

Examiners' Report
June 2014

GCE Economics 6EC02 01

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June 2014

Publications Code US038580

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Introduction

This paper followed the same format as previous papers in this series, with 2 data-response questions from which candidates must choose one. Questions range from 4 to 30 marks, with evaluation marks being awarded in the 12 and 30-mark questions.

Overall, all questions on this paper were seen to be accessible by candidates. There were no particular questions that stood out as being particularly challenging or easy. The two questions were answered by a roughly equal number of students, and performance on each question is seen to be fairly similar.

One particular issue that stood out is that there are a significant number of candidates who do not know the key economic definitions, for example ILO unemployment for 1(b)(i) and the multiplier effect for 1(a)(iii). All candidates are expected to be able to explain such measurements and other key concepts in macroeconomics. Numerical understanding also stood out as being an issue for some candidates, where they have failed to understand the context of the question and therefore produced answers that do not address the demands of the question. This was particularly apparent on 1(a)(i).

I would also like to emphasise that candidates should be producing answers that are plausible and logical bearing in mind the data they have been provided with and the current state of the UK economy. It is disappointing to see candidates writing about, for example, the UK experiencing demand-pull inflation when the economy is still emerging from a prolonged period of low growth and unemployment is still significantly above its long-term trend. Not only was this information included within the exam paper, but as part of the course candidates should be studying the key trends in the UK economy.

On the whole, candidates do seem to have found 2(c) slightly easier than 1(c). They appear to be confident in their ability to explain transmission mechanisms surrounding the impact of monetary policy on macroeconomic objectives. Whereas the concept of productivity was one that students are perhaps less familiar with. The topic of productivity in question 1, for both 1(b)(iii) and 1(c), offered a good chance for the more able students to really demonstrate their strong grasp of a key economic concept and its relationship to the wider economy.

Finally, I would like to remind students of the importance of making sure their answers are clear to the examiner when they are being marked. Examiners always mark positively and try their best to award marks to candidates, but this is made more difficult by poorly laid-out work, unclear crossing-out of work, untidy handwriting, and excessively small diagrams drawn without a ruler. In addition, a plea to any candidates using additional sheets of paper is to make it clear on these extra sheets what question each piece of writing refers to so examiners are confident they have accurately marked a candidate's work.

Question 1 (a) (i)

A significant number of candidates simply failed to grasp what this question was asking them to explain. Looking at figure 1, it should be clear that although the UK does now have economic growth, because the UK had significant declines in GDP (i.e. total GDP was shrinking) the small increase of 1% in the 3rd quarter of 2012 was not going to be enough to make up for those significant falls in GDP during the previous few years. Therefore, total GDP in the UK would still be significantly below where it was before the recession. Clearly, this distinction between the rate of change of GDP and the size of the UK's total GDP was one that many candidates did not appreciate. Also in terms of the application marks, many referred to 1% growth without highlighting that this occurred in the 3rd quarter of 2012- so again skills in interpreting data are an important issue.

Economic growth is the potential output of the economy shown by a rightward shift to the production possibility frontier. In 2012 the percentage change in real GDP of UK is 1%. It may be strongest because this will increase the employment, living standard, public services etc.



ResultsPlus Examiners Comment

This answer scored 0/6 as, whilst there is a correct explanation of what GDP is and the concept of a PPF, this is not answering the question and so examiners are unable to reward it.



ResultsPlus Examiner Tip

Although the candidate here did correctly identify that there was 1% growth in 2012, they did not specify that this was in the third quarter, and so they could not receive the application marks. Remember to always include relevant time periods when making application points.

Economic growth is a percentage change in real GDP from quarter to quarter. In the third quarter of 2012, economic growth was close to 1%. This was the strongest in five years because it had the biggest increase from the previous quarter, moving from negative growth of 0.4% to positive growth of 1%. This was stronger than any previous percentage change - even in 2007, growth was only around 0.1% on the previous quarter. However, this economy was still smaller because the economy experienced such deep negative economic growth of -2.1% in the recession, and it was so prolonged over two years that afterwards any recovery would still only be small. It would take a long time for the economy to reach the confidence that it was at in 2007.



ResultsPlus
Examiner Comments

This answer scored the full 6 marks for this question, as follows:

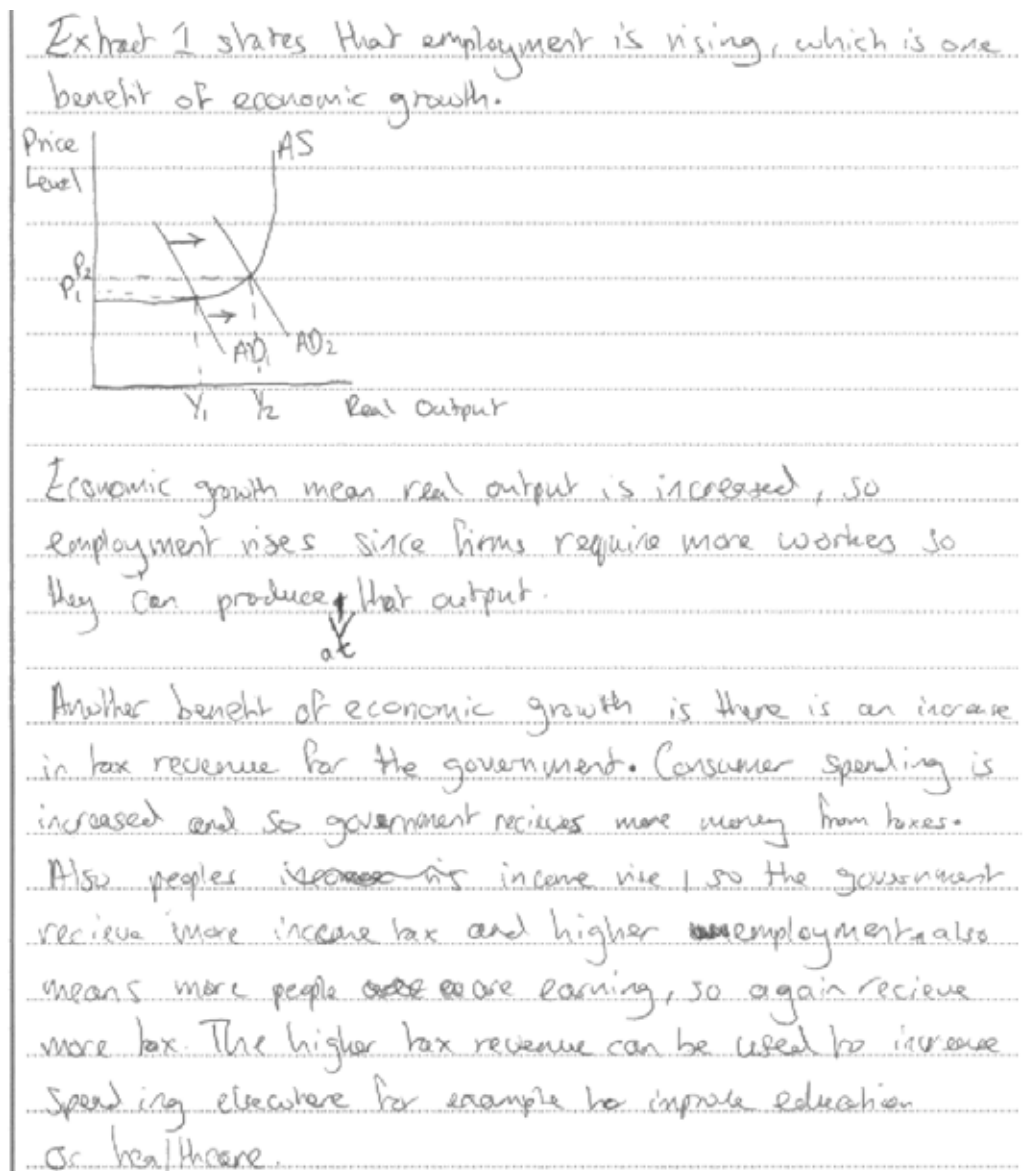
application 2 marks - identified third quarter of 2012 as 1% growth

knowledge 4 marks - for explaining how, although the economy is now growing, the economy 'experienced such deep negative economic growth' etc.

This candidate has clearly grasped the whole point of this question - to appreciate the difference between a change in GDP and total GDP in an economy.

Question 1 (a) (ii)

As with all the 8 mark questions in this paper, candidates need to make two clear and distinct points to get the full marks on this question. For each point that a candidate makes they will get 2 marks for identifying a relevant point, for example an increase in employment, and then a further 2 marks for analysing that point. For example, explaining how rising unemployment might mean an improvement in people's standard of living as their income has now increased. Or alternatively, saying how this will benefit the government in terms of less spending on jobseekers allowance and more money being received in tax revenue.



