

Examiners' Report  
June 2014

GCE Economics 6EC04 01

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June 2014

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## Introduction

This was the fifth examination paper for the 2008 syllabus.

Candidates were required to answer one essay (from a choice of three) and one data response question (from a choice of two).

The demands of this paper appeared to be very similar to those of the paper in 2013.

In Section A (essays), question 1 (public finance) was the most popular question followed by question 3 (economic development) with question 2 (trade patterns) being least popular.

In Section B (data response), question 4 was slightly more popular than question 5.

This paper proved to be accessible for the vast majority of candidates and produced a wide range of responses. High marks were achieved by answers which were characterised by well-informed, coherent, relevant and rigorous analysis. However, less impressive answers contained superficial and/or inaccurate analysis and frequently demonstrated little understanding of current economic issues.

A particular weakness apparent in answers to both data response questions was an inability on the part of many candidates to interpret index numbers correctly.

As with previous papers, some candidates preferred to write pre-rehearsed answers rather than addressing the exact question set. Furthermore, there was a tendency to write generic answers rather than to relate answers to the context provided. The ability to apply knowledge and understanding to both familiar and *unfamiliar* contexts is a key skill which should be developed throughout the A Level course.

Illegibility remains a serious concern, albeit for a minority of candidates. Responses which cannot be deciphered may not achieve the marks which the content may merit. Centres would be advised to inform students of the consequences of poor handwriting in examinations.

There were some superb scripts which were a credit to both the students themselves and their teachers. The answers contained coherent, logical and well-reasoned analysis which demonstrated an outstanding understanding of the concepts together with relevant knowledge of current economic issues.

## **Question 1**

This proved to be the most popular question possibly because public finances have been in the news so much while these candidates were studying for their A Level course.

In part (a), the majority of candidates struggled to identify three factors which caused a fall in the budget deficit. While many answers referred to tax increases and public expenditure cuts, only the more able responses explained fully the significance of economic growth and the fall in unemployment for public finances. A minority of candidates confused a budget deficit with a balance of payments deficit on current account.

Answers to part (b) often considered the impact on tax revenues but discussion of the possible effects on income distribution were frequently less convincing. Some answers were often little more than might be expected at AS level, focusing almost solely on the implications for aggregate demand, the price level and real output. Further, some responses concentrated solely on second and third round effects e.g. how the government might spend the increased tax revenues. Stronger responses used the Laffer curve in their analysis and demonstrated how such a tax increase, linked to increased public expenditure on means-tested benefits, might affect income distribution.



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

Chosen question number: Question 1  Question 2  Question 3

a) One reason the budget deficit of ~~France~~ the UK ~~Greece and Ireland~~ fell between 2009 and 2013 may be that the 2008 global recession was coming to an end. As a result of this exports will have rose again as importing countries would have more money to spend on goods from these countries. Therefore ~~exporting~~ <sup>UK</sup> exporting firms will sell more meaning that tax revenue from corporation tax will rise causing the budget deficit to fall. This is due to exporting firms ~~however~~ making higher profits.

However between 2009 and 2013 UK corporation tax fell from 26% to 21% meaning although profits may have risen the UK will have recieved a lower percentage of it so may have lost of on corporation tax.

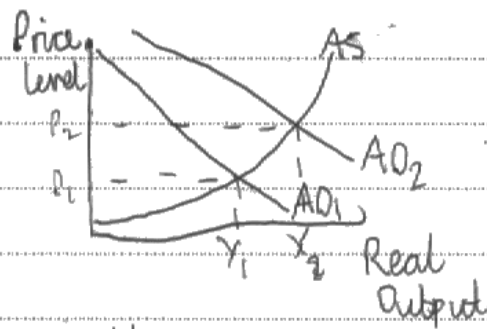
Another reason for the falling budget deficit of the UK in 2009-13 may be that the UK had ~~to~~ raised the personal threshold to £10,000. This means people in the UK now have more income to spend in the economy. As a result consumption will rise and  $AD = C + I + G + (X - M)$  so AD will rise.



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Turn over ▶

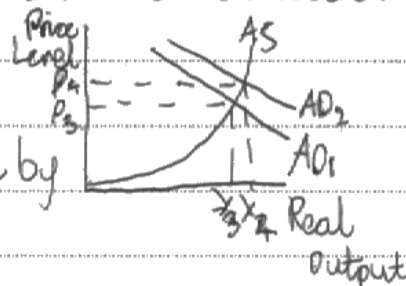


Therefore employment will rise as output rises from  $Y_1$  to  $Y_2$ . As a result

employment will rise to produce the rising output. Therefore income tax revenue will rise as ~~em~~ people will earn more money from being employed so the budget deficit will fall.

However if the shift occurs on the inelastic part of the AS output and therefore employment will rise by a smaller amount ( $Y_3$  to  $Y_4$ ) instead of  $Y_1$  to  $Y_2$ ).

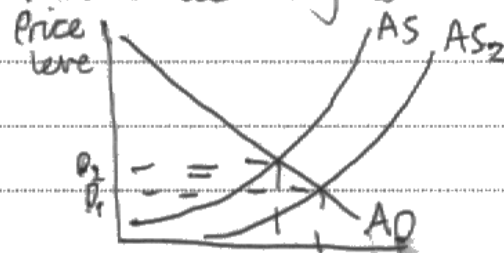
Therefore tax revenue will rise by less.



Another cause of the falling budget deficit may be the UK's new laws on benefits with lower benefits and more incentives to work. ~~Less~~ Less benefits will mean more people will want to work leading to a rise in the supply of labour. As a result of this wages will fall. This means ~~the~~ firms will be able to produce goods at a lower cost due to lower wages so AS will rise. As a result of this employment in the UK will rise.



from  $Y_1$  to  $Y_2$  meaning less benefit payments and more tax revenue leading to a decreasing budget deficit.



However ~~raising~~ <sup>lowering</sup> benefits causes AD to ~~fall~~ <sup>rise</sup> as the government spends less. Therefore AD will ~~fall~~ <sup>rise</sup> as  $AD = C + I + G + (X - M)$  causing employment to fall back to  $Y_1$ .

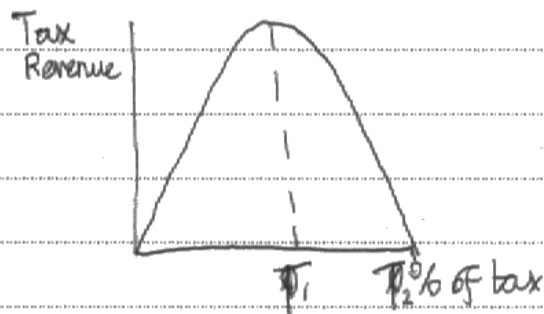
b) France raising its income tax from 46.7% to 75% may cause government spending to rise as an increase in tax revenue would mean ~~that~~ the government would have more money to spend without needing to borrow. As a result of this ~~more~~ AD will rise as  $AD = C + I + G + (X - M)$  from  $AD_1$  to  $AD_2$ . ~~Thus~~ As a result this will cause a rise in employment as real output will rise from  $Y_1$  to  $Y_2$  and as a result more people will need to be employed to reach the higher output level.

However tax revenue may not rise as the Laffer curve shows at a certain point raising taxes may cause brain drain or tax avoidance.

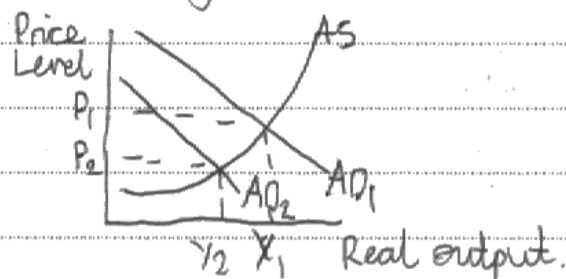




So tax revenue may in fact fall. That point is  $T_1$  to  $T_2$



Raising income tax may also lead to lower prices in the economy. This is because consumption will fall as people will have less disposable income due to higher levels of tax so will spend less. As a result of this inflation will fall as  $AD = C + I + G + (X - M)$  from  $P_1$  to  $P_2$ . This will mean it may lower the cost of living for the poorer people in the economy.

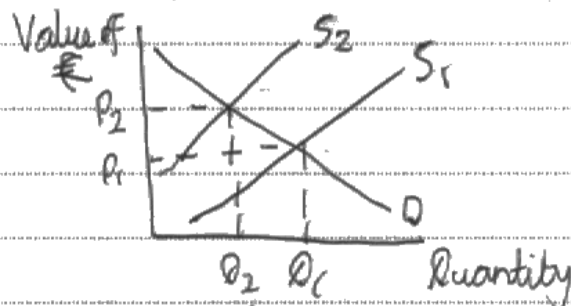


However consumption may not fall by a vast amount as only a small proportion of people in France will earn enough money to pay the higher rate of tax. It is also unlikely these people will spend most of their money ~~anyway~~ and are



more likely to spend. Therefore consumption will experience little change so AD will hardly change leading to an insignificant change to prices.

Another cause of raising ~~tax~~ ~~income~~ the top band of income tax may be that the UK's currency ( $\pounds$ ) ~~depreciates~~ <sup>appreciates</sup>. This will occur as the UK has a high propensity to import leading to imports falling by a greater amount than exports as people in the economy will be spending less so buying less imports. As a result the supply of the  $\pounds$  will fall as imports fall. As a result the currency will appreciate from  $P_1$  to  $P_2$ .

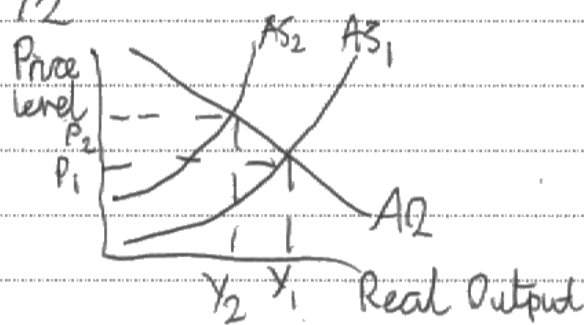


However in the ~~FR~~ ~~the~~ ~~currency~~ ~~may~~ ~~not~~ ~~is~~ ~~to~~ long run the  $\pounds$  may depreciate again as the ~~deprecia~~ appreciation of the  $\pounds$  will make imports cheaper and ~~exports~~ ~~dear~~ and exports more expensive. Therefore as exports fall demand for the  $\pounds$  will fall causing the currency to depreciate back to  $P_1$ .



P 4 3 3 0 7 A 0 7 4 0

Also if France raise income tax it may lead to ~~more~~ less economic growth. This is because employees may ~~become less~~ have less incentive to work due to higher tax levels so may work at a slower rate. As a result France's productivity may fall causing AS to fall and ~~inflation to fall~~ from the economy to grow from  $Y_1$  to  $Y_2$ .



However productivity may not fall as AD will fall due to less consumption. Therefore less economic growth will cause fears of redundancies encouraging people to work harder.





**ResultsPlus**  
**Examiner Comments**

Part (a) analysed three factors well: recovery from recession, raising of tax thresholds and cuts in social benefits. However, the evaluation was less impressive. For example, the point relating to the elasticity of the aggregate supply curve was generic and not well related to the context.

