quality of Chinese exports improve making the demand for exports more inelastic, which may contribute to the improvement of the balance of payments.

Consequently income inequality may not differ ~~as~~ as the gap may be reduced in the form of trickle down effects. There the rich people may employ the poor people and offer them better wages increasing their standard of living and reducing their income gap.

~~Finally to conclude a~~

finally ~~conclude~~ macroeconomic objectives may ~~with~~ conflict if the government doesn't see to them. They can be reduced if the government can adopt ~~the~~ contractionary fiscal and monetary policies to control economic growth and help keep the BOP stable and inflation low.

To conclude all these conflicts are subject to time lags. The effects will only be

visible in the business and not in the
short run. And doing so benefit from
high levels of economic growth in the
short run.



This response starts with a Level 1 knowledge of macroeconomic conflicts being trade-offs between objectives. This response moves into Level 2 when explaining the trade-off between economic growth and inflation. There is evidence of analysis on the first page linking economic growth and demand-pull inflation. A diagram is included, but not explained. The candidate then continues to explore four different conflicts showing a wide range of knowledge. Each of the points explored offer some chains of reasoning but are not always fully developed. In the second analysis point the candidate does not offer a reason why imports would decrease and does not fully explain why imports have increased. The knowledge, application and analysis were awarded low Level 3, 7/12 marks.

The candidate offered several evaluation points at the end of their response. Both the magnitude and time frame points are not developed and awarded low Level 1. The income inequality and balance of payments evaluation points are better as they provide partially developed chains of reasoning. A conclusion is also offered by this candidate. The evaluation was awarded Level 2, 4/8 marks.

Question 14

Candidates typically started by defining consumption and economic growth. They would often then explain the positive impact of consumer expenditure on the economy. Most candidates discussed the positive impacts on economic growth by linking consumption to aggregate demand and then growth. Many candidates included an LRAS/AD diagram as part of their analysis, the best answers explained the diagram as part of their write up. Many good responses commonly discussed the increase in consumption on rising standards of living and higher employment levels, with some context to India. The majority of candidates offered multiple benefits of the economic growth, however lost the depth of analysis needed for Levels 3 and 4 by providing too much breadth.

Evaluation was often more limited compared to the quality of knowledge, application and analysis shown. Common evaluation addressed the problem with increasing consumption and aggregate demand leading to an increase in demand-pull inflation. Stronger candidates addressed other conflicts, for instance, the increase in production causing a negative environmental impact. Candidates often evaluated with the magnitude of the consumption which was not well-developed.

Write your answer here:

Economic growth comprises actual economic growth and potential economic growth. Actual economic growth is an increase in real GDP over time and potential economic growth ^{means} that the productive capacity of the economy has risen.

Increasing household consumption means that AD in the economy is increasing. This increase in AD could result in actual economic growth hence contributing to India's high rate of economic growth.

Since rising consumption increases AD in the economy, firms may have to expand production to meet the increase in AD. Therefore, in order for firms to expand production, more workers may have to be employed. So, the unemployment level of the economy could fall hence benefitting the economy.

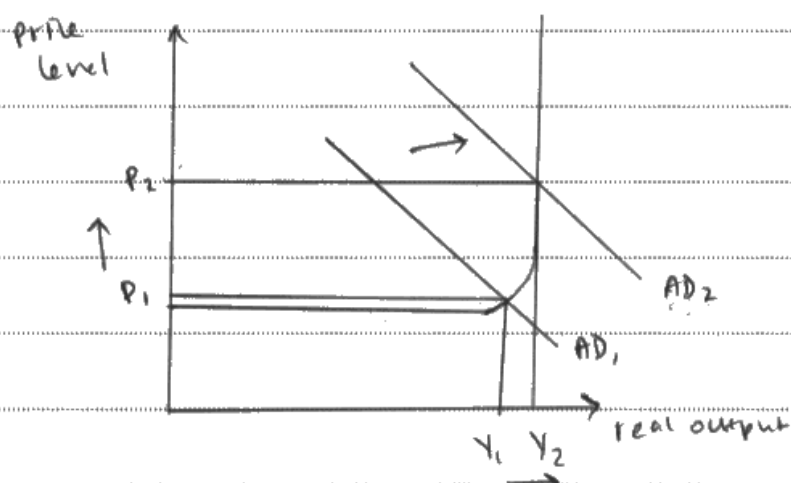
However, ~~if the~~ ~~the increase in~~ ~~reducing~~ reduction of the unemployment level depends on how ~~keen~~ keen the firms are on capital-labour substitution. If firms employ more capital machinery to increase production, the level of unemployment in the economy may remain the same.

Rising consumption means that firms ~~it~~ may have to invest in order to increase production. ~~Therefore, firms may~~ to match the increase in AD. Therefore, firms may undertake investment projects such as buying more capital machinery. The increase in investment may lead to ~~the~~ an increase in the productive potential ~~of~~ of the economy, hence leading to potential economic growth.

Rising consumer spending means that overall spending in the economy is increasing. This means that the proportion of ~~extra~~ money paid as VAT increases hence increasing the government's tax revenue. The increase in tax revenue could ~~possibly~~ allow the government to ~~pay~~ pay past debts hence ensuring a healthy fiscal position of the economy. Further, the increased VAT tax revenue could be used to improve other areas of the economy hence benefiting the economy.