ResultsPlus

Examiner Comments

The candidate's first point about unemployment here only receives 2 marks as they have correctly identified that 'employment is rising', but have not analysed it by explaining what the benefit of this is. In contrast, their second point about increased revenue for the government goes on to discuss how the government could use this extra income to improve spending on healthcare or education, and so it receives the full 4 marks. Overall then this candidate scores 6/8.



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Examiner Tip

It is good practice to clearly separate your two points, as this candidate has done, so your two distinct points are immediately clear to the examiner.

There are two likely benefits⁽⁸⁾ of the economic growth. The first one is that living standards of people tend to increase. This is because as economy grows people's national income rises and therefore people have more money to spend. This is due to confidence in future. As it says in extract one the retail sales are picking up and consumption is increasing as well as it states that real disposable incomes rise as well. Overall it is good because more people are better off and this reduces problems such as crime.

The second possible benefit of growth is that, as consumption rises to firms respond to it by increasing the supply. Increase in supply will shift SRAS out which will mean that more jobs will be created and unemployment will fall. As it says in extract 1 employment is rising. This will automatically contribute to rise in tax revenue which will enhance the welfare system.



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Examiner Comments

This candidate has clearly answered the question by explaining precisely how each of their points is a **benefit** that has resulted from economic growth e.g. the last sentence where they say a rise in employment will 'automatically contribute to a rise in tax revenue'.



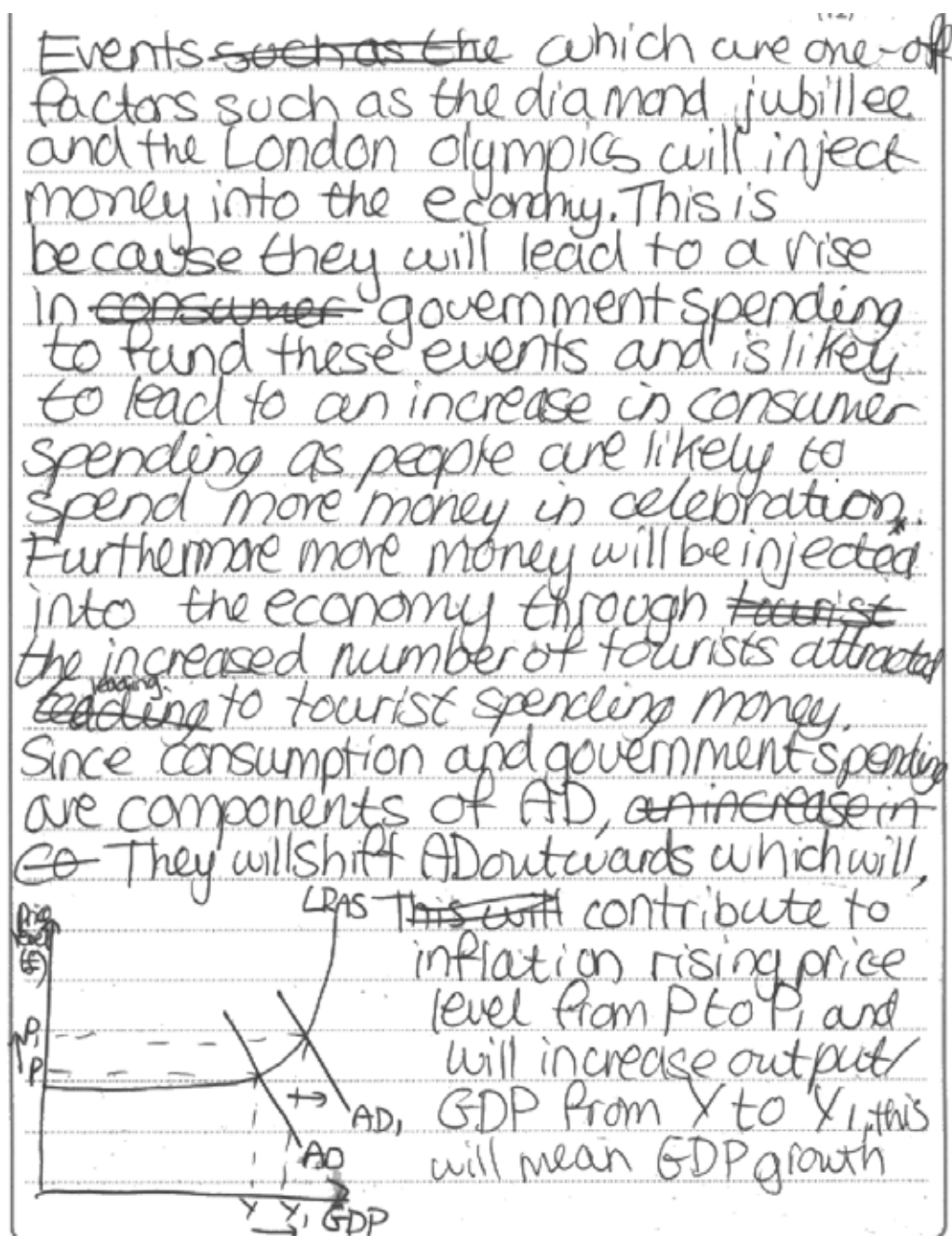
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Examiner Tip

It is good to start a paragraph off by identifying your point. That way you have already earned yourself the two identification marks, and you can then follow this up with your analysis of the point to get the final 2 marks out of 4.

Question 1 (a) (iii)

This question asks candidates to specifically refer to the multiplier in their answer, and as such 2 of the 8 KAA marks were reserved for an accurate definition of the multiplier. It was therefore disappointing to see that a significant number of candidates were not able to provide this as part of their answer, and many made attempts that were far too vague and imprecise to get any credit. Those candidates who scored highly on this question in terms of the 8 KAA marks tended to be those who began with a clear and accurate definition followed by a step-by-step explanation of how an injection into the circular flow fed through the economy and tying this into how the multiplier effect worked. They then backed this up with a clear and accurate AD/AS diagram showing AD increasing out to the right. Candidates were also expected to make their answers relevant to the context of the question seeing as how they had been given two specific events that would be highly likely to have caused a multiplier effect in the UK economy. In terms of evaluation, most students made good use of the fact that these are 'one-off' events as mentioned in the question and other common evaluation points included the size of the multiplier, consumers' marginal propensity to spend or save, and the magnitude of the extra spending.



However the extent to which this will effect the economy depends on the multiplier. The multiplier is the cycle of respending which occurs in the economy, one persons spending is another persons ~~borrowing~~ income. However if the economy is in a bad state ~~or~~ or if there is low consumer confidence the multiplier is likely to be ~~high~~ as low as more people ~~are~~ will save their money rather than consume it, this is a withdrawal from the circular flow of income and mean the price level and GDP is unlikely to change as much. ^{GDP growth}

Furthermore it depends on the amount of government spending on these events to the amount AD increases by and the amount of change in the economy.

It also depends on the output gap, if the economy is close to full capacity it is likely to ~~only~~ only cause inflation and no/little change in GDP.

Furthermore since these are one off events any changes in price level and GDP/GDP growth is likely to only last in the short run as the increased level in AD will not be ~~or~~ sustained



This candidate clearly understands the concept of the multiplier, and they have used it to good effect to discuss injections into the circular flow of income both from government spending and from tourists coming to the UK to celebrate these major events. They then go on to make clear and relevant evaluation points. In total then this candidate scores 10/12 marks – they cannot get more than 6/8 for the KAA section as they do not have an accurate definition of the multiplier.



This highlights the importance of knowing your definitions – here is a student who clearly knows exactly what the multiplier effect is and who can evaluate it well, but they do not know how to define it so they have missed out on 2 marks.

The multiplier is the number of times a rise in total income exceeds the net injections that caused it.

One off factors such as the London Olympics and the diamond jubilee would have led to an increase in demand for related goods, so ~~the~~ producers were able to earn an income from selling these goods and then because of the multiplier effect, their extra spending becomes someone else's income. The producers who sell goods related to the Olympics would then go on to spend ~~it~~ in the economy, increasing consumer spending, so aggregate demand increases, so real output increases so economic growth occurs. It continues until all extra money from these one-off factors are leaked away.

The demand for ~~the~~ goods related to and services related to these one off factors, would also mean unemployment falls, as more people are being hired to increase output

So more goods and services can be sold for profit. The people who are now employed not only spend in the economy, thereby increasing income for other people due to the multiplier effect, but also pay income tax to the government, who could then spend increase government spending which would lead to economic growth, since AD increases.