This answer scored 16/20, largely because the evaluation was insufficiently convincing.

The answer to part (b) considered three relevant points: the use of increased tax revenues to fund increased government expenditure; the impact on aggregate demand; and the impact on economic growth. The discussion of currency appreciation was irrelevant. Evaluation was included but rather brief and some was unconvincing.

Consequently, this answer was considered to be a Level 3 response and scored 19/30.



**ResultsPlus**  
**Examiner Tip**

In part (a), ensure that the evaluation is related to the reduction in budget deficits.

In part (b), it is important to consider factors which go beyond aggregate demand/aggregate supply analysis. e.g. to discuss the possible effects on income distribution and on tax revenues.



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

Chosen question number: Question 1  Question 2  Question 3

A budget deficit ~~is when~~ is where government spending exceeds taxation.

A decrease in the budget deficit may have been caused by an increase in employment.

If employment increases this may lead to an increase in tax revenue as more people are working and so more people are getting taxed as a result tax revenue may have exceed government spending within the UK.

This is a significant factor, however it is dependant of the ~~size of~~ amount that employment had increased by as if the ~~increase~~ increase was small this may have not been a major contribution to the government tax revenue.

Another reason as to why the budget deficit may have increase is due to a rise in incomes. If incomes rise people are more likely to spend, because in the UK we have a high propensity to spend and so people may spend on more luxury goods as income elasticity of demand for these luxury goods is elastic. As



P 4 3 3 0 7 A 0 3 4 0

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Turn over ▶



As a result the government may yield large amount of value added tax. This may have therefore made tax revenue significantly higher than government expenditure and so the budget deficit may have reduced.

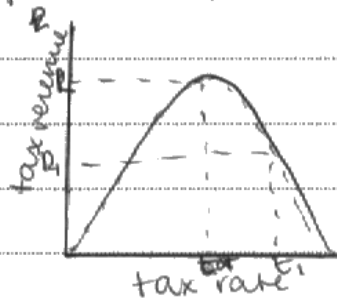
This is a significant factor as VAT is currently 25% in the UK and so an increase in spending on goods that yield high tax revenues is an important factor. Also, the UK government receives most of its tax revenue from VAT.

Another factor that may have had an effect of the tax in the budget deficit is the tax rate. During the Labour government period in 2009, the tax rate for those earning 10,000 or more was 50p increased to 50p from 45p and so due to the higher rate of tax the government may have yielded more tax revenue.

Nevertheless the increase in the tax rate may have yielded an insignificant



increase. In addition it may have encouraged tax avoidance which is legal or tax evasion and an increase may have worked as an disincentive to work longer hours of gain promotion. As the latter curve shows when tax is increased to a high level it can have opposite negative effects and the total revenue may have not increased and so this may not be a significant factor of the increase in revenue



The latter curve shows that at  $t_1$  revenue is maximised, but when increase to  $t_1$ , tax revenue falls to  $r_1$



P 4 3 3 0 7 A 0 5 4 0

Income tax is a form of direct tax which is levied on an individual and the burden of tax can not be passed on. An increase in <sup>the</sup> top rate income tax from 46.7% to 75% may have many positive effects such as an increase in government tax revenue, a reduction in ~~taxes~~ inequality due to a more progressive system and reduction in <sup>budget</sup> deficit. However there are also many negative effects of such a rise.

If France increased its top rate of income tax from 46.7% to 75% this may lead to a more progressive system where by the proportion of <sup>income</sup> tax paid in <sup>tax</sup> income may increase as income increase. This may ensure that the redistribution of income is more equal as people who are very rich are paying higher taxes and so the government can redistribute this via welfare benefits to ensure that quality of life will improve for those in poverty.

~~However the less, such a significant increase in the tax rate for those at the top may in fact result in lower tax. Because the increase would be a significant rise of 28.3%~~



this would make a significant lead to a significant improvement in the redistribution of income. Once these in primary receive benefits this may lead to better standards of living in France and so GDP may rise also.

By increasing the tax rate for those who are top earners, the fiscal deficit of France may improve. Such an increase ensures that tax revenue increases, the increase in tax revenue may exceed the level of government spending and so the budget deficit may fall significantly. This makes France's economy appear more attractive and so there may be an increase in investment and as a result aggregate demand may rise and so growth will rise also.

However, such an increase in the top tax rate may impact as an disincentive to work. ~~The~~ ~~the~~ ~~more~~ ~~tax~~ employees may be discouraged to seek promotion and work longer hours which may reduce productivity. Also, those on welfare benefits



P 4 3 3 0 7 A 0 7 4 0

7

Turn over ►



in France may feel discouraged to work and may thus become dependant on living on state benefits and so a high increase in the top tax rate may in fact worsen the fiscal deficit as government may be forced to give out more benefits for jobseekers and may not gain much revenue in return due those employees that are fearful of working longer hours due to the erosion of their incomes. And so, overall productivity will decrease and thus AS will decrease.

An increase in the top rate of income tax may provide further tax revenue for the French government, this may lead to investment in areas that will increase both growth and development within the French economy. For instance the French government may spend tax revenue on infrastructure ~~this will increase productivity as well~~ such as roads or telecommunications, this may increase labour mobility and thus productivity. This may also make French goods more internationally competitive, because the provision of



Further infrastructure ensures that cost of production is reduced and so producers can pass this on to both domestic and foreign consumers. Thus AS will increase and thus growth.

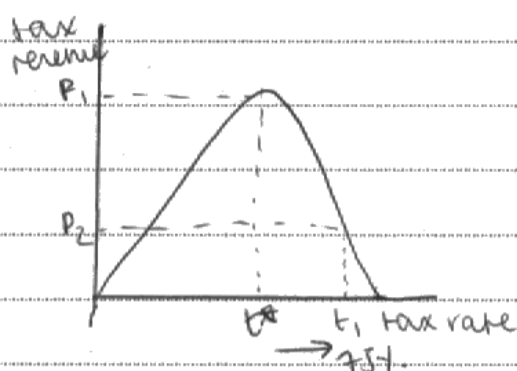
~~However using the increased tax rates the less, an increased income tax rate may result in inflation or further increase in general price level - inflation due to the increased tax rates.~~

However such a significant increase in ~~the~~ the top rate of income tax may result in the reduction of consumption. Because the increase in France's <sup>top rate of</sup> income tax is so high, this may result in less disposable income for consumers. As a result consumers are more likely to save and so consumption may fall. Saving is a leakage in the circular flow and so this may yield negative multiplier effect. As a result this may lead to a fall in GDP and so economic growth also. This may act as a deterrent to investors as growth is low.



P 4 3 3 0 7 A 0 9 4 0

Another economic effect of an increase in France's top rate of income tax is the risk of both tax evasion and tax avoidance. Whilst tax is high, many French citizens may participate in the act of tax evasion which is illegally avoiding tax by declaring the wrong amount of income one earns. People may also take the legal but immoral route of tax avoidance. As the latter curve portrays this is a result of the significant increase in the top rate of tax. High levels of tax may result in a significant fall in tax revenue.



As the latter curve portrays tax revenue is maximised at  $t^*$  yet the tax rate is increased to 75% ( $t_1$ ) tax revenue falls to  $P_2$ .

This is ~~unlikely~~ likely to occur in France as it is a developed country and so ~~are~~ many people have the means to participate in tax avoidance.

To conclude, whilst the significant increase in the top tax rate may lead to



~~an increase in~~ some benefits such as  
reduction in inequality, the cost outw-  
eigh the benefit and so, it is suggested  
that France refrain from raising the  
top tax rate to such a high level.



P 4 3 3 0 7 A 0 1 1 4 0

11

Turn over ►





## ResultsPlus

### Examiner Comments

In part (a), the first and second points relating to the increase in employment and the increased incomes were similarly followed by poor evaluation. The third point relating to the increase in tax rates was valid but the supporting data was incorrect. Indeed, the application to the UK economy was weak e.g. the assertion that the VAT rate is 25%. This answer scored 11/20.

In part (b), at least 4 issues were considered including the impact of income distribution, the size of the fiscal deficit, tax evasion and avoidance, and the possible impact of public expenditure. Once again, however, the evaluation was unimpressive. Consequently, this answer was deemed to be a Level 3 response scoring 21/30.



## ResultsPlus

### Examiner Tip

Knowledge of key aspects of the UK and global economy are very useful in developing points in questions that are based on particular contexts.

The Office for Budget Responsibility website <http://budgetresponsibility.org.uk> provides a very useful source of information entitled 'A Guide to the UK's public finances'.

## **Question 2**

Overall, this was the least popular of the three essay questions, perhaps because it related to an area of the syllabus that has not been tested frequently.

In part (a), answers scored tended to be either very good or very poor. The more able candidates were able to identify reasons for changes in trade patterns supported by relevant examples consequently scoring highly.

A pleasing number of candidates were very well prepared for this topic area.

In part (b), the majority of candidates wrote a generic micro response, for example, the cost to the government, opportunity cost, and reduction in price. Only the best responses related subsidies provided by developed countries to the global economy by discussing, for example, dumping, the effect on employment, and trade patterns.

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

Chosen question number: Question 1  Question 2  Question 3

2a. Over the years, ~~Globalisation has increase~~ Trade across countries has changed hugely for a number of reasons, altering traditional patterns of trade between countries and leading to an increase in globalisation.

One of the main reasons that trading patterns have changed is because of the opening of new capital markets, for example China has turned from a communist country to a capitalist country, meaning that trade with other countries has occurred as a result of increased private business activity and trade liberalisation as a result of the shift. This has allowed China to ~~open up~~ join the export market, and their low manufacturing costs have successfully increased their trade with a number of countries including the USA and the UK.

However, it could be argued that there ~~is~~ is limitations to China's increase in trade, because of the geographic ~~limitations~~ <sup>divisions</sup>. For example, in China, the West of the country have experienced a huge boost in trade because of their proximity to the coast, whereas the East have struggled more. Furthermore, it could be argued that the fact that China is an ex communist country may actually deter some countries from trading with it, because they feel it could be ~~unstable~~ politically unstable, which could act as a hindrance when trading with them.

Another factor that contributes to changes in trading patterns is the ~~encouragement~~ promotion of free trade by bodies such as the WTO, and the increase of trading Blocs. Increase in trading



P 4 3 3 0 7 A 0 3 4 0

3

Turn over ▶

Blocs such as customs unions, whereby ~~the~~ member countries have free trade but ~~are~~ a common external tariff have changed trade dramatically, as they create increased trade within the Blocs and divert trade from non member Blocs. This is because ~~to~~ being a member of a trading Bloc such as the European Union, means that tariffs on imports are abolished, which makes it significantly cheaper to import goods and services from Bloc members, meaning there is an increase in doing so. At the same time, being a member of a trading Bloc means that it is more expensive for countries to trade with countries outside that Bloc, which then deters them from doing so. For example, when the UK joined the European Union, their trade with countries within the Union rose significantly whilst their trade with countries outside of the Bloc fell from 26% to 17%.

However, the extent to which a country is deterred from trading with members outside of the Bloc would depend on the magnitude of the tariff in relation to the other costs of the product. For example, the USA recently imposed a tariff on Chinese solar panels, but if the tariff is relatively small and the price of Chinese solar panels is still ~~more~~ cheaper than other countries, then it is likely that US consumers will still buy the Chinese good regardless of the tariff.





