



Mark Scheme (Results)

January 2020

Pearson Edexcel International A Level
In Economics (WEC12)

Paper 01 Macroeconomic performance and
policy

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A

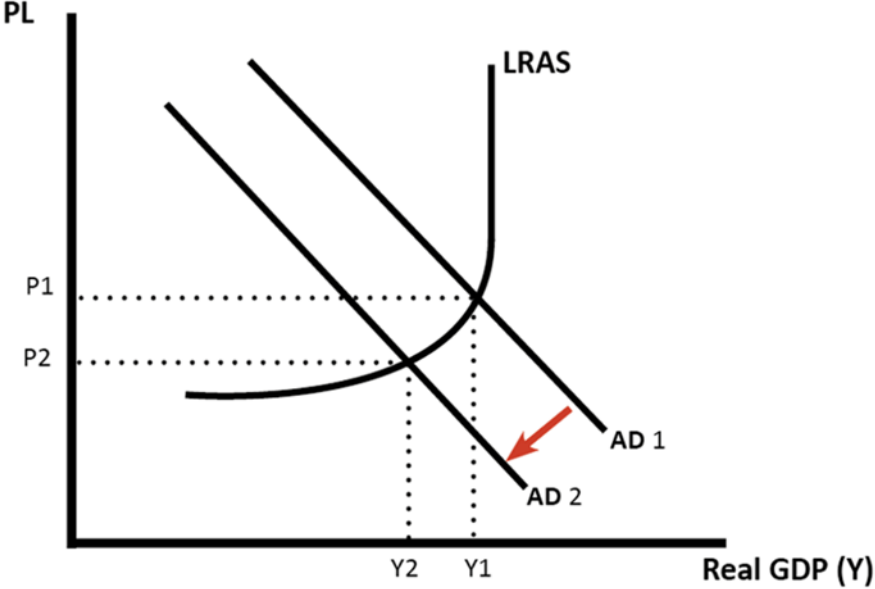
Question	Quantitative skills assessed	Answer	Mark
1	-	A	(1)
2	QS2: Calculate, use and understand, percentages, percentage changes and percentage point changes QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	B	(1)
3	-	B	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	C	(1)
5	-	D	(1)
6	QS4: Construct and interpret a range of standard graphical forms	B	(1)

Section B

Question	Explain one possible effect of this change in net migration on Lithuania's long-run aggregate supply.	Mark
7	<p>Answer</p> <p>Knowledge 1, Application 1, Analysis 2</p> <p>QS2: Calculate, use and understand, percentages, percentage changes and percentage point changes</p> <p>Knowledge 1 mark for:</p> <ul style="list-style-type: none"> • Knowledge of net migration e, g Net migration is immigration minus emigration (1) • Knowledge of/or drawing of a LRAS curve (Keynesian/ Classical)(1) <p>Analysis Up to two marks for:</p> <ul style="list-style-type: none"> • Reduction in productive capacity/fall in factors of production (1) • If skilled labour leaves, productivity may fall (1) • Identification of/or diagram showing leftward shift/decrease in LRAS (1) <div data-bbox="443 1077 1235 1630" data-label="Figure"> </div> <p>Application One mark for applying to Lithuania e.g.:</p> <ul style="list-style-type: none"> • Net migration has fallen from 1.4% to -6.1% (1) • Net migration was positive and now negative (1) • Net migration has fallen by 7.5 percentage points (1) • More people now emigrate from Lithuania and immigrate to the country (1) 	(4)

Question	With reference to the chart, explain the difference between inflation and disinflation.	Mark
8	<p>Answer</p> <p>Knowledge 2, Application 2</p> <p>QS2: Calculate, use and understand, percentages, percentage changes and percentage point changes QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p>Knowledge Up to 2 marks for definitions of inflation and disinflation e.g.:</p> <ul style="list-style-type: none"> • Inflation is the sustained rise in the average/general price level (1) • Disinflation is fall in the rate of inflation/average price level increasing at a slower rate (1) <p>Application 1 mark for example of inflation e.g.:</p> <ul style="list-style-type: none"> • Average prices were increasing throughout the period (1) • There was inflation just over 10% in January 2018 (1) • Inflation peaked in August 2018 at nearly 18% (1) <p>1 mark for example of disinflation e.g.:</p> <ul style="list-style-type: none"> • There was disinflation between Jan 2016 and May 2016 (1) • The inflation rate fell from 13% in November 2017 to 10.5% in February 2018 (1) 	(4)