However, if the size of the multiplier is low, then the extra income and spending in the circular flow of income and in the economy will not have much impact. Also, if the wages that newly employed people earn are low, consumer spending will not rise as much. Economic growth, caused by these one-off factors may not occur if other factors in the economy change which counteract this local

Also businesses related to the world will have more consumers as people visiting the London games and celebrating the diamond jubilee will spend in businesses such as restaurants and other shops and businesses, increasing profits for those firms. They will then spend into the economy and their spending will become someone else's income.



ResultsPlus

Examiner Comments

This answer scores the full 12/12 marks. As with the previous answer, they have clearly explained how the multiplier works – they have done a good piece of step-by-step analysis about goods being produced for the Olympics and another one about increased employment. However, the crucial difference is at the very start of the answer where they have a clear, precise definition of the multiplier that ensures they can access all 12 marks available on this question. They also have two clear evaluation points in the second-to-last paragraph, about the size of the multiplier and people's wages.



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Examiner Tip

This candidate has made good use of paragraphs to lay their work out clearly – this is a good habit to get into doing.

Question 1 (b) (i)

This should be a straightforward question which is simply testing a candidate's knowledge of a key economic measurement. However, it was surprising to note the number of candidates who clearly simply didn't know how ILO unemployment was calculated. These candidates gave references to the data and often described what the claimant count was. Some even discussed the accuracy or reliability of the ILO measure versus the claimant count. None of this gained any marks because none of it answered the question – which was simply asking candidates to explain how ILO unemployment is measured.

There are four marks available in this question and one mark is available for each piece of relevant description included in a candidate's answer.

UK ILO Unemployment is at 2.15 million, up 55% since 2007. ILO measures the people who are out of work, job, want a job, have actively search for a job in the past 4 weeks, and are able to start a job within 2 weeks. (or) people who are out of job, found a job and are going to start the job within two weeks.



ResultsPlus Examiner Comments

In this answer the candidate scores 2/4 marks as they correctly identify that ILO unemployment measures:

those who are actively looking for a job and out of work for the last four weeks and;

those ready to start work in the next two weeks

There is no other explanation of how ILO unemployment is measured so this is the maximum they can score.



ResultsPlus Examiner Tip

On 4-mark definition questions ensure you have 4 accurate pieces of relevant explanation. For example, here the candidate could have said that it is a survey conducted in the form of an interview and they would have then gained the full 4 marks.

ILO unemployment is measured using questionnaires, interviews and surveys by phone. It includes people aged 16-65, people who have been out of work for at least 4 weeks and are ready to work in two.



ResultsPlus

Examiner Comments

This response scores the full 4 marks as the candidate has clearly identified 4 relevant pieces of information that illustrate how ILO unemployment is measured. They are:

questionnaire/interview

survey

out of work for at least four weeks

ready to work in two



ResultsPlus

Examiner Tip

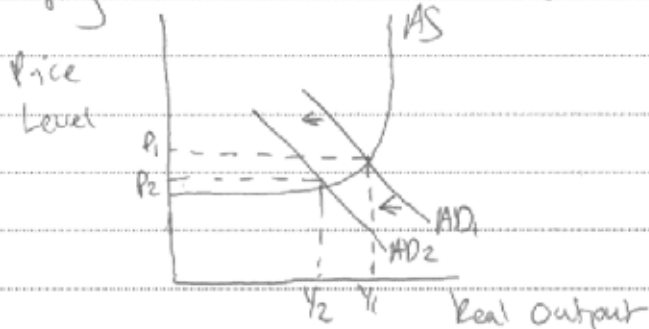
This is an excellent example of the fact that you do not need to write lots to achieve full marks in this exam – just be concise and get your points across clearly and you will score lots of marks.

Question 1 (b) (ii)

This question clearly asks candidates to explain **two** problems of the long-term unemployment identified in the extract. Therefore, as with all 8-mark questions, there will be 4 marks available for each point a candidate makes. These are broken down into 2 for identifying a relevant point and 2 for analysing that point. It is worth noting that there are no marks available for evaluation in an 8-mark question – too many candidates are wasting valuable time evaluating here when the question has not asked them to do so.

One reason why many candidates were scoring identification marks only on this question is that they had failed to read it carefully and did not relate the problem they had identified to the UK economy. Candidates should remember that this is a macroeconomics exam and as such we are concerned with the implications for the wider UK economy of key trends such as this unemployment data.

One problem would be reduced economic growth because of a decrease in AD since consumer spending falls as more people save money and only buy the goods they require if they are unemployed. It will lead to a loss in real output and can even lead further decreases in economic employment due to a decrease in real output.



Another problem is that government will receive less tax revenue and have to pay more unemployment benefits. This means there is an opportunity cost since the government may cut spending in other areas such as education and healthcare. This will result in lower economic growth due to a fall in AD, leading to a fall in real output. Quality of a education or other government financed areas will fall.



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Examiner Comments

In this answer the candidate has begun by identifying reduced economic growth and explaining why this is a problem for the UK economy before then going on to do the same in terms of the government's finances. They have very clearly identified two relevant points, and included clear, specific analysis to link the high long-term unemployment rate to its impact on the UK economy. As such they have gained the full 8 marks on this question.



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Examiner Tip

Remember to 'signpost' your answers to the examiner. This candidate has clearly used two separate paragraphs and started both by identifying the issue they are going to explain.

A key problem of long term unemployment for 35% of those unemployed is ~~that~~ ^{they} ~~that~~ ~~these~~ ~~unemployed~~ have less ~~incentive~~ incentive to look for ~~and~~ work. Due to the fact that ~~the~~ unemployed are given benefits ~~to~~ to help ~~and~~ ^{them} ~~at~~ ~~the~~ ~~same~~ ~~time~~ ^{financially}, ~~at~~ the fact that 'people have not been able to find work for more than 12 months will lead them to stop trying and becoming more dependant on benefits as a result. This is also because their skills may become outdated and there is negative impact on their CV, making them less attractive to employers, ~~so~~ ^{making} it more difficult for them to find work and so they will gradually lose incentive. Moreover a problem of long term unemployment is that the government will have to ~~also~~ keep providing benefits such as the Jobseekers Allowance and as a result they may have to increase taxation or stop as much spending on other areas of the economy such as education in order to fund benefits for the unemployed. This can put a strain on government spending or tax payers, leading to a possible slower rate of economic growth, negatively impacting the UK economy as a result.



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Examiner Comments

In this answer the candidate has correctly identified two problems for the UK economy of the high long-term unemployment. First of all that people will give up looking for work and the impact on the government's finances. The difference, however, is that in their first point they have written solely about the impact on the individuals who are out of work – how they will be less attractive to employers, will lose the incentive to look for work, etc. There is no explanation of how this would affect the UK economy as a whole - for example in the form of a reduction in productivity as workers have lost vital skills. Therefore this candidate scores 2 marks for their first point and 4 marks for the second one, giving 6/8 marks in total.



Remember this is a **macroeconomics** exam – your points should therefore always be in a macro context.

Question 1 (b) (iii)

This question has 8 marks for KAA and 4 marks for evaluation. Candidates who scored highly identified two impacts of 'the UK's relatively poor productivity performance on its economy' and provided a relevant evaluation point to go with each one. Thus they scored 4 marks for each of their KAA points and 2 for each of their evaluation points. Candidates who only made one evaluation point generally struggled to make it detailed enough to warrant 4 marks.

Many candidates found this question challenging as they lacked a full understanding of exactly what economists mean when they talk about productivity. Hence, a number of answers focused more on the impact of a lack of production in the economy. These candidates generally scored poorly on this question.

The most common impact for candidates to discuss was the impact on our current account in the form of a loss of competitiveness in export markets and an increase in cheaper imports compared to domestically produced products. A loss of output and rising unemployment were also common impacts. Although, with these two examples, the candidates needed to make sure their answer didn't stray towards discussing a lack of production as opposed to productivity causing an impact on these key measures of the UK economy.