Another factor that would impact patterns of trade with other countries is the state of economies themselves, particularly relating to their rate of inflation and their ability to thus be competitive. If a country has a high rate of inflation, such as Brazil, whose inflation is 6%, then it means that their prices of their goods are high, as they would ~~have~~ pass the increased costs they would experience as a result of the inflation onto consumers in the form of higher prices. This would make their exports less competitive and may mean that countries whom they previously traded with ~~would~~ would go elsewhere to buy their goods. For example, Brazil export a ~~high~~ large amount of sugarcane, and if their prices increased, countries that they trade with may ~~turn~~ turn to other countries with lower inflation to buy their sugar cane. This would deter trade away from Brazil, thus contributing to the change in patterns of trade over time. However, this would depend largely on the inflation and competitiveness of other countries compared to Brazil, as if other sugarcane producing countries were experiencing a similar level of inflation then it is likely that countries may continue their trade with Brazil as they know they won't find it much cheaper elsewhere.



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Turn over ►

Furthermore, the extent to which inflation in individual countries would contribute to changing trade patterns depends on the exchange rate. This is because if a country with extremely high inflation's government try to control the situation by ~~reversing a deflationary monetary policy~~, this is because if a country with ~~to~~ high inflation has a ~~strongly~~ depreciating currency, then the cheapness of their exports as a result of this may impact their counterbalance the ~~and~~ <sup>un</sup> competitive effects of having high inflation.

~~Interest Rates further impact trading patterns because of the~~



Levi's model  
opp cost.

poverty in poor countries

Greater output } lower price

2b. Agricultural subsidies are subsidies given by governments to their agricultural industries in order to push agricultural production costs down and thus lead to a greater level of productivity.

One economic effect of such subsidies would be a fall in inflation.

This is because issuing subsidies to agricultural producers would mean that producers would be able to produce more at a lower price, leading to a greater amount of output in the economy. This increase in supply would mean that the price of agricultural products would fall, as producers would be able to pass the fall in their costs of production as a result of the subsidy onto the consumers in the form of lower prices, thus decreasing inflation.

However there is a significant opportunity cost involved with issuing agricultural subsidies, as it could be argued that the government could more effectively impact the economy by investing into other areas such as the tourist industry, or education and training, which could help improve the productivity of the economy's workforce in the long run. Furthermore, the Levi's model implies that in order for a country to reach its most efficient, excess labour from the agricultural industry should transfer to factory work etc, ~~this~~ suggesting that industrialisation is necessary.



P 4 3 3 0 7 A 0 7 4 0

7  
Turn over ►



for a country to produce most effectively.

Another impact such subsidies may have on the global economy is trade diversion. This is because if countries in the EU and the USA receive such huge subsidies, then their costs of production will be significantly lower, meaning that their prices would be more competitive on the export market. If they are able to offer significantly lower priced products than other countries then ~~they~~ consumers will be more likely to buy their products and they may be deterred from buying from other countries who may be heavily dependent on their agricultural industries such as Ghana. This may mean that those countries who suffer from trade diversion as a result of the increased competitiveness of those with subsidies experience lower living standards as a result of reduced incomes, and possibly even an increase in the number of citizens living in absolute poverty.

However, it may be possible that other countries also receive subsidies for their agricultural ~~products~~ industries, so perhaps the impact of countries such as the USA receiving them also may be reduced as a result of this.

There may also be a time lag between when countries





receive such subsidies and when ~~start~~ the effects on the global economy begin to show. This is because agriculture is a slow-process, as farming takes time.

Government agricultural ~~investment~~ subsidies may lead to a decrease in the quality of goods. This is because ~~the~~ agricultural producers may have less incentive to be efficient if the government have already significantly reduced their costs. This could lead to X-inefficiencies within the industry, leading to a reduction in the quality of goods, meaning that in the long run ~~the~~ they may struggle to be competitive. This is because the protection of the subsidy would be preventing them from making a loss as a result of being inefficient in the short run, but when the subsidy grant has finished, they may struggle to compete with other, more efficient agricultural ~~industries~~ industries of other countries.

However, on the other hand government subsidies could actually increase efficiency because producers may be given the incentive to make the most of the subsidy by keeping costs as low as possible and thus making more profit.

Subsidies would also lead to increased investment.



P 4 3 3 0 7 A 0 9 4 0

9

Turn over ►



**ResultsPlus**  
**Examiner Comments**

The answer to part (a) provided a discussion of three factors: the opening up of new markets; the increase in number of trading blocs; and the state of the economies with particular reference to relative inflation rates. Relevant examples were included to illustrate each of these points. However, in terms of evaluation, only the comment relating to the last point was impressive. Consequently, this answer was placed at the top of level 4, scoring 16/20.

The response to part (b) was much less impressive than that to part (a). Only the second point relating to trade diversion had a truly global dimension while the others relating to the impact on the rate of inflation and the quality of goods were unconvincing. Evaluation was superficial and not closely related to the impact on the global economy. This answer was, therefore, regarded as a Level 2 response and awarded 14/20.



**ResultsPlus**  
**Examiner Tip**

Evaluative comments should be related to context i.e. in part (a) to the impact on trade patterns and in part (b) to the effects of agricultural subsidies on macroeconomic variables in the global economy.

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

Chosen question number: Question 1 ☒ Question 2 ☒ Question 3 ☒

a.) Trade patterns refer to the behaviour of imports and exports of goods and services to other countries.

One major factor in the changes in trade patterns was the fall of communism in China. Previously having a centrally planned <sup>economy</sup> China ~~only~~ had limited trade with the rest of the world. The change to outward looking free market strategies has resulted in China doing far more trade with the rest of the world. One of these strategies has been a focus on exports of manufactured goods, produced at low prices. Therefore China's ~~pattern of trade~~ ~~has been largely with western~~ trade partners have included trade with developed western economies with high marginal propensities to consume consumer goods.

Changes in comparative advantage will affect patterns of trade with other countries. ~~For example~~ A country that ~~has~~ <sup>may</sup> previously <sup>have</sup> been developing infant industries, using protectionist barriers in order to give time for those industries to



P 4 3 3 0 7 A 0 3 4 0

3

Turn over ▶

gain competitive advantage. Once this has been achieved this industry can be allowed to compete on a global scale. If for example it is a services industry then global exports of services from that country will increase. However there are issues associated with this that may as it doesn't account for transport costs or externalities. Therefore once a domestic industry has a competitive advantage the costs of transportation during the trading process may wipe away this advantage, thus trade patterns will not change.

The recent ~~strong~~ growth of China and other Asian economies has resulted in the increase of commodity prices worldwide. Due to this a number of countries have now found that exporting primary products is now profitable due to the higher prices of raw materials on world markets. In particular many African countries have begun to export more commodities to China and South East Asia. Therefore trade patterns have changed. This is especially the case in this situation as in return African countries have begun to import capital goods ~~from~~ which they previously could not afford, therefore changing trade patterns further.





Protectionist barriers however may restrict trade patterns from changing if they are upheld for long periods of time. For example countries that are not members of trading blocs may not be able to access the markets they need. Therefore exporting industries are not developed thus limiting the extent to which trade patterns change.

State subsidies by some countries may distort comparative advantage making that industry artificially competitive. Long term subsidies will result in other industries in other the same market globally struggling to compete. Therefore trade patterns will stay the same as comparative advantage and competition are stifled.



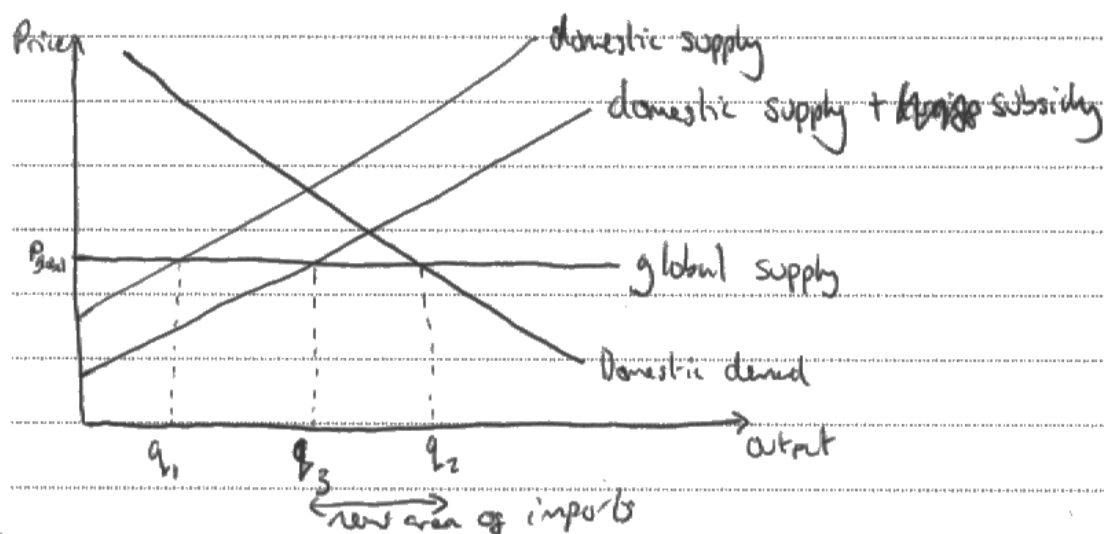
P 4 3 3 0 7 A 0 5 4 0

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Turn over ▶

b) Agricultural subsidies are grants paid to firms in the agricultural sector by central government. They have the effect of lowering the costs of production in the agricultural industry, thus making it more competitive.

As the EU and US are heavily subsidising their agricultural industries, unemployment in this sector will increase for countries in the rest of the world. Globally countries exporting agricultural products will struggle to sell in the EU and US markets as the subsidies will ensure that the domestic producers are more competitive. This is particularly the case as the EU and US represent large global markets, which with high consumptions of agricultural goods, thus increasing the effect on unemployment in this industry globally as producers cannot make profits due to their inability to access the EU and US markets due to subsidies.



6



✱

Subsidies will cause trade diversion, as shown in the diagram original imports are from  $q_1$  to  $q_2$ . However with the effect of the subsidy imports will reduce to  $q_3$  to  $q_2$ .

Globally countries may retaliate to these subsidies by using their own protectionist barriers against EU and US produced goods. If the retaliation is widespread among a number of countries world trade may fall in the short term while the subsidies are being applied. Therefore world output may fall due to the reduction in trade, which may lead to falls in global economic growth, further increasing unemployment. As these subsidies apply to just one industry the effects are likely not to be very drastic, especially if other barriers to trade are being removed to compensate for. Therefore effects on world economic growth and trade maybe limited.

Such subsidies may contribute to growing inequality in the globally. Subsidies by developed economies in this sector deny access for poor countries to sell goods in the western markets. This is a constraint on their economic development, ~~from~~ ~~thinking~~ ~~as~~ ~~not~~ ~~from~~ example foreign exchange earnings will decrease.