Question	Explain one possible impact of increased real incomes on the USA's net trade balance.	Mark
9	<p>Answer</p> <p>Knowledge 1, Application 1, Analysis 2,</p> <p>Knowledge Up to 1 mark for knowledge e.g.:</p> <ul style="list-style-type: none"> • Definition of real incomes e.g. income adjusted for inflation (1) • Definition of net trade balance e.g. total value of exported goods and services minus the total value of imported products. (1) <p>Application Up to 1 mark for applying to the data:</p> <ul style="list-style-type: none"> • Real incomes rose by 1.8% in the USA (1) • There was a small rise in real incomes (1) <p>Analysis Up to 2 marks for explaining how increase real incomes impact net trade balance</p> <ul style="list-style-type: none"> • If real incomes rise there will be an increase in the demand for imports (1) • Ceteris paribus, higher demand for imports causes a deterioration in the net trade balance (1) 	(4)

Question	<p>Draw a LRAS and AD diagram to show the possible long-run impact of this significant increase in the base interest rate on AD, the price level and real output for Turkey.</p> <p>Answer</p>	Mark
10	<p>Knowledge 1, Application 3</p> <p>Quantitative skills assessed:</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge</p> <p>Correct labelling of the axes e.g. price level and real output/GDP (1)</p> <p>Application</p> <p>Up to 3 marks for the following information included on the diagram</p> <ul style="list-style-type: none"> • Drawing the original AD/LRAS curve (1) • Drawing a new AD curve to the left/decreased (1) • For the correct final equilibrium price level and output (1) 	(4)

Question	Answer	Mark
11	<p>Calculate the final increase in GDP resulting from this €18 billion investment. Show your workings.</p> <p>Knowledge 1, Application 3 Quantitative skills assessed: QS1: Calculate, use and understand ratios and fractions</p> <p>Knowledge 1 mark for correct multiplier formula, e.g. Multiplier = $1/(1-MPC)$ (1)</p> <p>Application Up to 3 marks for use of data in calculation, e.g.: Multiplier = $1/0.28 = 3.57$ (1)</p> <p>€18 billion \times 3.57 (1) = €64.286 billion (1)</p> <p>NB: If correct answer (€64.286 billion) is given, award full marks regardless of working. Also accept accurate answer to 0dp, 1dp, 2dp, 4dp If billion is missing, award 3 marks</p>	(4)

Section C

Question	Answer	Mark
12 (a)	<p>Define the term 'Consumption' (Extract A, line 9).</p> <p>Knowledge 2</p> <p>Up to 2 marks for offering a definition of consumption e.g.:</p> <ul style="list-style-type: none"> • Consumption is the total spending on goods and services (1) by households/at a given price level/in a given time period (1) • Consumption is a component of AD (1) • The part of income that is not saved (1) • Consumption rose in Canada during 2017 (1) 	(2)

Question	Answer	Mark
12 (b)	<p>With reference to Figure 1, explain the term 'real GDP growth rate'.</p> <p>Knowledge 2, Application 2</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Knowledge</p> <p>Up to 2 marks for offering a definition of real GDP growth rate: Definition of GDP: value of goods and services produced by a country in a year (1)</p> <p>The growth rate measures the percentage change in GDP (1) accounting for inflation (1)</p> <p>Application</p> <p>Up to 2 marks for reference to Figure 1 e.g.:</p> <ul style="list-style-type: none"> • GDP growth was at its highest in Q2 2014 at 1.2% (1) • GDP growth was negative in Q1 2015 (1) • GDP growth was positive between Q3 2016 and Q2 2018 (1) 	(4)

Question	With reference to Extract A, analyse one possible macroeconomic impact of the increase in house prices on the Canadian economy.	Mark
12 (c)	<p>Answer</p> <p>Knowledge 2, application 2, analysis 2</p> <p>Knowledge Up to 2 marks for:</p> <ul style="list-style-type: none"> • Identification of wealth effect (1) • Definition of wealth effect: As the value of assets increases (1) consumer spending increases (1) • Houses are assets (1) <p>Application 2 marks for reference to Extract A:</p> <ul style="list-style-type: none"> • Average house prices increased by 5.7% in 2017 (1) • Consumption had risen in 2017 (1) • Consumer confidence has risen (1) <p>Analysis Up to 2 marks for explaining the impact of higher house prices, e.g.:</p> <ul style="list-style-type: none"> • Increased house prices increase the value of assets (1) this increases confidence and consumption (1) • Leading to increased aggregate demand (1) causing inflationary pressure/real GDP growth (1) • Wealth effect causes an increase in the demand for loans (1) this increases consumption (1) • Also accept accurate diagram showing increase in price level (1) and change in output (1) 	(6)