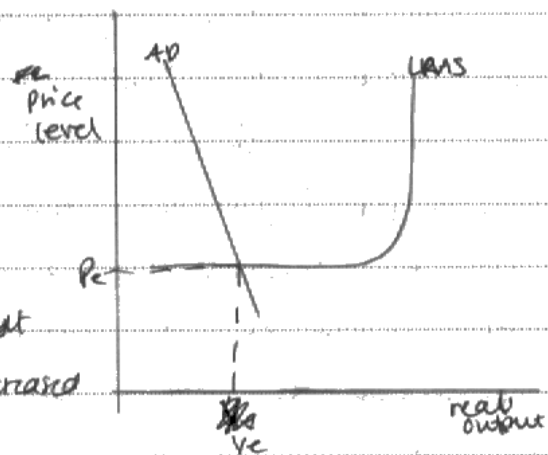
Productivity is output per input per time period. The UK's low productivity ~~is~~ compared to its European counterparts ~~has resulted in~~ can result in reduced foreign direct investment. Firms may be unwilling to set up branches ~~off~~ in the UK as they may believe that ~~by setting up branches here, ~~therefore~~~~ their business will suffer as the output of the ~~local~~ UK branch offices will be lower than that of other countries they have offices. This reduces the level of investment going into the UK economy thus ~~preventing~~ long run aggregate supply shifting out. ~~Without~~ investment can increase the productive capacity of the economy, so it can lead to economic growth. However this may not be true as many firms still set up branches in the UK ~~and~~ due to the large service sector. It is also very difficult to measure productivity of industries, especially the service sector which is the UK speciality.

Another impact of the UK's poor productivity would be a current account deficit. As the UK's productivity is low, foreign firms may attempt to compete with UK firms by pricing goods ~~competitively and~~ competitively. ~~and~~ The UK firms may not be able to compete as they are unable to increase productivity without increasing expenditure so UK exports will ~~decrease~~ decrease. UK imports ~~increase~~

as individuals may switch to overseas firms ~~and~~ that provide goods that they want so this results in the UK exports decreasing and imports increasing resulting in a current account deficit. However this on the other hand there are also goods that compete on non-price factors such as quality so even if a cheaper alternative comes along, ~~individuals are~~ ^{may be} unwilling to switch goods as the quality may not be to the expected standard.

A last factor of the UK's poor productivity ^{would} ~~would~~ be ~~the~~ ^{the} reduced output in the economy. Then due to the low productivity the economy

would have a lot of spare capacity as workers ~~can~~ could be taught to be more efficient at their jobs this would result in increased output but ~~then~~ firms wouldn't face increased costs. ~~the~~ ~~costs~~



Overall I believe that the UK's low productivity has resulted in a large amount of spare capacity due to the large gap in productivity, showing that if there is increased productivity output can be further increased. The goods can be non-price competitive and so the affect on the current account may not be that large.



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Examiner Comments

Marks for this question, as with all the 12-mark questions, are split into 8 marks for KAA and 4 marks for evaluation. This candidate actually identifies 3 KAA points, although only 2 are required. However, they are all relevant to the question – a drop of FDI, impact on the current account, and a loss of output due to reduced efficiency. This candidate has also included evaluation with both of their first two points. Therefore, this candidate scores the full 12 marks out of 12 for this question.



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Examiner Tip

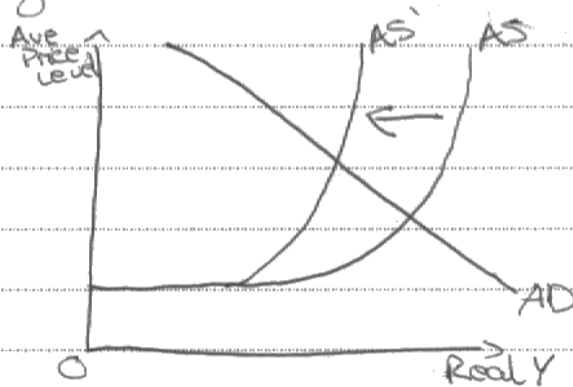
Ensure you are maximising your time in the exam – for this question in terms of the KAA marks you can only be rewarded for 2 points, whereas this candidate has made 3.

The fact that the UK has a poor productivity performance could have a number of negative consequences for its economy.

A poor level of productivity would mean that the UK is unable to ~~be~~ produce enough goods for itself as a nation. This would mean that more imports would be required and fewer exports could be supplied. This would cause a current account deficit as imports would exceed exports and thus a balance of payments would not be achieved.

Another problem would be that as less is being produced in the UK compared to other developed countries, its goods would become less competitive. This would be because higher prices would be charged as the goods are more scarce, and therefore buyers would be more likely to

buy goods from other countries, meaning that the UK economy would receive less revenue from exporting goods.



• Graph shows a fall in supply, so price increases.

The decrease in supply would cause an increase in price, meaning that ~~more~~ more would be spent on necessities and so less could be spent on other goods, resulting in ~~an~~ economic decline as firms revenue decreases so they cannot invest money into producing more.



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Examiner Comments

First of all, this candidate cannot score more than 8/12 as there is no evaluation in this answer. However, it is also apparent from what they have written that they do not understand what productivity is. They are constantly referring to production – for example suggesting there could be scarcity in the UK. However, they do score 4 marks for KAA as they have touched on relevant points which would be affected by the UK having a lower productivity – they simply haven't adequately explained these in the context of productivity.



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Examiner Tip

Productivity is an important and very useful macroeconomic concept – all students should ensure they are able to talk about it in the exam, obviously in questions where it is directly referred to, but it can also be useful in many other contexts – often as a useful evaluation point.

Question 1 (c)

This essay question is, like 1(b)(iii) before it, focused on the topic of productivity. This time the key issue is to consider how to improve productivity, thus clearly building on the discussion about the problems faced by the UK economy in the previous question. However, just like with 1(b)(iii), it is clear that again many students do not understand the difference between productivity and production. This frequently prevented students from achieving higher marks on this essay. To achieve full marks on this essay students need to demonstrate they have an understanding of the clear knowledge relating to the question – for example via a definition of productivity and an AD/AS diagram illustrating a rightward shift of aggregate supply to show what happens when productivity is improved. Examiners are then looking for 3 policies, for example investment in education, that the UK government could use to improve productivity. Finally, each of these points needs to have some clear evaluation to critique it. Students who followed this clear structure and understood what the question was asking of them generally scored highly.

Government could introduce supply side and demand side policies. They could introduce monetary policy which would lower interest rates and encourage investment to lower cost by increasing productivity. ~~Fiscal policy~~ Fiscal policy could be used to increase Government spending which increases aggregate demand but this could increase inflation and ^{worsen} the balance of payment on the current account as this money has to come from somewhere which means it will be borrowed.

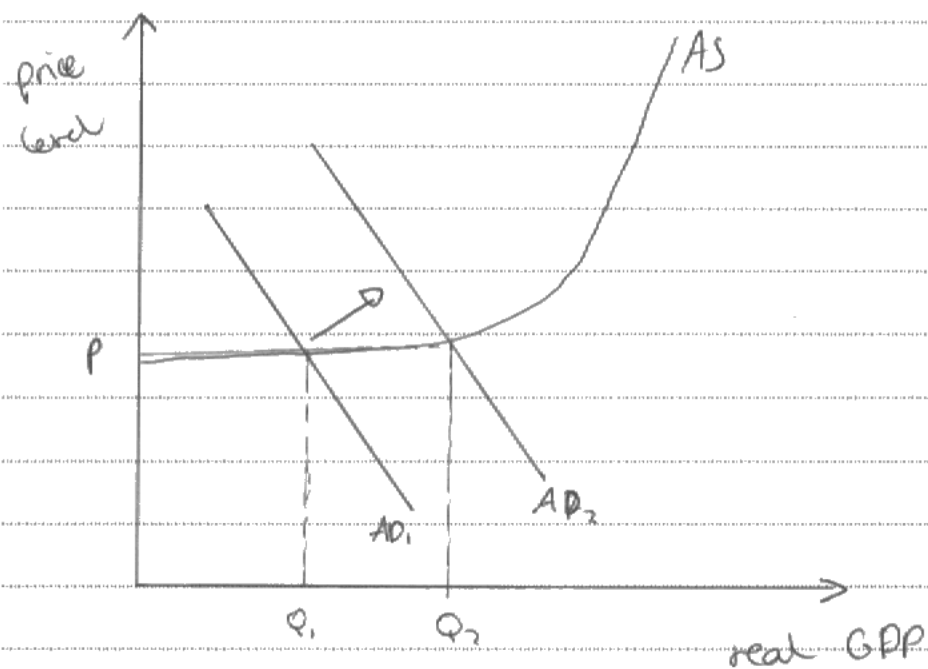
The government could employ supply side policies, which ~~would~~ such as ~~increasing real wages~~ ~~this may~~ introducing performance based pay for teachers, this would make them work harder and increase their productivity. This will benefit the economy in the long term as it improves education, so any advantages gained from that would only be gained in many years. Also by increasing the ~~comp~~ school leavers age to 18, this will reduce the amount of workers and in the short run will

reduce the supply of workers. In the long term we will have a ~~more~~ higher skilled work force which will increase productivity.