Rising consumer expenditure means that consumer confidence in the economy is high. This increased consumer ~~spending~~ ^{confidence} may lead to an increase in business confidence as firms will be confident about future sales. This aspect helps the economy to achieve economic growth and prevent any deflationary ~~there~~ periods. So, the economy can keep booming and the economy can be in a healthy fiscal position.

~~However~~ ^{since an} however, ~~an~~ increase in consumption and spending raises AD ($AD = C + I + G + (X - M)$). ~~that~~ demand-pull inflation may develop,



An increase in AD from AD_1 to AD_2 raises ~~out~~ real output from Y_1 to Y_2 and raises the price level from P_1 to P_2 .

This increase in inflation in the long run could possibly reduce consumers' real income hence dampening ~~investment and~~ spending and hence undermining investment. This could possibly lead to a decline in economic growth in the long run for the economy eg:- India.

~~Further, due to~~ However, ~~even~~ since consumption raises AD, firms will have to expand production to meet the increase in AD. This expansion of production means that carbon-emissions ~~emitted~~ and other ~~of~~ harmful fumes emitted by firms may increase hence reducing the standard of living of people in the economy as they may be prone to respiratory illnesses ~~etc~~ such as lung cancer. Further, an increase in consumer spending ~~could~~ ^{include} ~~also~~ ^{consumer} ~~mean~~ ~~that~~ ~~consumers~~ ~~may~~ ~~be~~ ~~spending~~ ~~on~~ ~~imports~~ ~~include~~ ~~consumer~~ ~~spending~~ ~~on~~ ~~imports~~. Could include spending on goods that generate high amounts of negative externalities ~~such as~~ such as cars. This could further aggravate the problem of environmental pollution hence leading to a possible decline of standard of living hence reducing the overall benefit of increased consumer spending on the economy.

Also, an increase in consumer spending could also include spending ~~on~~ on imports. ~~spending~~ or high amount of consumer expenditure on imports ~~could~~ ~~possibly~~ possibly lead to a worsening of the current account balance of the ~~the~~ economy.

The start of the response accurately defines economic growth. This then forms the basis of the candidate's main arguments. On the first page they discuss the increase in consumption on aggregate demand and economic growth. The candidate then links the increase in growth to a fall in unemployment. This is evaluated in context when the candidate suggests unemployment may not change if capital intensive methods of production are used. This is further developed when the candidate discusses the positive impact of investment into capital on the productive potential of the economy.

On the second page the candidate explains how a rise in consumption leads to an increase in VAT and government revenue. Here the candidate offers further chains of reasoning. The candidate then evaluates consumption with demand-pull inflation including a diagram which is used to further the evaluation provided. A further two evaluation points are given; the negative impact on the environment and the worsening of the balance of payments position. The knowledge application and analysis achieved a high Level 3. Further chains of reasoning and context would be needed to move into Level 4. This candidate achieved a low Level 3 for evaluation.

Paper Summary

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

Section A: Multiple Choice

- Candidates need to know the difference between a fiscal deficit and a current account deficit. They also need to know the difference between deflation and disinflation.
- It is important that candidates can interpret data accurately and use this to perform calculations.
- Candidates must read each question and consider all of the options available.
- Candidates would benefit from understanding the relationship between the LRAS/AD curve and the output gap.

Section B: Short Answer Question

- Candidates generally understood the term interest rate but were unable to distinguish between an interest rate and the base interest rate.
- When asked to draw a diagram all marks can be achieved through the diagram and no written explanation is required. Many candidates supported their response with a written explanation when in fact the diagram had achieved full marks.
- Many candidates did not know a definition of savings ratio. Candidates did not pick up on the need to comment on the trend in savings ratio when asked. Centres should practise reading data style questions to help candidates understand the difference between commenting on data and commenting on a trend.
- A number of candidates could not calculate the multiplier and apply this in context to calculate the overall change in national income. Centres need to practice this style of question with candidates to build their confidence in calculations.

Section C: Data Response

- When candidates are required to define or explain a key term, they must provide a detailed and accurate definition.
- When asked to refer to an extract, candidates must use the case study to support their answer for application marks.
- If a question requires a macroeconomic effect, candidates must answer using theory linked to the macroeconomy. Responses that focus on microeconomic changes will not achieve all of the marks.
- 12(c) required analysis and some candidates struggled to access the second mark. Candidates would need to analyse how the reduction in indirect tax would cause the macroeconomic impact.
- When asked to reference the information provided, answers should be in context. Candidates should have referenced the investment into the technology sector in Romania rather than offering a generic answer.

- In the 8 mark question there are two evaluation marks available. These can be accessed through making two evaluative comments or by developing one evaluation point.
- 12(e) required candidates to discuss the effects of inflation on Romania's economy. Many candidates offered generic answers, and these were awarded Level 1.
- Candidates that offered developed chains of reasoning in context were awarded Level 3.

Section D: Essay

- Define the key terms relevant to the question.
- If relevant, include a diagram and explain it as part of the write up.
- Many candidates looked at many more reasons but what they gained in breadth they lost in depth as they did not provide enough chains of reasoning to access the analysis marks. The key is to analyse how the macroeconomic objectives conflict or why is consumer expenditure a benefit to the economy.
- Evaluation points should be made and linked to the context of the question. These should have a chain of reasoning or sufficient development to be able to achieve Level 3.
- To achieve Level 3 for evaluation in the essay it is necessary to include an informed judgement.

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>