Question	With reference to Extract B, examine the likely impact of government policies to increase wellbeing.	Mark
12(d)	<p>Indicative content</p> <p>Knowledge 2, application 2, analysis 2, evaluation 2</p> <p>Knowledge and Analysis 1 mark for knowledge of wellbeing e.g.: Measures factors such as happiness/health/quality of life (1)</p> <p>Up to 2 marks for identification of impacts of government policies to increase wellbeing and up to 2 marks for linked explanations showing the impact on wellbeing, e.g.:</p> <ul style="list-style-type: none"> • Better access to food (1k) making people healthier and able to attend school or work (1an) • Better quality housing improves mental and physical health (1k) reducing long-term unemployment (1an) • Higher levels of school attendance increase skills (1k) increasing the productive capacity of the economy in the long-run (1an) <p>Application Up to 2 marks for reference to Extracts:</p> <ul style="list-style-type: none"> • Canadian Government announced its continued commitment to improving the wellbeing of the country (1) • Increased government spending on wellbeing (1) • Low-income households lack access to basic necessities such as food and housing (1) • Lack of essential goods and services can lead to both mental and physical health problems (1) • Around one in ten people live in low-income households (1) • 2.7 million people living on a low income do not have enough food causing health problems (1) • Health problems can stop households working or children attending school (1) • The government has increased the financial benefits to low-income households and to people who are unable to work (1) • Increase in funding for low-cost housing, healthcare and better quality drinking water (1) <p>Evaluation Up to 2 marks for evaluative comments, e.g.:</p> <ul style="list-style-type: none"> • Wellbeing is a subjective concept (1) which is hard to quantify (1) • Increased benefits do not guarantee the money is spent on healthy food (1) which may not improve wellbeing (1) • Improved health may not improve employment levels (1) as individuals may not have the skills to find work (1) • There may not be demand for workers in the economy (1) as unemployment is still 5.8% (1) 	(8)

	<ul style="list-style-type: none">• Increased government spending may cause a budget deficit. (1) The government might reduce spending in other areas or increase tax rates (1)• Increase in income does not always improve wellbeing, (1) other factors such as safety or location of family may have a greater impact (1)• Magnitude of spending (1) may not be sufficient to increase standards of living or reduce health problems (1)• Higher benefits might act as a disincentive to work (1) reducing productive capacity (1)• Increases in leisure time might be more significant than increases in income in improving wellbeing (1)	
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Question	Using the information in Figure 2 and Extract A, discuss the impact of low investment on Canada's economy.	
	Indicative content	
12(e)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application and Analysis (8 marks) – indicative content</p> <ul style="list-style-type: none"> • Understanding of investment • Investment is spending on capital goods • Canada's low investments relative to other countries at 10.9% of GDP <p>Impacts include:</p> <ul style="list-style-type: none"> • AS and AD analysis showing the impact of low investment • Low investment may lead to a fall in long-run economic growth as the productive capacity of the economy does not expand • Low investment may have a negative impact on standards of living; the human capital of the workforce may decline reducing productivity and wages • Low investment may reduce the quality of capital equipment making the labour force less specialised and productive • If low investment causes productivity to fall firms become less competitive and may become less profitable • Low investment and falling productivity reduce demand for Canadian products this may lead to an increase in the current account deficit • Accept relevant macroeconomic analysis using PPF • Business cycle showing a slowing trend growth rate 	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question.

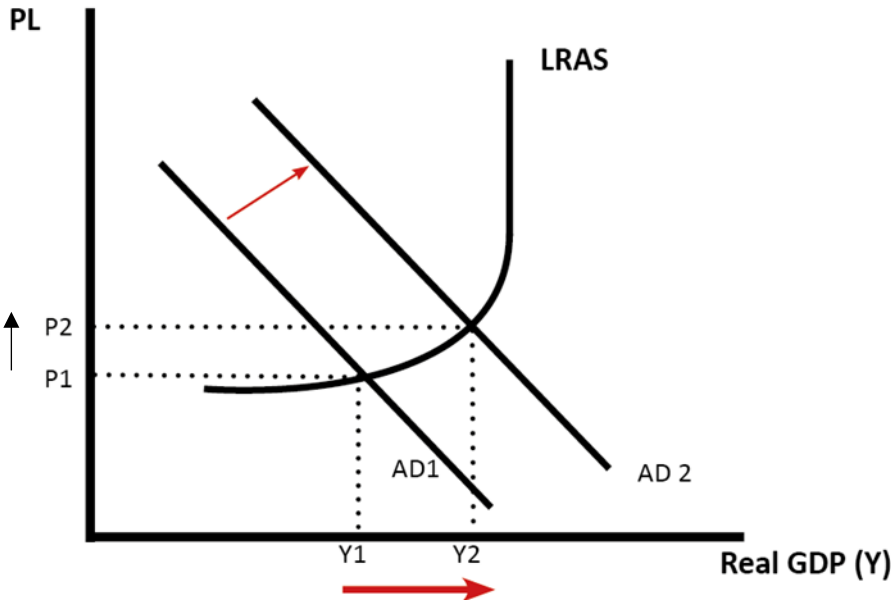
		Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	<p>Evaluation (6 marks) – indicative content</p> <ul style="list-style-type: none"> • Strong economic growth may encourage investment increasing productivity • Data may reflect increasing GDP rather than low investment therefore relative productivity may not be as low as indicated • Economic growth throughout 2017 and 2018 may be reducing investment as a proportion of GDP, although investment may be rising but at a slower rate • If the economy is mainly service-based low capital investment may not be as significant a problem • Some economies may require higher investment to catch up • Higher exports in Canada may offset low investment levels • Magnitude of how low investment is e.g. compared to South Korea 21.3% • Other countries e.g. the UK has a lower investment rate than Canada • Quality of investment might be more important than the absolute amount of investment for economic growth 	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5-6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