Fiscal policy depends on the ~~more~~ amount the government spends. To have a significant effect on productivity they will have to spend a lot, which is risky to the economy as if resources are allocated badly then the magnitude of an increase in productivity will be small and the government will have a lot of debt.

Another policy could be to deregulate markets and this could reduce costs of ~~the~~ production and it will increase competition due to the lower barriers to entry in this market. Increasing competition will make firms work harder to increase productivity.

They could increase real wages which would increase the incentive to work for many people and make them more productive but it could just increase costs which would mean a higher price to consumers and this would decrease consumption. If real wages are increased though then this will increase disposable income for families, and increase consumption.



The diagram shows an increase in productivity and a reduction in output gap, so the economy is working closer to maximum efficiency. There is an increase in GDP for a firm at the same price as they can produce more at the same price.

A deregulation could carry a time lag as it may take a year for companies to be able see the benefits of their increase in investment as they invest due to having lower costs from the deregulation. Any increase in productivity is dependent on the amount invested so there needs to be enough investment

to effect productivity.



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Examiner Comments

It is clear from the start of this answer that the candidate is not totally clear about what the question is asking them to do, since they quickly begin discussing boosting AD rather than AS.

In terms of KAA they have relevant points discussing education, wage levels, and deregulation. This candidate also makes an attempt at evaluation, discussing time lag concerns in relation to their points about both education and deregulation.

However, this answer was fairly brief and a number of points could not be given any marks - including the diagram because it is of a shift in AD rather than AS. Therefore this candidate received 16/30 marks.

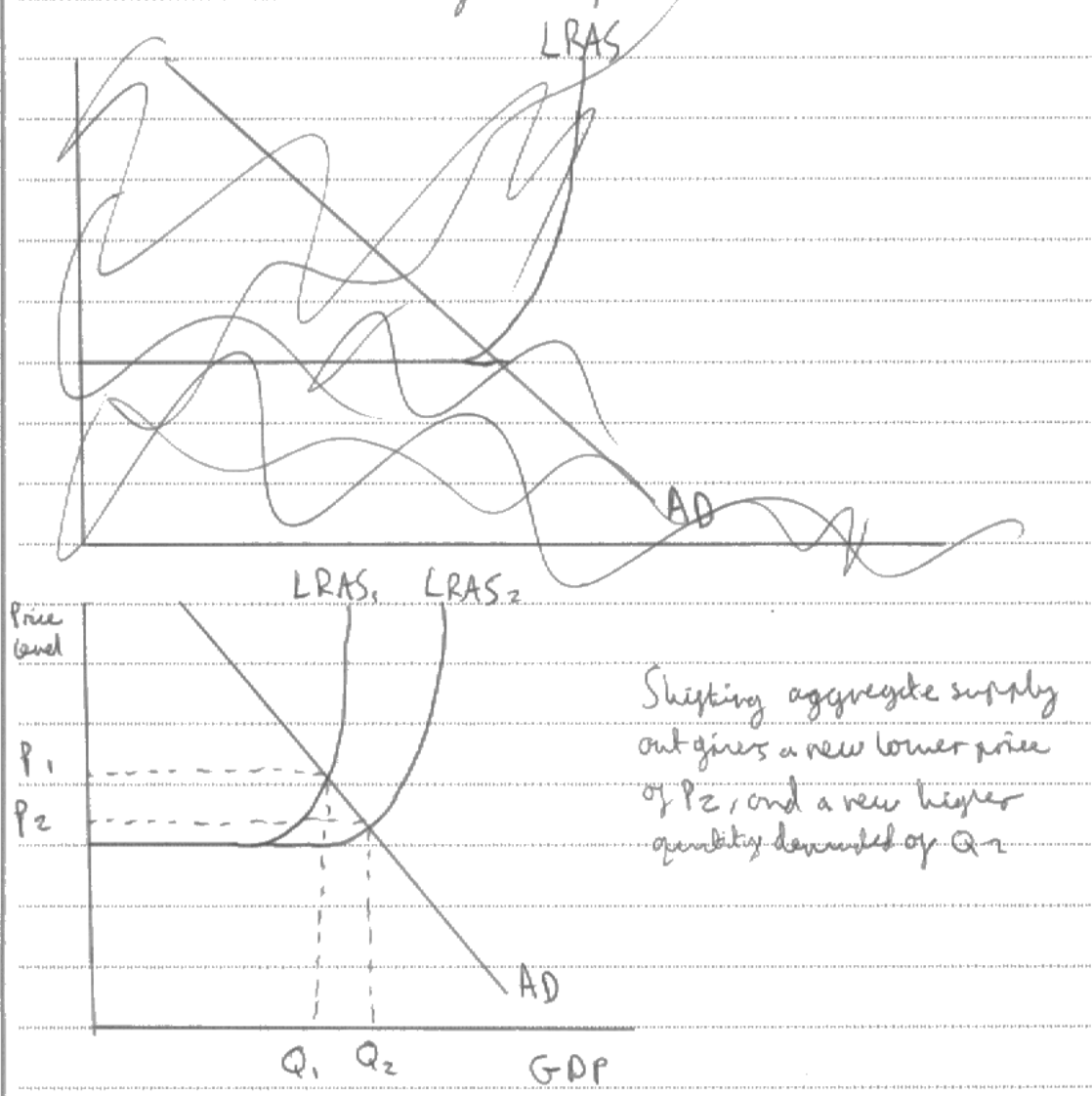


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Examiner Tip

You should only have one point per paragraph to ensure you are clear that you have made the correct number of points to enable you to access the top grades on this question.

Supply side policies are measures to increase the output of an economy by increasing the quantity or quality of the factors of production. In this case, the measures would be to improve the quality of the factors of production to make the economy more productive.



One way in which productivity could be increased is measures to improve the labour market. This includes ^{improving} education and training, which means that there are more skilled workers in the future and the workforce will be more productive, shifting LPTS₁ to LPTS₂. Moreover, the government could also reduce income tax, which means that the opportunity cost of not working is greater, and therefore people are incentivised to work longer hours and therefore the worker produces more output, and productivity increases.

However, this would only increase productivity in the long run. It may take many years for the economy to feel the effects of education and training since education reforms require changing the syllabus and even after that, it takes a long time for the people with better education to reach working age. In addition, the government may not be able to spend money on improving education and training during a recession.

Another way in which productivity could be increased is by ~~the~~ measures to increase innovation. This could be done by the government allowing more spending for research and development or ~~cut~~ decreasing corporation tax resulting in companies ~~invest~~ re-investing their profits into better capital. This

would lead to more efficiency and productivity,
However, shifting out aggregate supply

However, the extent to which companies choose to reinvest their money depends on their confidence in the economy. If firms aren't confident, no amount of reducing corporation tax would cause them to reinvest, and this money may simply be absorbed as profits by the firms. The government may also not have enough money to fund research and development projects during a recession.

Finally, the government could use policies to increase competitiveness and the working of markets. This could be improving competition policy such as de-regulation, which breaks up monopolies to and creates more competition, meaning efficiency and increases aggregate supply shifts out. The government could also nationalise businesses ~~such as~~ (they did this with northern rock) to increase efficiency.

However, the productivity and efficiency of other developing countries where costs are lower may still be higher, meaning that no amount of these policies would mean that the UK economy is more competitive than these economies, and the government is better off spending the money and resources elsewhere.

In conclusion, supply side policies to increase the productivity of labour, innovation and competition could improve productivity. However, it depends on the extent of an increase is ~~dependent~~ likely to be extremely long term, dependent on confidence and may still not be enough to compete with other economies. But, increasing supply side policies often also have demand side effects too, and this increased demand is likely to be ~~more~~ more long term.



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Examiner Comments

This is an excellent and clear example of an answer to this question. On the first page the candidate identifies that the focus should be on supply-side policies and illustrates this with an accurate AD/AS diagram shifting AS out to the right. This therefore gives them the initial 6 marks. They then go on to provide an in-depth analysis and evaluation of three relevant methods – education and training, more funding for research and development, and improving competition policy. This makes it very easy for an examiner to give this candidate full marks.

Question 2 (a) (i)

This question should be a clear and straightforward calculation. However, it is apparent from marking that a number of students were unable to answer the question. Candidates in economics are expected to be able to do simple, basic maths such as calculating percentage change. Most candidates scored either 4 marks or 1 mark on this question, depending on their ability to accurately calculate the right answer.

$$\begin{aligned} \% \text{ change} &= \frac{(2012 \text{ price} - 2008 \text{ price})}{2008 \text{ price}} \times 100 \\ &= \frac{(123.0 - 108.5)}{108.5} \times 100 \\ &= 13.36\% \end{aligned}$$



ResultsPlus Examiner Comments

This candidate scored the full 4 marks here as they have correctly calculated the percentage change as being 13.36%.