P 4 3 3 0 7 A 0 7 4 0

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Turn over ▶

as exports of agricultural products cannot be sold in US and EU markets. Therefore ~~importation~~<sup>foreign</sup> currency will not be available to import capital goods needed for development. Thus in the long term developing countries will struggle to catch up with developed economies, causing inequality between richer and poorer nations to increase. However schemes such as fair trade exist in order to ensure farmers in developing countries do get fair prices for their goods, thus giving these farmers greater profits in order to improve their standard of living thus reducing inequality.

Global investment may increase as countries outside of the EU look to attract investment in their agricultural sectors in order to remain competitive in the long run. These countries may change their trading partners also in order to trade with countries not applying subsidies to their industries. Therefore globally the US and EU may become isolated from ~~global~~ global trade in this sector.

How long the subsidies are in place for will affect the likelihood of economic effects taking place. If they are only in place in the short term economic effects may be limited, for example poor countries will not have time to retaliate





Organisations such as the WTO actively look to reduce barriers to trade, thus progress made in reducing trade barriers outside of strategic agricultural sectors will be highly effective, therefore the economic effects of these subsidies might be reduced.



P 4 3 3 0 7 A 0 9 4 0



**ResultsPlus**  
**Examiner Comments**

In part (a), two factors were discussed well: the adoption of outward-looking free market strategies by China and the impact of the growth of China and other Asian economies on trade with Africa. The analysis in the second point concerning changes in comparative advantage was rather superficial and not related to examples of any particular countries. Evaluation was largely ineffective although there was some merit in the comments made in the last paragraph. This answer was considered to be just worthy of Level 4 and scored 15/20.

The answer to part (b) was impressive with consideration of the impact on unemployment, trade diversion, the possibility of retaliation, and on inequality. The trade diversion point could have been developed more fully. There was some effective evaluation of the last two points and also some evaluation in the last paragraph of the answer. Overall, this was considered to just meet the criteria for Level 5 and scored 27/30.



**ResultsPlus**  
**Examiner Tip**

In part (a), the question makes reference to particular countries so it is important to illustrate points with examples of countries when discussing factors which might have caused changes in trade patterns.

The answer to part (b) could have been improved by further analysis and evaluation of trade diversion and the associated diagram.

### **Question 3**

This was the second most popular essay question. However, part (a) proved challenging for many candidates, especially those who did not provide a definition of economic development or considered the possible impact of growth on development indicators. Stronger responses considered how growth could contribute to development, for example, by discussing the impact of growth on tax revenues and how these might be used by the government to improve health services so leading to an increase in life expectancy. Evaluation might consider how growth might not result in much development if it causes an increase in inequality.

In part (b), many candidates used their knowledge of 'restraints on development' to answer this question. Unfortunately, the majority simply said people in developing countries do not save enough and then went on to write about other factors which limit growth. Stronger responses linked the importance of savings to growth via the Harrod/Domar model following this with some evaluation of the model and then going on to discuss other constraints on economic growth.

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

Chosen question number: Question 1  Question 2  Question 3

of Economic development refers to an increase in the welfare and standard of living of a country's inhabitants. Economic growth on the other hand refers to an increase in real GDP and productive potential of a country's economy. Economic development can be interpreted in different ways. Be it a population's access to services such as education or healthcare or a reduction of inequality within inequality.

Growth and development are often linked as it often requires growth in order to be able to invest in services, thus increasing development. Growth however does not guarantee development for example in less developed nations corruption often inhibits finance from growth being invested and reaching those in greatest need. Instead money is siphoned off by those in positions of power for personal gain. This has occurred in Haiti and the Democratic Republic of Congo where public finances have been used to finance government official lavish life styles rather than invested.



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Turn over ►



Growth does also not necessarily lead to growth—development as less developed countries often have large national debts which have large servicing costs. This diverts funds away from projects which could be used for healthcare or education. This therefore has a large opportunity cost. However the world bank and IMF are trying to reduce this through debt cancellation or rescheduling in order to reduce or abolish the cost of debt servicing upon heavily indebted poor countries. For example Malawi have used the additional finance available as a result of their debt being cancelled to buy malaria nets to reduce the outbreak of the disease which is reduction labor productivity and life expectancy.



b) The savings gap refers to the lack of finance available for investment. This is linked to the Harrod Domare growth model whereby a lack of savings limits investment and therefore the ability of the economy to grow and compete globally with the rapidly industrialising countries of South America and Asia.

The Savings gap occurs for a number of reasons primarily as a result of a lack of financial infrastructure, typically occurring in the world's less developed countries Haiti, and much of Sub-Saharan Africa wide spread corruption has also caused a lack of confidence and therefore willingness to trust banks. However the savings gap has been reduced in recent years by foreign direct investment and aid, occurring most notably in Africa as China look to extract the continents raw materials therefore investing heavily.

The savings gap is not remotely the sole cause constraint on growth. Many others factors have a large influence: Geograph, history and a countries political system also having a huge impact.



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Turn over ►

A country's climate has an effect on an economy. Some climates make growth difficult for example despite Russia and Canada's abundance of natural resources its northern arctic climate has made extraction very difficult. Climate also heavily impacts primary product dependent countries heavily particularly those producing soft commodities, as extreme weather can dramatically influence crop yield. In the Philippines typhoon Haiyan obliterated the coconut industry one of the largest sectors of the economy impacting not only the Philippines but global commodity prices. However climate can also boost an economy for example boosting tourism in the Caribbean resulting in employment and accelerating it to become the largest sector in many of the islands economies.

Political system also have a major impact on growth. Since the reduction in communism in China, Russia and Cuba all have experienced rapid growth. China growing on average 10% annually for over a decade. A strong efficient government can create stability in an economy attracting investment.





the opposite can be seen of poor governance as in many African nations, corrupt systems has diverted funds from investment, resulted in war and genocide in the struggle for power and wealth coming at great financial and human cost. Using resources which could have greatly increased growth. Poor governance may also lead to large national debts inhibiting a country's long term potential growth. However it could be argued many developed and developing countries still suffer similar problem the government expenses scandal in the UK is an example of corruption but the UK remains one of the most stable and dominant economies in the world.

A country's history also dramatically effects its economy. The Caribbean still struggles as a result of its primary product dependency even though its same history ended over a century ago. Many LDCs suffer the same oppression, exploited by many of the more developed economies. Primary product dependency has worsened many countries trade deficits with a long term fall in terms of trade according to the prebisch singer hypothesis



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Turn over ►



however in reality this is questioned as many commodity prices are rising and the cost of manufactured goods falling as a result of globalisation and outsourcing to Asia. Many primary product dependent countries (Dubai, Russia and Mongolia) also appear to experienced rapid growth as a result of exploiting their comparative advantage within their respective industries.





## ResultsPlus

### Examiner Comments

In part (a), the answer begins by defining the terms economic development and economic growth. It then considers two factors (corruption and national debts) which could be used to explain why growth may not lead to development. However, these points were rather superficial and there was no consideration of the mechanism by which growth might lead to development but there was some evaluation of the debt issues at the end of the answer. This answer was awarded 11/20, a Level 3 response.

In part (b), four issues were considered: the savings gap; climate; the political system; and primary product dependency and there were three fairly brief evaluative comments. However, the points were poorly reasoned. For example, there was no link to economic growth in the discussion of the savings gap. Similarly, in the discussion of primary product dependency there was no analysis of why countries might face a long term fall in the terms of trade. Consequently, this answer was considered to meet the Level 3 criteria and scored 16/30.



## ResultsPlus

### Examiner Tip

It is good practice to define the terms in the question, as was done by this candidate in part (a). However, there needs to be a clear explanation of mechanisms by which growth could lead to development.

In part (b), the factors limiting economic growth need to be analysed fully by explaining transmission mechanisms between the constraint and its impact on growth.

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

Chosen question number: Question 1  Question 2  Question 3

a) Economic growth is the sustained increase in an economy's potential output, measured by the percentage change in <sup>real</sup> gross domestic products (GDP). Economic development is the improvement in standard of living seen in education, health and incomes, usually measured using the UN Human Development Index.

Economic development is dependent on economic growth because economic growth leads to an increase in incomes which in turn increases standard of living. This is because individuals can now ~~afford~~ possibly afford better healthcare and education. Governments also receive increased tax revenues which can be directed at ~~that~~ improving healthcare and education. Therefore, economic development can only be achieved through economic growth. For example, in Angola economic growth has allowed funds to be put into education, resulting



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Turn over ►

in an improvement of provision of education from only 2 million to 6 million children in schools. However, economic growth does not necessarily lead to economic development which implies that economic development is not dependent on growth. This can be seen through Angola's rapidly growing economy still maintaining ~~an~~ an HDI ranking that is classified as 'poor'.

Furthermore, there are other factors contributing to economic development such as good governance, including less corruption. In less corrupt governments resources are ~~are~~ allocated more efficiently towards improving healthcare, education and infrastructure. ~~particularize~~ This leads to an improvement in economic development as these factors are significant components of economic development. ~~For example,~~ However, good governance may not be as important because low funds may restrict government action.

A third factor contributing to economic





development is improvements in human capital. This includes improving education. A better ~~education~~ educated workforce will be more productive and be able to carry out future technological developments which will improve ~~stand~~ living standards. Therefore, contributing to both economic growth and development. This ~~can be seen~~ with South Korea's ~~increasing spending~~. However, improving education requires economic growth as there must be sufficient funds to invest in education. For example, in the 1970s South Korea was only able to improve education after increasing spending per child by 355%.

To conclude, economic growth is necessary for economic development.



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Turn over ►

b) Economic growth is the sustained increase in an economy's potential and actual output; measured by percentage change in real GDP. The savings gap is the lack of savings in an economy resulting in relatively low capital accumulation.

According to the Harrod-Domar model savings are essential for investment which leads to capital accumulation, resulting in economic growth. Thus, the lack thereof (i.e. the savings gap) leads to less investment, less capital accumulation and, therefore, is the most significant constraint on economic growth. For example, Namibia's savings as a percentage of GDP is only 10% whereas Singapore's is 55%. This has resulted in much slower <sup>economic</sup> growth in Namibia. Nevertheless, the savings gaps in developing countries can be filled through foreign direct investment (FDI), which is increasingly flowing in. ~~the~~ Thus, the savings gaps are not as significant.



Another constraint on economic ~~development~~<sup>growth</sup> could be human capital inadequacies. This has arisen through poor education resulting in poorly skilled and relatively unproductive workforces. Low productivity then hinders economic growth. For example, ~~the~~ the average years of schooling (of an adult) in Angola is only 4.7 years. However, there have been improvements in education in developing countries leading to the conclusion that this may no longer be a main constraint on their economic growth.

A third possible constraint on economic growth is debt. The total debt of all Sub-Saharan Africa amounts to 85% of the region's combined GDPs. Debt repayments mean that funds cannot be invested in infrastructure or education. This results in less output and, therefore, less economic growth. There is also a cycle of debt created as developing countries borrow money to pay off debts which further hinders economic growth. Nonetheless, recently there have been large debt write-offs. For example, the UK wrote off



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Turn over ▶



Sudan's debts and Brazil restructured and wrote-off approximately \$900 million of African debt. Therefore, debt repayments are becoming less of a burden on economic growth.