<p>Question</p>	<p>Evaluate the costs of rapid economic growth on an economy of your choice.</p>
<p>13</p>	<p>Indicative content</p> <p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application and Analysis (12 marks) – indicative content</p> <p>Award maximum of Level 3 (9 marks) if candidate does not refer to a country/context in their answer</p> <ul style="list-style-type: none"> • Understanding of rapid economic growth • Economic growth is an increase in the productive capacity of the economy • The growth today could deplete natural resources reducing possible production in future • Pollution may affect health/living standards/wellbeing/productivity • Rapid actual economic growth may cause high inflationary pressure, which is detrimental to those on a fixed income/reduces the value of savings/stop future investment/menu costs • Real incomes may not rise if inflation is high • If demand for imports increases, growth might cause a balance of trade deficit • Inequality may increase if the gains from economic growth mainly benefit the owners of resources • Rapid economic growth may negative impact the current account on the balance of payments as import rise and exports fall <p>Reward diagrams showing change in AD and LRAS</p>

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
		<p>Evaluation (8 marks) – indicative content</p> <ul style="list-style-type: none"> • Rapid economic growth leads to higher employment reducing the level of cyclical unemployment • As wages rise standards of living also increase • As incomes rise, the government receives more tax revenue reducing the fiscal deficit • Reduced need for benefit payments • Firms profits will increase leading to further investment and an increase in the LRAS • Government may use higher tax receipts to increase public spending, reducing inequality and improving standards of living • Inflationary pressure may reduce following improvements in LRAS • Difficulty in defining 'rapid' • Economic growth can lead to an increase in resources available to deal with pollution • Difficulty in measuring pollution and how much of it is contributed by growth • Difficulty in quantifying the economic impacts of pollution linked to rapid growth • Impact of rapid growth may only be experienced in the long-term

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the impact of reflationary demand-side policies on an economy of your choice.
14	<p>Indicative content</p> <p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application and Analysis (12 marks) – indicative content</p> <p>Award maximum of Level 3 (9 marks) if candidate does not refer to a country/context in their answer</p> <ul style="list-style-type: none"> • Demand side policies are the use of monetary or fiscal policy aimed at increasing aggregate demand • Reflationary policies are aimed at increasing the price level in the economy <ul style="list-style-type: none"> • Lowering income tax increases disposable incomes, leading to increased consumption and price levels • Fiscal policy, through the use of government spending, increases expenditure in the economy to stimulate growth and create jobs, possible multiplier increasing AD • Reflationary Demand-side policies can cause inflationary pressure; this may reduce competitiveness of the country's exports • Could lead to a deterioration in the current account because higher disposable incomes would lead to an increase in demand for imports • Increased government expenditure and investment may lead to a multiplier effect, further increasing AD and inflation • Lower interest rates reduce the cost of borrowing increasing may cause an increase consumption so increasing AD <p>Reward diagrams showing an outward shift in AD and increase in real GDP</p> 

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
<p>Evaluation (8 marks) – indicative content</p> <ul style="list-style-type: none"> • Consumers may only respond to fiscal changes if confidence is high • This may not be effective in times of recession, as consumers worry about job security • Impact on GDP depends on the marginal propensity to withdraw • If future expectations are low, the impact may be limited • Government spending may crowd out private investment, having limited positive effect on overall economic growth • Trade-off between increased economic growth and excessive inflationary pressures • Inflationary pressure will be determined by the position of the AD curve on the LRAS curve/shape of LRAS • Demand-side policies may have supply-side consequences • Magnitude depends on the size of any demand-side policy • Significant time lags associated with demand side policy- before tax changes or government spending changes occur or for transmission mechanism to work • Classical view in long run is that it is inflationary only, Keynesian view is that if the economy will expand and wages will adjust 		

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.