ResultsPlus Examiner Tip

For these short questions you do not need to write lots – we are not expecting you to spend any more than 4 minutes on this question. Spend too long here and you will run out of time for the 30-mark question – which is worth nearly 40% of the total mark.

$$2008 = 108.5 - 8.5 \rightarrow 2008 = 100$$

$$2012 = 123.0 - 8.5 \rightarrow 2012 = 114.5$$

Prices are 14.5% on average more expensive in 2012 than they were in 2008.

This is due to inflation levels, inflation is due to the global economy increasing each year so products will increase meaning living standards and inflation increase. The base level index is used to work out percentage change in products from a base year being 100.



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Examiner Comments

This candidate scored 1 mark for correctly identifying the values in 2008 and 2012, but they have not calculated the percentage change correctly so cannot gain more than 1 mark.



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Examiner Tip

The writing included here does not answer the question so cannot get any marks – be sure to remember that on a calculation question.

Question 2 (a) (ii)

In this question, as with all 8-mark questions, examiners are expecting to see two clear and distinct points that have been analysed well for the full 8 marks. Inflation is a key macroeconomic concept yet it is often the case that students get very confused when using this concept in exam questions. So for example here lots of candidates talked about how low inflation would benefit consumers because it means prices would be getting cheaper – which is not the case. It is vital that students understand how inflation is measured and what it means in relation to price changes.

The government has an objective of keeping inflation at 2% ($\pm 1\%$).

The first reason for this is to prevent living standards from getting worse. If inflation is higher than the rate of wage increases, workers experience a fall in real incomes as their income can buy less ^{disposable}.

The second reason for this is in order to avoid a wage price spiral. This occurs when workers demand wage increases due to increasing inflation, which raises the costs of production for the firms as they must pay higher wages. This process may push inflation up further still, ~~the~~ spiral, leading to a wage-price spiral.



ResultsPlus Examiner Comments

This candidate scores the full 8 marks. Both of their points are relevant to the question and have been identified and analysed. This is a good example of a candidate who has been very clear and concise in their answer and scored the full 8 marks – you do not need to write lots of detail to score the full marks on an 8-mark question, but you do need to make sure it is good, relevant economic analysis.



ResultsPlus Examiner Tip

Put each of your points into a separate paragraph to enable the examiner to clearly see that you have made two points.

Inflation is a rise in the general price level or a fall in the value of money. The macro objectives are low inflation, low unemployment, sustainable growth and equilibrium in the balance of payments.

High inflation will result in a fall in ~~the value of~~ ^{the real} value of consumers' savings, assuming interest rates are lower than inflation. Interest rates are the cost of borrowing and the reward for saving. This rise in prices ~~may not be~~ means the opportunity cost of saving over spending is falling. Opportunity cost is the value of the next best alternative foregone. If prices rise further following increased demand for goods (demand pull), consumers becoming relatively worse off in real terms and standards of living fall. ✓



ResultsPlus Examiner Comments

This candidate can only score a maximum of 4 marks out of 8 as they have only identified the one point – about high inflation eroding the value of consumers' savings. The question clearly asks for **two** points so this is an important thing to look out for. In terms of consistency, all the 8-mark questions in this exam require an analysis of 2 points.



ResultsPlus Examiner Tip

Don't include irrelevant information in your answer – this question is asking why the government is concerned with having a low rate of inflation, not asking what the other macroeconomic objectives might be.

Question 2 (a) (iii)

This question should be fairly straightforward as extract 2 identifies a number of specific causes of UK inflation. Namely, rising oil prices, bad weather, a fall in the sterling exchange rate, and the increase in VAT. Any candidate who therefore does not identify 2 of these points has presumably not read the information provided before starting to answer the questions – which is very bad exam technique. In addition, because the question specifically asks candidates to refer to the information provided, these cost-push inflation factors are the ones that examiners have awarded marks to. Given the context of the extract demand-pull issues are not relevant during this time period and are not mentioned at all.

For this 12-mark question there are also 4 marks available for evaluation – generally this is awarded as 2 marks for a brief evaluation point to go with each factor. Elasticity and magnitude were probably the most common evaluation points used by candidates, although for the magnitude point it was much better when candidates acknowledged that the extract had given them some information here – for example that oil prices 'rose sharply', sterling fell by '25%', and VAT increased by 5% over a short time period.

In the period after the recession that occurred in 2008, interest rates may have been high, which as a result would mean high inflation rates.

As extract 2 states also, prices were high for commodities like oil, due to insecurity of availability, this would cause demand-pull inflation. The weakened exchange rate would also mean high competitiveness and lots of exports and demand which would drive up the price.

However, the prices would be relative and the relative inflation rate of other countries is important, as prices may be low in other countries as well.

Also, the elasticity of the goods would affect the increase in demand and as a result, how much inflation was caused by the cheaper prices due to inflation.

As Extract 2 states, the pound has weakened against the dollar, but the Euro may have weakened further, making their goods even cheaper.

Extract 2 also states that bad weather and a poor harvest caused short supply which raised prices and caused inflation. This may be countered by buffer stock schemes that are already in place, however, limiting the fluctuations and inflationary pressure.



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Examiner Comments

This candidate has made the mistake of focusing on this as demand-pull inflation as opposed to cost-push, and so they haven't managed to make any relevant analysis. They have correctly identified some of the issues discussed in extract 2, but nothing further that should get any marks – so we are looking at 4/12 in total.

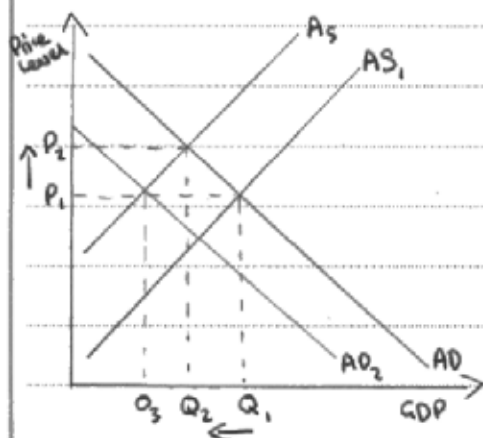


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Examiner Tip

Remember to stick to one point per paragraph – this helps you to always analyse your points rather than simply stating them.

Extract two states that there were many causes of inflation over the period 2008 to 2012. The first cause of inflation was a rise in oil prices. The increase in oil prices



increases the cost of transport and therefore increases the cost of production. This causes Aggregate Supply to shift inwards from AS_1 to AS_2 and therefore causes price to increase from P_1 to P_2 . This can have very significant impacts on inflation as it means that exports

are likely to be more expensive and therefore prices are likely to rise, and consumption will fall and unemployment increase.

However, this depends on the amount oil prices have risen by. Since if they have only risen by a small amount then the prices are more likely to fall by less. Inflation may not also occur if the firms can make other factors of production cheaper, for example, they could import their resources from a cheaper supplier to combat the rise in oil prices.

Another cause of inflation from 2008-2012 is the increase in VAT from 15% to eventually 20%. VAT is an ad valorem tax and is calculated as a percentage. The introduction of this ~~the~~ increase in VAT would once again increase the cost of production and cause AS to shift inward. This would in turn

cause A.D. to shift inward due to the higher prices ~~and~~ because people would consume less. This could possibly also cause unemployment as some firms would be forced to reduce their cost of production and may fire workers in order to do that.

However, an increase in VAT may not be too harmful to the economy as although consumption would fall, government spending ~~could~~ ^{may} increase due to rise in their tax revenue. Also in the short term firms are not likely to sack their workers immediately and may look at alternative ways to reduce ~~from~~ their costs of production.



ResultsPlus Examiner Comments

This answer begins by immediately identifying the issue of rising oil prices and then goes on to explain how this increases firms' costs of production. This is the analysis that gains them 4 KAA marks for this first paragraph. They then go on to evaluate this both in terms of magnitude of the oil price rise and by suggesting that maybe firms can cut costs elsewhere. This earned them the full 4 evaluation marks available on this question.

This candidate then goes on to discuss the rise in VAT rates and how it would lead on to affect UK inflation rates. So again 4 KAA marks here.

Therefore, this candidate has scored 12/12 on this question.



ResultsPlus Examiner Tip

Look at how this candidate has clearly structured their answer, with excellent use of paragraphs.