Finally, a ~~key~~ constraint on economic growth is the concern of population issues. In developing countries the death rate tends to drop far faster than the birth rate which alters the countries demographic. As there ~~are more~~ is an increase ~~in~~ in older people there is also an increase in child dependents. This means that there is ~~an increase in~~ a worsening of the dependency ratio. For example, in Angola there is an ~~an~~ over 90% youth dependency ratio. This means rapid population growth reduces GPP per capita. However, with a rising life span people are able to work for longer and contribute to increasing output and, therefore, economic growth.

To conclude, developing countries face many constraints on development, but of





all those mentioned debt repayments are the most significant, followed by savings gaps. Debt repayments do not allow the countries to build up savings, thus, the savings gaps could be a consequence of high debt repayments. Population issues should improve in the long term with more contraception in developing countries. ~~so there~~ Therefore, that is not a long term constraint.



P 4 3 3 0 7 A 0 9 4 0



## ResultsPlus

### Examiner Comments

The answer to part (a) began with definitions of economic growth and economic development and then considered the significance of the increase in incomes for growth and development followed by a discussion of other factors contributing to development including good governance and improvements in human capital. There was evaluation of the last point and some evaluation of the first point but overall the evaluation could have been developed more fully. Consequently, this answer was awarded 17/20 - just Level 5.

There was an impressive answer to part (b) which analysed and evaluated four issues: the savings gap, human capital inadequacies; debt; and population constraints. Each of these factors was analysed effectively and illustrated by reference to relevant examples. Consequently, this answer was awarded 30/30 marks.



## ResultsPlus

### Examiner Tip

As with analysis, evaluative comments should be illustrated with examples. Generic evaluative comments are unlikely to receive full marks; instead they should be related directly to the context of the question.

Candidates might be advised to take careful note of the structure of the answer in part (b).

## Question 4 (a)

Most candidates were able to score some marks on this question by identifying two or three factors from the data. However, many candidates had difficulty dealing with index numbers. A large number simply stated a number e.g. 'the Russian economy has grown from 100 to 200'. Only the best candidates were able to give percentage changes or make reference to indices.

(a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown.

(5)

As we can see from the figure 4, the Russian economy is performing very well and raises from 100 to 200 from 1998 to 2012 which is very good as the G7 average raised from 100 to around 120 from 1998 to 2012. The Russian economy shows to be performing very well and much better than the G7 average. The Russian economy experienced a slight drop in 2009 but continued performing well after this.



### ResultsPlus Examiner Comments

This answer made some relevant comments about the performance of the Russian economy between 1998 and 2012 including comparison with the G7 countries. However, there was no evident understanding of index numbers in the first sentence. Consequently, this answer was awarded 3/5.



### ResultsPlus Examiner Tip

Index numbers are frequently used as a means of presenting data so a clear understanding of these is essential.

(a) With reference to Figure 1, comment on the performance of the Russian economy in the period shown.

(5)

Between 1998 and 2012, the size of the Russian economy more than doubled in real terms. The average real growth of the G7 countries was only slightly above 2% in the same time period. Russia was also hit harder in the recession with GDP falling by about 15% between 2008 and 2009 whereas the G7 countries saw a drop of only about 5%.



### ResultsPlus Examiner Comments

This response recognises that the real GDP data are presented in the form of index numbers and describes changes in them as percentages. Furthermore, there is accurate interpretation of the information provided including a comparison of Russia's economic performance with that of the G7 countries. This answer was, therefore, awarded 5/5.



### ResultsPlus Examiner Tip

It is good practice to use the information provided fully. In this example, the candidate has included reference to the recession in 2008 and 2009.



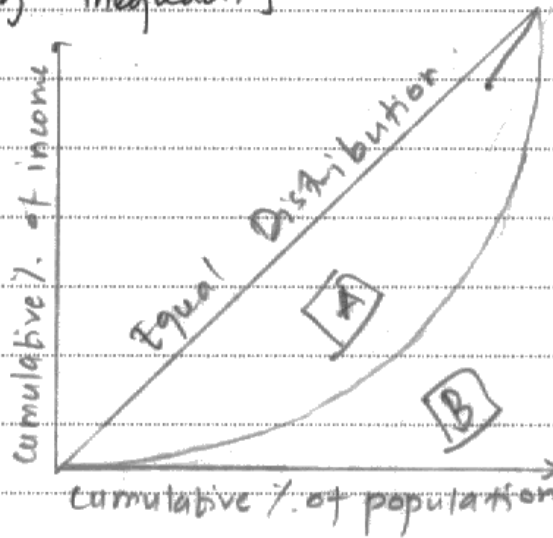
### Question 4 (b)

This question was answered relatively well: candidates who could draw and label the Lorenz curve diagram correctly and also use and interpret the data appropriately could access all the marks. However, less convincing responses failed to label the diagrams fully and found difficulty in interpreting the data.

(b) With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram.

(8)

Income inequality means where the certain percentage of the population might be earning more than the other creating inequality.



The Lorenz curve shows the different income earners percentage ~~in the~~ from the population of the country. The straight line shows where the income ~~and~~ is equally distributed. A and B show are the components to be taken while calculating the Gini coefficient. As the gap increases the income inequality increases ~~or~~ which might lead to relative poverty or absolute poverty. A country having 1 ~~or~~ is considered as a country with Absolute poverty.

Due to the increase in the employment the personal income ~~increased~~ increased which increased the gap between the low income earners and high income earners causing the income inequality in Russia to raise.



### ResultsPlus Examiner Comments

The diagram of the Lorenz curve which was labelled accurately scored 4 marks. In the subsequent explanation it was correctly stated that income inequality had increased. However, there was no reference to the data in Figure 2 which showed an increase in the Gini coefficient between 1999 and 2011. This answer scored 6/8.



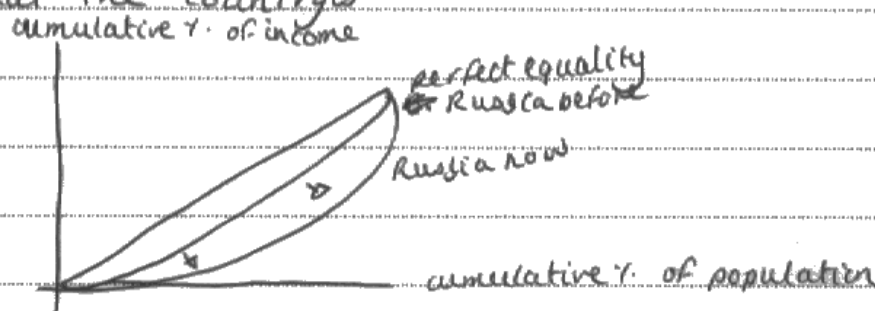
### ResultsPlus Examiner Tip

It is advisable to make specific references to the data when questions require an interrogation of the information.

(b) With reference to Figure 2, describe what has happened to income inequality in Russia. Illustrate your answer with a Lorenz curve diagram.

(8)

Income inequality is measured using the Gini coefficient. This is calculated by  ~~$\frac{A}{A+B}$~~   $\frac{A}{A+B}$ . A represents the area between the 45° line and the Lorenz curve, while B represents the area under the Lorenz curve. The higher the Gini coefficient between 0-1, the more unequal the country is.



The Gini coeff. of Russia has increased from as low as 0.4 in 2000 to as high as 0.4275 in 2007. This means income inequality has increased and the rich control a disproportionate % of income. This is a problem because increased inequality brings about increased inequality. There are also other measures of equality such as the Gender Equality Measure which measures equality for women. Income inequality may have increased because oil prices have increased, therefore making the producers of the fossil fuels richer and this not being passed on to the poor. It may also have increased because of the collapse of ~~the~~ communism in the country and the rise of capitalism, making the owners of Factors of Production very rich.



### ResultsPlus Examiner Comments

This was a very accurate answer which scored full marks for the following reasons: the diagram was labelled correctly and showed a new Lorenz curve to illustrate the increase in inequality. Furthermore, appropriate references were made to the data.

However, much of the material on the second page was not required because it explored some reasons why inequality may have increased which was not required by the question.



### ResultsPlus Examiner Tip

Answers should be focussed on the question set. The inclusion of extra material may mean that there is insufficient time to answer the subsequent questions fully.



### Question 4 (c)

This proved to be a challenging question but most candidates were able to identify reasons regarding relative poverty - although they were less confident about reasons for the change in the Gini coefficient. Indeed, some were unclear about what was implied by a change in the Gini coefficient. Evaluation was frequently absent in answers to this question.

(c) With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period.

(10)

Relative poverty is where a person's income is less than the median income within a country.

Between 2000 - 2008, in Russia, people's personal incomes doubled meaning that the very rich (Russian billionaires) would of seen their incomes rocket. This means that despite, the poor living in relative poverty will have seen a double in their incomes - the income inequality gap would remain large as the 1% of the population with the highest incomes would not have seen a decrease in the value of their incomes.

Also, the fact that the unemployment rate fell from 12% to 7% in the same period suggests that managers and shareholders of TNC's are doing particularly well hence their increase in levels of employment.

Overall, the information suggests that although the 1% of people

Living in relative poverty has fallen due to a doubling in income; this has had no effect on levels of inequality as the people earning the top incomes have benefited from this statistic also.

Oil prices also remain high, meaning that oil reserve owners are acquiring larger profits leading to an increase in income inequality.



**ResultsPlus**  
Examiner Comments

This answer made use of the information provided to explain how the doubling of personal incomes helped to reduce relative poverty although the quality of written communication in the latter part of the second paragraph was unimpressive. The next paragraph identified the fall in unemployment as another factor but this was not explained. A further mark was awarded for the analysis in the last paragraph which attempted to explain the increase in income inequality. Overall, this answer scored 5/10.



**ResultsPlus**  
Examiner Tip

It is important to include evaluation when the command word 'examine' is used. This answer could have scored a maximum of 6/10 because there was no evaluation.

(c) With reference to the information provided, examine possible reasons why the proportion of the population in relative poverty in Russia has declined despite the Gini coefficient increasing over the same period.

(10)

One reason that relative poverty has decrease is due to unemployment falling from 12% to 7% in 8 years.

With more people in work, more people will be earning above the relative poverty line (60% of median income).

The reason that the Gini coefficient rose despite this rise in employment ~~is due to~~ could be due to the fact that oil prices have also been increasing. The ones who own the oil are the rich billionaires. So although ~~as~~ more people are earning more now, this richest people are also earning more, a lot more. The fact that the rich are earning more increases inequality leading to a higher Gini coefficient.

However ~~the~~ during the recession the richest people would have been affected greatly and so during this period inequality would have fell, and it did. In 2007 the Gini coefficient was 0.4275 but in 2011 it was 0.4200 so it may now carry on decreasing.



Another reason the proportion of people living in relative poverty declined could be due to the fact that personal incomes in Russia doubled so less people would be earning below 60% of the median even with an increased median. The reason that Gini coefficient rose too is because if the richest people incomes doubled, this is ~~more~~ <sup>a lot</sup> more than the poorest increase in incomes combined. So ~~if~~ inequality would have risen causing Gini coefficient to go up.

However if the richest double their income then the government would effectively received double the tax revenue which they can spend on welfare which should reduce inequality and the Gini coefficient.



### ResultsPlus Examiner Comments

The answer includes possible explanations for both the fall in relative poverty and the increase in the Gini coefficient supported by appropriate data references. There is some relevant evaluation of the first point. Consequently, this answer scored 8/10 marks.