Question 2 (b) (i)

This is a very broad question that led to candidates describing a wide variety of different methods that could be used to measure standard of living. Marks were available both for a definition of standard of living and for explaining one or more measures. Any measure was accepted by examiners as long as they felt it did actually provide a guide to the standard of living in a country.

Having said that, a broad range of measures were mentioned by candidates, the majority chose to focus specifically on the Human Development Index (HDI) and explain the three parts of it. As long as this had been explained correctly and clearly candidates were able to score the full 6 marks by using this approach.

The standard of living can be measured using the Human Development Index. The HDI uses the life expectancy at birth, GNI and school participation rates to work out the standard of living for a country. ~~The~~ These three elements are rated from 1 to 0, 1 being the best and 0 being the worst. Then they are added together and divided by 3 to work out their final HDI. Once again 1 being the ideal standard of living and 0 being the worst. An ~~ex~~ example, ~~would be~~ ^{of} a country with good ~~the~~ HDI is Norway who have an HDI of around ~~0.96~~ 0.96. The HDI is a more versatile measure as it takes into account social factors as well as economic factors. An alternative measure of standard of living is GDP which is the total value of all goods and services in an economy however there are many negatives with this as it only considers economic factors.



ResultsPlus Examiner Comments

This question scores the full 6 marks for the clear and accurate definition of HDI. However, it is important to note that they achieved full marks in the first four lines. In these short questions candidates are only being tested on their knowledge, and you generally do not need to write a large amount to get full marks.



ResultsPlus Examiner Tip

Be clear and concise in these short questions – you do not need to write lots.

HDI is a composite statistic of expectancy, education and income indices that is used to rank countries into 4 tiers of human development.



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Examiner Comments

This answer is again an attempt to use HDI to explain how standard of living could be measured. However, in contrast to the clear and accurate definition in the first example, this is very vague and they have not identified any of the specific measures used to calculate HDI. Therefore this answer is awarded 4/6 marks.



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Examiner Tip

Ensure you are clear about your definitions of key economic terms such as HDI.

Question 2 (b) (ii)

This question was generally answered well by candidates who could identify relevant points from extract 1, such as incomes not keeping pace with inflation or increased unemployment. There are also 2 marks available for a specific application reference here (6.3% or 9% as mentioned in the extract), and many candidates achieved these 2 marks. Some candidates hadn't correctly understood precisely what the question was asking, and referred to the point about pensioners doing better than younger people. Whilst correct and discussed in the extract, this is not relevant and so could not receive any marks.

2 reasons why standard of living would have fallen was because ^{real disposable} income for people age 20-29 fell by 6.3%. Also the increasing rate of inflation would have had an effect on people's living standards.

If consumers (age 20-29) fell by 6.3% this would mean they had less of their income to spend on goods and services. So this would cause the amount they consume to go down and also ~~it~~ but it will decrease living standards because they will no longer be able to afford high quality goods because they are too expensive they will have to buy lower quality goods which will decrease their standard of living. They might have to buy cheaper food and cannot afford to pay for different facilities such as gyms which could make them unhealthy.

Another reason living standards have fallen would be the increasing rate of inflation. For these people aged 20-29 if their wages are increasing but inflation is increasing this would mean they would no longer again be able to afford the goods because they are increasing in price and therefore is the cost of living but their wages are not increasing with the cost of living.



On first glance, it looks like this candidate has made two different points in answer to this question. However, they have actually only made one – the issue of falling real disposable incomes. They have explained it well throughout but one point cannot be awarded any more than 4 marks. They also gain 2 marks for application, giving them 6/8 in total.

The first likely reason why living standards have fallen for people aged 20-29 is that CPI inflation is higher than wage increases for workers of this age. This means that even if workers wages are increasing in nominal terms, a high inflation rate means that real incomes are falling. Extract 1 ~~expt~~ shows that "real household disposable income for people aged 20-29 fell 6.3% between 2008-9 and 2010-11." This means that they can buy less with their disposable income.

The second reason why living ~~standards~~ standards have fallen for people age 20-29 is that there is high student unemployment. Graduates have the highest unemployment rate of any age group in the UK, as there is cyclical unemployment. This means that in the current economic climate there is ~~not~~ a ^{low} ~~high~~ level of AD, and so there is ~~not~~ a low demand for workers. People aged 20-29 have less experience than older people so they find it more ~~to~~ difficult to find a job, meaning that average income is low.



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Examiner Comments

This answer scores the full 8 marks. The candidate has correctly identified and explained two relevant points – falling real disposable incomes and rising unemployment. Both points have clear analysis explaining **why** they have caused a fall in living standards.



ResultsPlus

Examiner Tip

Remember to include a specific reference, ideally a data reference, when asked to in questions – it often leads to 2 marks such as in this question.

Question 2 (b) (iii)

This is a 12-mark question, and so examiners are looking for two relevant changes in government spending and taxation, bearing in mind the context of the question – younger adults. This needed to be a specific policy change that the government could put in place, such as increased spending on education/training or cuts in income tax for lower earners. Simply discussing how the government could 'spend more' was too vague an answer to this question. Remember that there are also 4 marks available here for evaluation – e.g. the common 'time lag' evaluation of any government investment in education.

Changes in government spending and taxation is known as fiscal policy, this is determined by government.

An example of fiscal policy to increase living standards for younger people would be to cut income tax. This would affect the majority of the 20-29 year old age bracket as the majority of them would be in full time employment. Cutting income tax would allow young people to keep more of the money they earn, and therefore increase disposable income - which would most likely improve their financial situation after a fall of 6.3% in 2008/09-2010/11. However, if people were to spend the disposable income on luxuries (such as clothes, cars and nights out) inflation would most certainly rise above the 2.8% figure in ~~2011~~ 2012, this would put the price of living up for the younger people which undoes the good that the cut in tax would have done.

Another way fiscal policy could've been used to increase young people's living

standards would be for government to increase spending/funding for education. This would allow more young people to find employment in later life as they would be better qualified - however, an opportunity cost would arise here as standards of living could be increased by spending ^{government} money on healthcare in the NHS (to increase life expectancy) or on ~~elderly~~ welfare to help young people who are struggling financially, such as rent or mortgage payments which could be solved via state housing.



ResultsPlus Examiner Comments

This answer begins with the policy of cutting income tax and puts it in the context of younger adults in the UK - clearly achieving 4 KAA marks. This policy is then evaluated in terms of the conflict with inflation that may occur. The second point this candidate makes is about investment in education to make younger people more employable - another 4 KAA marks here. Finally, this is evaluated in terms of the opportunity cost of this government spending - so the final 2 evaluation marks are awarded for this.

Overall, this candidate convincingly scores the full 12 marks.



ResultsPlus Examiner Tip

Remember to consider the context of the question you have been asked and ensure your answers are appropriate for that context - e.g. changes in pensions arrangements would not be relevant to younger adults.

One policy could be to increase the income ~~the~~ threshold at which tax has to be paid. This would mean that younger generations with lower paid jobs would be able to satisfy their debts ~~and~~ and, with their larger disposable income, increase economic growth.

However the reduction in Government tax revenue may lead to a reduction in the provision of public and merit goods, such as healthcare (NHS). It may also lead to an increase in the need for borrowing, increasing the budget deficit ~~more so~~. So, the increase in economic growth from consumer spending may not outweigh the costs and implications to society.

Extract one states that ~~households~~ "pensioner households will lose less on average than younger adults aged 20-29". This suggests that the planned changes in taxes will benefit the pensioners more than the younger adults. This means that maybe the Government miscalculated the benefits to the young adults.

However, this increase in tax revenue may be used by the Government to increase provision the provision of services ~~and~~. They also may choose to invest the revenue into producers in the form of subsidies to lower prices for consumers, therefore increasing young adults' disposable income and their standard of living.



ResultsPlus Examiner Comments

This answer starts off well with a suggestion of cutting income tax and then evaluates this by discussing the knock-on effect that this would have on government spending. However, their second point cannot be given any credit as it is simply not answering the question – yes it seems that pensioners have done better than younger adults but that is not a policy that could be used to improve living standards for the younger adults.

Question 2 (c)

The structure for this question is the same as for 1(c) – 6 marks for definitions/diagram, 12 marks for identifying/analysing the ways in which monetary policy could be used to help achieve government macroeconomic objectives, and 12 marks for evaluation of these points. Generally, candidates will make three distinct points to receive the full 12 marks for both the analysis and evaluation sections of these essay questions.

For this question, changes in interest rates can be used to explain objectives including economic growth, controlling inflation, and improving the current account. Answers in relation to these points were seen in many answers. A significant number of candidates also discussed increasing the money supply and the use of quantitative easing, although some came unstuck here as they clearly did not have a clear understanding of the impact that this has on the economy.

In terms of evaluation, many candidates made good use of the nature of conflicts between macroeconomic objectives to gain marks as well as how effective changes in interest rates will be – for example the fact that we are already at 0.5% and so reducing interest rates further isn't really possible or likely to have much of an impact. Additionally, issues around the confidence of banks, firms, and consumers, were also good ways to evaluate on this question.

purchase power

- common not for low

can be lowered

base rate ↓ 0.6%

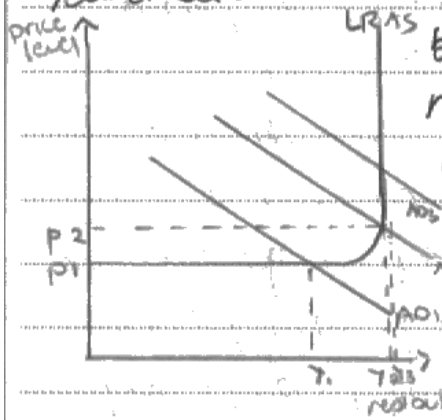
- environment, inflation

* (c) With reference to the information provided and your own knowledge, to what extent might monetary policy help the UK government achieve its macroeconomic objectives?
 economic growth, employment, balance of payments, inflation

(30)

Monetary policy is the policy the government use to influence the level of aggregate demand and inflation in the economy. Through the transmission mechanism interest rates can influence all the factors of aggregate demand.

Expansionary monetary policy can be used to help the government achieve its macroeconomic objectives such as economic growth, low unemployment and balanced current account. If expansionary monetary policy is used this means that the interest rates are lowered.



This will firstly influence consumption, because the cost of borrowing is much cheaper consumers will choose to consume more, there is also more availability of credit so this will also increase consumption and there is also for people with

tracker mortgages, their mortgage becomes much cheaper and they decide to consume more. Investment will also increase, this is because it is cheaper to borrow from the bank it is less risky to invest people are more willing to spend money. Since consumption accounts for 66% of AD it will shift out a lot more and investment

will do the same. The current account will also improve, because right now we are in a trade deficit (imports higher than exports) because if interest rates are lowered this will encourage foreign investors with money in UK banks to withdraw their money from UK banks this creates an overflow of hot money, this will then cause the £ to depreciate in value making imports more expensive in price and exports cheaper. So the amount of exports will increase and the amount of imports will decrease which will cause an improvement in the current account. This is because of the shift at word 1 in AD the output has increased from Y_1 to Y_2 which shows economic growth which is 1 macroeconomic objective, the current account will also become more balanced because ~~we~~ we had a trade deficit but because of the depreciation in currency exports went cheaper & imports more expensive so current account should become more balanced. Low level of unemployment is a macroeconomic objective and this should be sustained because if there is more demand & output in the economy this will cause more of a need for labour increases by firms because more is being produced. This might also lead to a better distribution of income which is a macroeconomic goal. According to the Phillips curve when there is low unemployment the

inflation is high so this will possibly not maybe go out of the target inflation which is not following one of the macroeconomic objectives and because of more being produced there may also be more damage to the environment which is bad because a good a 'low damage rate environment' is a macroeconomic objective. There could also be a multiplier effect because the lowered interest rates because there will be injections to the circular flow of income which means more consumption and also more exports which would cause AD to shift out further from AD_2 to AD_3 causing more economic growth.

However the base rate is a rate a historic all time low of 0.5% so if the monetary policy committee decide to lower it further it will really have very little impact on aggregate demand and therefore the macroeconomic objectives. If the Bank of England also decide to lower the interest rates for monetary policy to work commercial banks would have to follow the drop in the interest rates and if they decided not to then the policy again would not work which would have little impact on the macroeconomic objectives. There is also a large time lag of 18-24 months associated with monetary policy so it would

take out it before you saw changes in the economy.
The multiplier effect may also depend on
the consumer's marginal propensity to consume
and would be initial shift in AD. There may
also be conflicts between macroeconomic objectives,
because production & economic growth has increased
which is a macroeconomic objective but can be
damaging for the environment which goes against
an objective of preservation of the environment.
So with reference to ~~figure 1~~ ^{re exports} increasing UK inflation
would only not be solved by using expansionary
fiscal policy but other problems in



ResultsPlus

Examiner Comments

This candidate scored the full 30 marks for a clear and well-written answer that closely addresses the demands of the question.

They quickly gain the first 6 marks for identifying that monetary policy includes using interest rates to influence the economy and for a correct AD/AS diagram.

In terms of KAA, this candidate has identified three relevant methods - explaining very clearly how lowering interest rates could boost economic growth, improve the current account, and reduce unemployment in the economy.

In terms of evaluation, there are over 3 points discussed here - but examiners will only award marks for a maximum of 3 points. However, these points are clear and well-argued, and so easily achieve the required marks.

The UK government has 4 main objectives; increase economic growth, reduce unemployment, keep low inflation and finally strengthen balance of payments.

Monetary policy is a committee which manipulates the interest rate to attract or unattract demand and to shift the demand curve.

The most monetary policy can create economic growth by having low interest rates. This will mean it is pointless in saving money in a bank because they will be earning very little off of it, so instead they will spend and ~~invest~~ invest the money into the economy starting a multiplier effect.

Monetary policy can attract more foreign money into this economy. They do this by ~~high~~ ^{highening} interest rates so that saving money will be ~~appealy~~ ^{appealing} because you will be earning money ~~off~~ off of saving it. So more foreign people will put their money into English banks, but by doing this they will have to ~~transfer~~ ^{transfer} it to pounds sterling, which results in an appreciation of the pound making it

stronger. With a stronger pound this will mean imports are cheaper and balance of payments deficit will decrease to a smaller deficit.

Monetary policies can decrease unemployment. ~~to~~ ^{by} This can be done by lowering interest rates, so that it is appealing to ~~take out~~ ^{take out} loans at low rates, this can lead to high levels of investment into small businesses or even big businesses which will ~~to~~ ^{lead to} ~~lead to~~ ^{lead to} the economy growing and more jobs being created by new businesses opening or companies expanding.

~~The~~ ~~evaluation~~ To evaluate by increasing interest rates this will mean an increase in price for the UK's exports. More expensive exports results in lower export receipts because foreign countries will find better alternatives, so the ~~decrease~~ decrease in import prices ~~is~~ ^{is} cancelled out by the decrease in export receipts.

Another evaluation point is that by lowering interest rates to increase economic growth, because more people and businesses will invest may not occur as many people will just save money under a ~~mattress~~ ^{mattress} mattress instead of in a bank or will put their money into foreign banks with higher interest rates which also means the

The government will be receiving no tax on the money.

Another ~~point~~ evaluation point is that there is lots of other variables which affect the objectives set, meaning that a change in one will be no guarantee due to the cost or the others.

Also a final evaluation point is that this policy may work in the short run with interest being cheaper or more ~~invested~~ investment, but in the long term things may be very different.



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Examiner Comments

This answer scored only 12 marks. The candidate has correctly identified some macroeconomic objectives and that monetary policy is about interest rates – so they have gained 4 marks there. They receive credit for their points about lower interest rates boosting spending in the economy leading to economic growth and for discussing how lower interest rates will encourage investment and hopefully lower interest rates. This makes up the other 8 marks that this candidate has received.

However, there is nothing else in this answer that is relevant to the question being asked. The candidate seems to have become confused about flows of money between countries and people's savings and then none of the numerous evaluation points are actually evaluating the points that have been made.

Paper Summary

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

- Ensure you have a good understanding of the difference between a percentage change in something (such as GDP) and the total amount. Also ensure you are able to accurately calculate key mathematical concepts such as percentage change.
- Productivity is a key macroeconomic concept that has an impact on lots of other issues – candidates need to be clear about what this is and how it differs from production.
- Candidates need to be able to offer clear, precise, and accurate definitions of the key macroeconomic terms. These should be using appropriate terminology and not a vague attempt to explain roughly what the term relates to.
- Candidates need to ensure they understand the distinction between monetary policy and fiscal policy – these are not interchangeable terms. Also monetary policy in the UK is independent of the government.
- Although it does seem to be improving, there are still candidates who confuse the UK's budget deficit with its current account deficit.
- A number of candidates also confused savings moving into or out of the UK via hot money flows with foreign direct investment – these are not the same thing.
- Candidates will only receive marks for answers that specifically answer the question.
- Candidates are spending too much time on long introductions when a question has only asked them to, for example, 'explain two reasons...'. Here, marks will only be awarded for your explanation of your reasons – so you should start immediately with your first reason.

Grade Boundaries

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

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

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