### ResultsPlus Examiner Tip

Evaluation could also be in terms of the magnitude of the change in the Gini coefficient. In this case, it is very small and consequently fairly insignificant.



### Question 4 (d)

This question contained information in the data on which to develop an answer. Unfortunately, many candidates made insufficient use of this data. In particular, few responses discussed the significance of the correlation between the oil price and Russia's trade balance. Only the best responses used the information effectively along with appropriate application of their own knowledge with particular reference to oil and gas as primary products and also included relevant evaluation.

\*d) Assess the implications for the Russian economy of its dependence on oil and gas.

(12)

Oil and gas are seen to be a hard commodity. If the Russian economy becomes dependant on these commodities, also seen to be Primary Product dependancy then they haven't considered the issue of their being a natural disaster because it provides 70% of export earnings and if this is what they are rely reliant on, if a natural disaster was to occur they would lose this 70% of income and not be able to have an economic growth, as they will be reliant on the other 30% which isn't strong enough. Also by having a natural disaster it will cause a high rate of unemployment, as the oil and gas industries may be destroyed. This is then going to cause ~~low~~ levels of relative poverty, especially if people have no income at all. However it can be argued that if there was a natural disaster, there would be a lot of consumption and government spending to help get Russia back to

The way they were, which means right word shift in AD and increase in growth on economy. But ~~this isn't~~ the negatives of this would outweigh the small growth it may have.



**ResultsPlus**  
Examiner Comments

This was a vague and superficial answer which focussed on the possibility of natural disasters as being the main implication of Russia's dependency on oil and gas. However, there was relevant use of the information in relation to the significance of export earnings from oil and gas and a little analysis. Unfortunately, the evaluation in the last paragraph was vague and not worthy of credit. Overall, this answer scored just 3/12.



**ResultsPlus**  
Examiner Tip

In such a question, which is clearly related to the context, at least two implications should be identified, analysed and evaluated making relevant use of the information provided.

\* (d) Assess the implications for the Russian economy of its dependence on oil and gas.

(12)

Russian dependence on oil + gas is an example of primary product dependency, whereby the economy is dependent on the export of a non-manufactured raw material.

One potential issue with the Russian dependence on these two exports is the economic ~~res~~ susceptibility to changes in prices for the commodities. Price variations for the products are both regular + make the economy heavily reliant on global demand levels. The 2008-9 global recession would have led to a huge global decrease in demand for the products, as seen by the price fall for oil from around \$120 per barrel to around \$45, within a few months. This immediately acts as a withdrawal from the Russian economy with the trade balance falling from around \$53 billion to around \$20 billion, hugely reducing the Russian trade surplus. However, the provision of buffer-stock schemes or other means of maintaining consistent price levels can help to reduce susceptibility to price fluctuations - also ensuring membership of some trade agreements or contracts may ensure a minimum price for the export, eliminating some risk from the transaction.

Another potential implication for the Russian economy from a dependence on oil + gas is the long term global trend to try + find sustainable + renewable alternatives to the greenhouse gas emitting fuels. Global demand for the fuels still lies at \$112 a barrel, below the pre-recession peak of around \$120, perhaps starting to exemplify a slow global trend to less ~~total~~ consumption of the non-renewable fuels. Green taxes + tradeable permit schemes have made it more difficult for firms + nations to produce it with + the result is deteriorating demand for the products. However, this trend doesn't really seem to be showing itself yet. Global prices are below the pre-recession peak but that was an unstable boom, with price levels unlikely to return there, also governments, like the UK's dropping Green Taxes + regulations, suggest doing difficult things for the environment is something we cannot afford.



### ResultsPlus Examiner Comments

The second paragraph identifies the issue of price fluctuations of primary products and includes relevant data references and some analysis and scored 4 marks. The evaluation at the end of the first page was awarded two marks. A second issue relating to the trend towards sustainable and renewable energy scored two marks with a further two marks for the evaluation at the end. Overall, therefore, this answer was awarded 10/12 marks.



### ResultsPlus Examiner Tip

Slightly more analysis and evaluation would have ensured that this response would have scored full marks.



## Question 4 (e)

The extract provided some clues as to the possible benefits to Russia of joining the WTO and many candidates used these as a basis for their answers. However, analysis was not always developed fully. For example, some used a diagram to show the impact of a reduction in tariffs on consumer prices but only the best referred to concepts such as consumers' surplus. Similarly, in the discussion of increased foreign direct investment, relatively few responses included reference to investment being an injection nor to the possible multiplier effect. Most assumed that FDI would only effect aggregate demand and ignored the impact on long run aggregate supply. Given that this is a synoptic paper, such concepts should be included in answers to questions of this nature.

\*(e) Evaluate the likely benefits for Russia of its decision to join the WTO.

(15)

If Russia were to join the WTO, which promote trade and try to lower trade barriers, then there would be benefits. However there will also be negatives of joining the WTO. The WTO promotes trade liberalisation.

The first potential benefit could be that the government is hoping for a surge in foreign direct investment, that will help make Russian industry more efficient.

Another likely benefit for Russia joining the WTO, would be that Russian exporters will gain approximately \$1.5 billion to \$2 billion a year from the dismantling of foreign trade barriers. This means, because of Russia joining the WTO, foreign trade barriers would decrease meaning an increase in Russian exports.

Another likely benefit of Russia joining the WTO, would be that lower tariffs on imported goods, should lead to cheaper goods in shops, boosting the spending power of consumers. A tariff is a tax levied on goods, therefore lower tariffs will mean shops can decrease the price of their products making them more competitive.

There are also negatives with joining the WTO. Dismantling protective barriers would mean that large sections of Russian industry may struggle

to compete.

Also, the WTO will force Russia to lower its tariffs from 9.5% to 6% by 2015, meaning the Russian government would receive less revenue through taxation.

The WTO will also make the Russian government curb subsidies to some industries including farming. This may mean Russia may not perform as well.

Overall the benefits outweigh the costs of joining the WTO.



### ResultsPlus Examiner Comments

This answer identified three benefits: increased foreign direct investment; financial gains to exporters; and cheaper goods to consumers. However, these were not developed, especially in the case of the first and third points. There were three superficial evaluative points at the end of the answer, the first two of which were worth just one mark each.

Overall, this answer scored 6 marks.



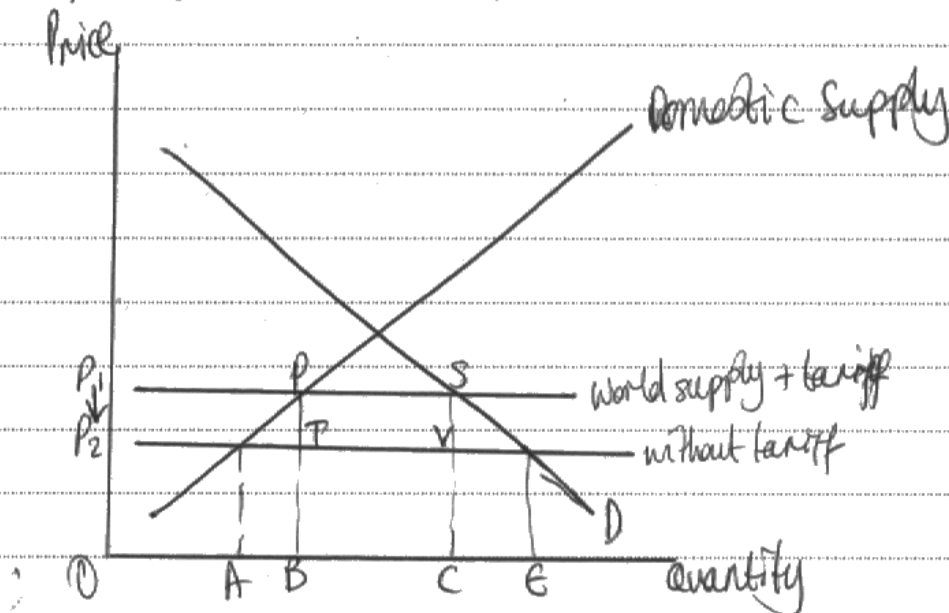
### ResultsPlus Examiner Tip

It is good practice to select relevant points from the information provided, as was the case in this answer. However, to achieve high marks, these need to be analysed and evaluated.

\*e) Evaluate the likely benefits for Russia of its decision to join the WTO.

(15)

The WTO promotes trade liberalisation. In Extract 2 there several benefits ~~at~~ for Russia joining the WTO. Some of which include attracting foreign direct investment in helping the Russian industry become more efficient. Russia's exports will gain approximately \$1.5 billion to \$2 billion a year and lower tariffs on imported goods should lead to cheaper goods in shops.



A reduction in the trade barriers means price falls from  $P_1$  to  $P_2$  therefore increasing consumer surplus as ~~imported~~ imported goods are cheaper.

Output decreases from ~~OB~~ OB to OA decreasing producer surplus. Imports increase from BC to AE.

PSTV ~~syn~~ represents tax revenue that the government receive. This can be spent on other public services such as education and ~~training~~ training.

Increased trade will mean more goods and ~~services~~ services can be exchanged between countries. This increases specialisation in the country as they can produce goods at a comparative advantage therefore lower opportunity costs this results in there being more competition as ~~countries~~ <sup>Russia</sup> are more open to foreign imports therefore they will try to be more efficient. Economies of scale could be gained by firms as therefore they can enjoy reduced production costs, hence <sup>domestic</sup> consumers ~~enjoy~~ enjoy lower prices. There will be also more scope for movement of labour as there will be more opportunities to get jobs.



in other countries, this reduces geographical ~~immobility~~ inequality.

- However with increased trade there is lack of protection for infant industries within the country who are not yet established enough to trade or who have not got economies of scale of their own. Therefore trade could ~~damage~~ damage infant industries.

Furthermore, ~~with~~ increased trade could result in dumping, where goods are sold at prices lower than the costs - this is a form of predatory pricing.

Furthermore increased trade could damage employment because of the risk of cheap imports.



### ResultsPlus Examiner Comments

The answer begins by identifying the benefit of foreign direct investment (FDI) but there is no development of this point. However, there is good analysis of the reduction in tariffs, including a diagram scoring 3 marks. There is also good analysis of the benefits of increased trade and specialisation which also scored 3 marks. Evaluation was included on the last page with the first on the problems of infant industries, being most effective. This scored 2 marks. The second evaluative point was brief and the last was too vague to be worth any credit.

Overall, this answer scored 10 marks of which 3 were for evaluation.



### ResultsPlus Examiner Tip

To score full marks it is best to analyse and evaluate at least 3 benefits fully.

## Question 5 (a)

Generally, there were some good answers to this question, although some candidates found difficulty in providing a definition of international competitiveness. Most answers included relevant references to the data - demonstrating an ability to interpret such information correctly.

(a) With reference to Figure 2 and your own knowledge, explain what is meant by international competitiveness.

(5)

International competitiveness refers to the ability of a country to sell its goods and services in both domestic and international markets ~~where~~ at a price and quality that is attractive. China can be described as an internationally competitive country with its ranking at 29 one to its relative cheap goods ~~where~~ relative to the UK as a result of its weak currency. Singapore is ranked second indicating that it is very competitive, this may be a result of its low labour costs and quality of goods.



**ResultsPlus**  
Examiner Comments

This answer reflects a number of deficiencies. There is no clear definition of international competitiveness which, unfortunately, includes the word 'compete'. This is then followed by a complete misinterpretation of the data.



**ResultsPlus**  
Examiner Tip

It is useful to define international competitiveness in terms of factors such as price and quality (or other non-price factors).

(a) With reference to Figure 2 and your own knowledge, explain what is meant by international competitiveness.

(5)

International competitiveness refers to how well a country can ~~produce~~ compete with the rest of the world. Greece is likely to have the highest rank in international competitiveness as per figure 2, This means that ~~they have more~~ Greece's products are demanded more ~~by~~ by other countries. Singapore is at the lowest rank which means, there products are demanded less by other countries and is less competitive



**ResultsPlus**

**Examiner Comments**

This answer included a definition in the first sentence followed by the identification of two aspects of competitiveness: price and quality. There were two relevant data references. Consequently, this answer scored 5/5 marks.



**ResultsPlus**

**Examiner Tip**

It is useful to include aspects of international competitiveness, as was done in this case.

### Question 5 (b)

As with question 4(b), many candidates struggled to interpret index numbers correctly and many were unable to deduce that output was lower in 2013 than in 2007. Although aggregate demand/aggregate supply diagrams were usually drawn and labelled correctly, few indicated the levels of real output in the two years mentioned in the question. Only the best answers interpreted the index numbers correctly, drew an accurate diagram and included a reason to explain the fall in real output.

(b) With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012–13 compared with 2007. Illustrate your answer with an appropriate diagram.

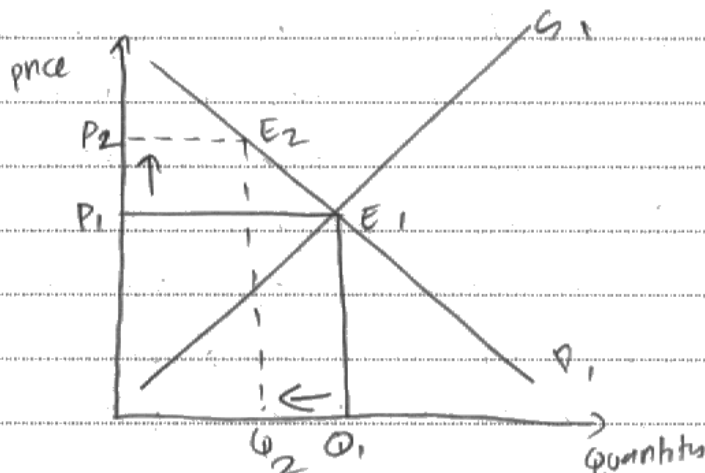
(8)

~~As shown in figure 1, the projected GDP in euro area (south) has been falling~~

GDP or gross domestic product is the average annual output produced by a country. ~~As shown in figure 1,~~ the projected GDP in euro (area) area (south) ~~as~~ has been falling at a faster rate compared to us and euro area. between 2007 to 2013. If in 2007 they all started with the base rate 100 and ~~it fell~~ the euro area (south) ~~real GDP fell to around 93 in 2013.~~ 93 in 2012-2013. ~~the~~ This reason for this might be

due to fall in euro area (south) <sup>price</sup> competitiveness.

which made it difficult for them to ~~at~~ sell their goods ~~at~~ at the export market. thus, their ~~exp~~ output might have fallen leading to a fall in the level of GDP







**ResultsPlus**  
**Examiner Comments**

This answer did include an accurate data reference and an explanation for the fall in real GDP. However, the diagram scored no marks because it was a microeconomics diagram rather than an aggregate demand/aggregate supply diagram. Consequently, this answer scored 4/8 marks.



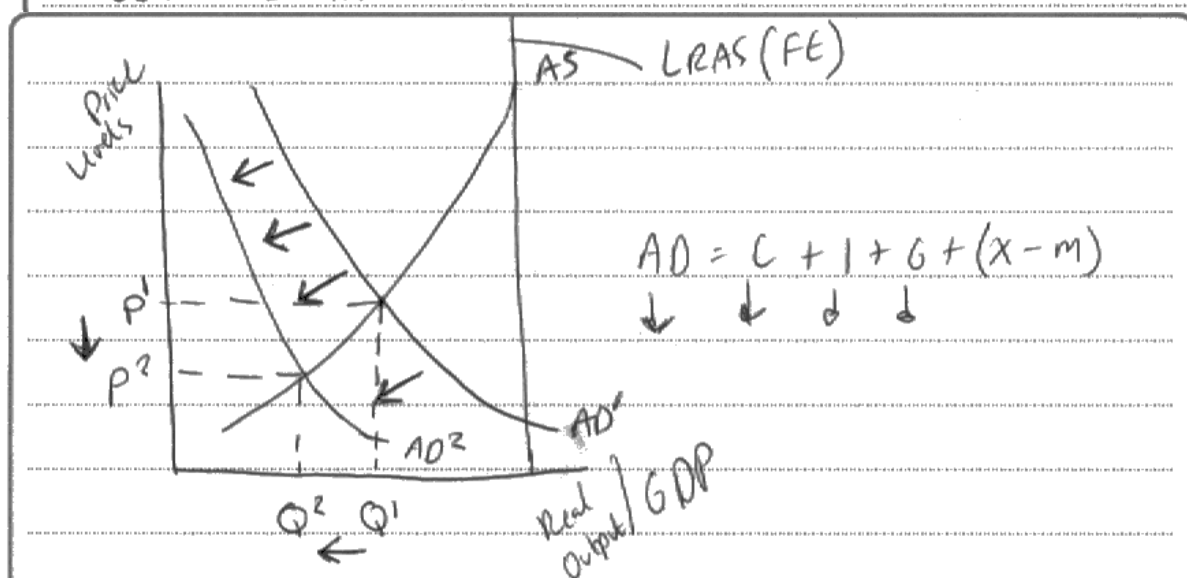
**ResultsPlus**  
**Examiner Tip**

The data refers to macroeconomic variables so it is imperative to illustrate the change with an aggregate demand/aggregate supply diagram.

(b) With reference to Figure 1, comment on the projected GDP in the euro area (south) in 2012-13 compared with 2007. Illustrate your answer with an appropriate diagram.

(8)

The projected GDP of the South Euro Area is likely to continue to fall meaning negative growth will occur and the GDP will shrink even further. GDP is projected to fall from 95% to 92%. This means that there is a recessionary output gap as actual GDP is lower than potential GDP. So the economy is predicted to shrink by a further -3%. 2007 is the used as ~~\* Diagram next page~~. The base rate for GDP and in 2013 GDP is ~~exp~~ projected to decrease by by 7% to only 93% of what the GDP was in 2007.



A reason for the projected fall in GDP is a reduction in aggregate demand (AD). Aggregate demand is the total demand for goods and services within the economy. It may fall due to a reduction in any component of aggregate demand. In the case of South Euro Area countries, Aggregate demand may fall due to a decrease in consumption, investment or government spending.

Confidence in the economy is low so businesses are unlikely to invest as they do not see a rise for their ~~or~~ in demand for their goods and ~~services~~ services.

GDP has decreased from Q1 ~~where~~ ~~to~~ to Q2 thus leading to deflation from level P1 to P2. There has been increased of spare capacity within the economy as the real output is further away from the full employment line.



**ResultsPlus**  
Examiner Comments

This answer shows an understanding of index numbers with reference to a 7% fall in real GDP in 2013 compared with 2007. There is also an accurately labelled diagram which shows a fall in aggregate demand as well as the full employment level of real output. Low confidence is offered as a reason for a fall in investment which caused the fall in aggregate demand. This answer was awarded maximum marks (8/8).



**ResultsPlus**  
Examiner Tip

Understanding of index numbers is crucial in the study of economics and students would be advised to ensure that they can interpret these in a variety of contexts.

### Question 5 (c)

As with question 4(c), there was often very little evidence of evaluation in many of the answers. Furthermore, the data in Figure 3 was interpreted accurately by only a minority of candidates. However, most answers did identify one or two relevant factors which might influence unit labour costs although the significance of productivity was often ignored by many candidates.

(c) With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs.

(10)

A major factor influencing a country's labour costs is its wage costs. If a country does not have a national minimum wage then these can be extremely low, as a national minimum wage provides the minimum ~~best~~ amount per hour an individual in a specific country can be paid. In countries such as the UK, the NMW is fairly high, which provides a redistribution of income and also reduces inequality. It also helps to reduce absolute poverty. In many developing countries there may be a very low minimum wage, or none at all, which can attract attention from transnational companies who want to benefit from the larger profits reduced wage costs and therefore reduced average costs of production will bring. Regulation is also a factor, as there may be certain standards imposed that a company must adhere to, such as ~~minimum~~ health and safety.



requirements or environmental regulation, which all increase labour costs. As well as this, in some countries a company must make contributions to a national insurance or company pension scheme, which can also increase their labour costs. Germany has by far the lowest unit labour costs, which may be due to a lack of regulations, or possibly just the fact that they have a more highly productive workforce or a large amount of capital equipment which allows them to be highly efficient and lower their unit labour costs, making their goods more competitive. A country like Greece may not be able to maintain this same level of efficiency, which is why their unit labour costs are so much higher.

Unit labour costs are the costs per worker, per hour.



### ResultsPlus Examiner Comments

This answer considered a national minimum wage; regulation; non-wage costs such as contributions to national insurance and company pension schemes; and productivity as factors influencing unit labour costs. This was supported by appropriate reference to examples of countries and good analysis relating to productivity. However, there was no evaluation of these points. Consequently, this answer scored 6/10 marks.



### ResultsPlus Examiner Tip

Avoid irrelevant analysis. The discussion of national minimum wage was related to the impact on equality rather than its significance for unit labour costs. Furthermore, it is important to recognise that the command word 'examine' requires evaluation.

(c) With reference to Figure 3 and your own knowledge, examine factors influencing a country's unit labour costs.

(10)

A possible factor is wage and non wage costs. wages ~~are~~ are the biggest expenditure for most firms. Countries which are more developed are generally the countries which have higher wage costs. for example, the UK will have higher wage costs than China, as there are more regulations such as the minimum wage. Non wage costs may also be a big factor. For example firms in more developed countries will have to pay for extra costs such as national insurance. This in turn will increase a firms cost of production and therefore ~~a~~ increase unit labour costs.

Another possible factor is the physical capital of firms, for example machinery. countries which are highly industrialized such as Germany, which produces a lot of cars, will use a lot of machinery. generally, machines are cheaper and more efficient than employees and therefore may reduce a country's unit labour cost, which may explain why Germany has much lower unit labour costs than less industrialized countries such as Greece.

Another factor that may influence a countries unit labour costs ~~is~~ is the amount the government spends on education and training. For example countries such as Greece and Spain which have a lot of government debt are unlikely to spend as much money on education and training schemes as Germany, as they have too much debt, and so in turn, they have a less skilled and productive workforce, leading to higher unit labour costs.

However, it could be argued that there is a massive time lag for expenditure on education and training, as it takes time to learn new skills and so in the short run, unit labour costs will remain the same, but in the long run, unit labour costs will fall.

It could also be argued that it would depend on the magnitude of wage and non wage costs, as less developed countries tend to have lower wage and non wage costs due to less developed government regulations.



**ResultsPlus**  
Examiner Comments

This answer explored several factors which might influence unit labour costs including wage and non-wage costs, machinery, and education and training. These were analysed and supported with relevant examples of countries. The end of the answer included some evaluation, something that was relatively rare in answers to this question. Consequently, the answer was awarded 9/10 marks.



**ResultsPlus**  
Examiner Tip

For a question of this nature, a discussion of two factors would be sufficient so long as examples are included and there is evaluation of the points identified.

### Question 5 (d)

Many candidates interpreted current account imbalances as referring to deficits only. In general, candidates were able to explain one or two reasons why such deficits had decreased but they were less confident in discussing current account surpluses. A significant number of candidates were unable to interpret the data correctly i.e. that the current account balances in Figure 4 related to percentages of GDP. The best answers discussed two factors, made reference to the data in Figure 4 and included evaluative comments.

\* (d) Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4.

(12)

Most of the ~~southern~~ current account deficits in southern Europe have decreased.

One likely reason for this is a decrease in their marginal propensity to import and this will have the effect of decreasing the deficit on the current account trading account. This could be due to decrease confidence in the economy so consumers would much rather save their money due to the possibility of a recession whereby they could end up unemployed or prices increase substantially. However in evaluation these ~~countries~~ are likely to be reliant on

secondly it could be down to a reduction in the value of the euro this would make southern Europe's exports more attractive to foreign countries as they are cheaper however the J-curve effect would apply and terms of trade would likely ~~decrease~~ <sup>increase</sup> in the short run then decrease in the long run. also this would increase Germany's current account surplus and



this has not occurred germany's current account surplus has decreased so it is likely to be another factor influencing the change in southern europe's current account.



**ResultsPlus**  
**Examiner Comments**

This answer began quite well by considering a decrease in the marginal propensity to import which was followed by reasons why this might have occurred. The second point related to the depreciation in the value of the euro which included some analysis and also evaluation in terms of the 'J' curve and reference to Germany's declining current account surplus.

This answer scored 9/12.



**ResultsPlus**  
**Examiner Tip**

The answer could have been improved by the inclusion of more examples, for example, by referring to the data in Figure 4, and by evaluation of the first point.

\*(d) Assess the likely reasons for the reductions in current account imbalances as shown in Figure 4.

(12)

The Balance of Payments is the amount of money going in and out of a country, one of the components of the balance of payments is the current account, which has three components itself; trade, transfers and investment income. One of the reasons why a current account imbalance suggests more money is going out than is coming in a country. One of the reasons for the reduction in current account imbalances is due to the decrease in consumption following the global recession in 2008. A decrease in consumption means consumer spending decreases which reduces the demand for imported goods as people are spending less and saving more, therefore reducing the imbalance in the current account for a country like ~~Germany~~<sup>Spain</sup> where the imbalance reduced from -10% of GDP to -2% of GDP.

Furthermore, another explanation for the reduction in the current account imbalance is the decrease in transfers received by people. Transfers are when people send money to other countries or continents such as; Africa where their relatives may live, therefore money is going out of the economy which worsens the current account. However, due to the recession a number of people became unemployed or suffered a reduction in income which meant they did not have enough money to transfer money out of the country

or they transferred less money, hence the reason why the imbalance for Ireland changed from -6% of GDP to 3% of GDP. As less money is being transferred less money is going out, therefore there is a reduction in the current account

unemployment. Also one can argue the change rate of the euro depreciated, thus making euro goods more price competitive, which increases exports and <sup>\*</sup> Although, one can argue trade is the most important and largest component of the current account, therefore changes in trade are more significant than transfers or investment income. This is because trade covers the whole country as every consumer demands a good or service, whilst transfers are only carried out by a small proportion of the population.

Furthermore, one can argue the reduction in the current account in balance was not of a large magnitude for all countries as Italy changed very little over the 6 year period, in fact as a percentage of GDP it changed from -2% to -2%, therefore remaining the same.

<sup>\*</sup> decreases imports, therefore getting closer to a trade surplus and reducing the imbalance in the current account, especially for countries like Germany which exports machinery and cars all of which sell quickly.



### ResultsPlus

#### Examiner Comments

This answer offered several reasons to explain the reduction in current account imbalances including the decrease in consumption following the global recession; a decrease in transfers to other countries; and a depreciation in the value of the euro. There was appropriate reference to the data and some evaluation on the second page.

Overall, this answer scored 10/12.



### ResultsPlus

#### Examiner Tip

This answer could have been improved with more evaluation, especially in relation to the first point.

## Question 5 (e)

There was a generally good standard of answers to this question: many candidates were able to identify some labour market reforms and apply these to economic growth and unemployment. However, some responses did not relate the policies directly to economic growth and the reduction in unemployment and a minority discussed reforms which were not related to the labour market. There was also evidence that some candidates had allowed themselves insufficient time to answer this question fully. The best responses analysed and evaluated three labour market policies and discussed their significance for economic growth and unemployment.

\*(e) To what extent might labour market reforms be successful in stimulating economic growth and reducing unemployment in euro area (south) economies?

(15)

Labour market reforms which we could look at consists of education and training. If a government can impose the importance of this to its citizens then people ~~will~~ will become better skilled, and adapted with content knowledge to gearing towards the jobs available.

The text says that 'giving employers more flexibility in hiring and firing workers' is beneficial because it help remove inefficient workers which adds to the cost of the firm. In addition deregulation of "minimum" wage" could be beneficial because the firm can now ~~it~~ have less wage pressure, employ more workers than they did before and ultimately increase output. This increases the economic growth because with the extra power to firms, the can increase investment if they wish but most importantly be more efficient on international trade. However, this does not really reduce unemployment because with the protection of the employee removed (NMI), the firm may not pay the amount that is in line with inflation and others costs that Labourers may incur. This could lead to many people "not ~~see~~ seeing the point of working", instead they may choose to live off benefits if the total expenditure available amounts to the same or similar level.



However the text also mentions that AD is weak, therefore in the Short run, the effects of these reforms won't be felt until the Long Run. This could be interpreted that the state could worsen and the current people will have to suffer.

This could lead to people going to private firms because of the sudden level of education, higher positions means more wages, more wages means more tax, more tax means more reinvestment in the economy.



### ResultsPlus Examiner Comments

The first policy, education and training, is not related to growth and the reduction of unemployment. In the second paragraph, the policy of giving employers more flexibility in hiring and firing is identified but not supported by any analysis. However, this is followed by a slightly better consideration of deregulation of the minimum wage and some evaluation of this policy. There is a little further evaluation related to the weakness of aggregate demand.

Overall, this answer scored 6/15 - three marks for knowledge, application and analysis and a further three marks for evaluation.



### ResultsPlus Examiner Tip

It is important to explain how the policies identified might affect growth and unemployment. The brevity of this answer suggests that insufficient time had been allocated to answering this question. Given that this is worth 15 marks, candidates would be advised to plan time carefully to ensure that such questions can be answered fully.

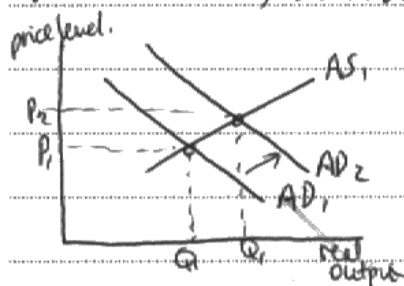
\* (e) To what extent might labour market reforms be successful in stimulating economic growth and reducing unemployment in euro area (south) economies?

(15)

### PLAN

- o Cut benefits = unemployment  $\downarrow$ , AD  $\uparrow$ , growth  $\uparrow$
- o ~~Incentive for firms to~~
- o Better education + health,  $\Delta$  productivity  $\uparrow$ , AS  $\uparrow$ , g.  $\uparrow$
- o Reduce power of ~~the~~ trade unions, less <sup>sympathy</sup> strikes...

One labour market reform is to cut unemployment benefits. This should give ~~people~~ <sup>incentive to</sup> unemployed to find work or to those working ~~to take~~ part time to take on more work, in order to achieve the same or more amount of income and to maintain their standards of living. This would reduce unemployment, and at the same time as people will have more disposable income, ~~they~~ consumption will increase, thus AD and growth will also increase, as illustrated below.



However, such policy may create greater inequality, especially for people who have dependants and cannot work full time, thus ~~not~~

suffering from benefit cuts. Also, when entering full-time work many will automatically lose their housing benefits thus higher incomes will be spent on rent and council tax rather than consumption, so overall the policy will not achieve the desired result of higher growth.

A better reform is to invest in education and ~~the~~ healthcare. This could be by providing support for low income group to enter higher education, thus increasing their expertise and  $\phi$  employability, and potentially productivity. By investing

'in GPs', workers will take less days off to visit hospitals and eventually taking less sick days off, thus by spending more time in work they countries output ~~and so~~, thus growth will increase. Alternatively, higher workers productivity (as a result of education) will lead to increase in aggregate supply, thus growth.

However, strategies such as education are very long term and full effects may only be seen after 5 years. ~~of study~~ They also have high opportunity costs - governments money could have been spent on ~~more~~ faster achieved projects such as improvement of infrastructure. Therefore overall this strategy is only effective in long term.

Another strategy is to increase retirement age. This means more expert workers will be in employment (especially in teaching) thus productivity would be higher. Alternatively, powers of trade unions could be decreased, making sympathy strikes illegal thus workers will spend more day at work and will be able to increase countries output.



### ResultsPlus Examiner Comments

This was an impressive answer covering several policies with some good evaluation of two of the policies. The policy of cutting unemployment policies was explained and evaluated well, especially in terms of the possible impact on consumption and growth. Credit was also given for discussion of education and training. The last paragraph referred to two policies: the last one relating to decreasing the powers of trade unions was credited.

Overall, this answer scored 13/15, 8 marks for knowledge, application and analysis and 5 marks for evaluation.



### ResultsPlus Examiner Tip

This answer could have been improved if the third policy had been explained and evaluated in greater depth.

## Paper Summary

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

- To ensure that they have a clear understanding of how to interpret numerical and graphical data. In particular, interpretation of index numbers was a particular weakness in questions 4 and 5. Given that these are employed widely by economists, students should ensure that they understand how to these are used to represent complex data and how to interpret them.
- To ensure that key concepts are understood and can be defined accurately. In particular, there was some confusion in question 1(a) about the meaning of the term 'budget deficit', in question 3(a) about the term 'economic development' and in question 5(e) about the term 'labour market reforms'.
- To develop sufficient confidence in their understanding of the concepts to be able to apply them in unfamiliar contexts. Read questions very carefully to ensure that they are interpreted correctly and that all elements of the questions are addressed.
- To secure a knowledge and understanding of current economic issues so that answers can be enhanced in the context of such information. Candidates who were able to demonstrate such understanding were able to offer more informed answers than those who simply wrote generic responses. Furthermore, some answers were incorrect because they lacked real world information.
- To ensure that handwriting is legible. Marks may well be lost if the examiner is unable to read what has been written.



## **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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