Examiners' Report
June 2014

IAL Economics WEC04 01

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk.

Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

ResultsPlus

Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit www.edexcel.com/resultsplus.
Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk.

June 2014

Publications Code IA038613

Introduction

This was the first summer paper for this Unit. The standard was generally higher than it was in January 2014, with a similar level of attainment across Sections A and B.

Most candidates were able to show good levels of economic knowledge and analysis. More able students were able to integrate their analysis with application to context, and particularly to evaluate their own arguments in detail.

Question 1

This was the second most popular question in Section A with around 35% of candidates choosing it; however, it was also the least well answered. The main issue with the quality of responses was that often candidates did not engage with the detail of the question and instead wrote out pre-prepared essays on the different factors that might constrain a country's economic development (part (a)), and the different ways to promote economic growth (part (b)), rather than focusing their responses on the problems caused by rapid population growth, and the advantages and disadvantages of offering debt relief to developing countries. While some credit was given for discussions of other constraints on development/methods of growth promotion as evaluative content, essays which made very little reference to the specific focus of these questions tended to achieve Level 3 at a maximum, as they therefore lacked the depth of knowledge, application and analysis that is required for higher level marks. Additionally, only the best candidates noticed that part (a) was looking at economic development, while part (b) was looking at the arguably narrower aim of economic growth, and wrote responses that matched these. Doing so would have allowed candidates to show knowledge, and possibly provided them with a valid line of evaluative comment.

In relation to part (a) in particular, weaker candidates struggled to go beyond a discussion of how rapid population growth might strain healthcare and education resources in a country. There was a good deal of misunderstanding of the likely effects of population growth on unemployment rates in an economy: weaker candidates thought that more people would automatically mean a higher rate of unemployment. While this is certainly possible, we were ideally looking for a supporting explanation of why the labour market would not clear in this case (sticky wages, for example), rather than a simple assumption that it would not. Stronger candidates showed a good understanding of measures of development such as GDP per capita, and were able to discuss how this might be affected by rapid population growth, but even they tended to struggle to show the required breadth of understanding. Examples of the kinds of points that would have been valid can be found in the markscheme.

This question was not explicitly related to developing countries, but as they are most likely to experience rapid population growth, most candidates chose to apply their answers to developing countries. If this was done, then examiners were a little cautious of evaluative comments arguing that rapid population growth might not have a large detrimental effect on development as the government could increase spending on education or healthcare, if candidates did not show an appreciation of how difficult this might be for a developing country. More generally, candidates of all ability levels struggled to effectively evaluate their answers, and very few offered more than an explanation of why other factors might constrain economic development to an even greater extent. While limited credit was given for this, it was not directly answering the question, and all too often led candidates away from the focus of the essay.

Part (b) was generally answered better than part (a), partly because a consideration of other methods of growth promotion was a valid line of argument as the question asked to what extent was offering debt relief the 'best' way. Weaker candidates tended to be able to explain that not having to repay debts (with interest) meant that a government would be able to inject more money into the economy's circular flow of income, boosting aggregate demand with a positive multiplier effect. They were also able to discuss how increasing spending on education, healthcare, infrastructure etc., might also increase aggregate supply, and/or make the country more attractive to inwards FDI, leading to further economic growth and job creation. Candidates should not forget that part of what is being tested on this paper is the ability to apply Unit 2 concepts to a broader range of unfamiliar situations, and so aggregate demand and aggregate supply analysis often provides a very good framework for Unit 4 essays.

Some stronger candidates produced excellent answers to this question using the ideas of a foreign currency gap, moral hazard, and corruption among others (although none of these were required in order to achieve Level 5); it was really through the strength of their application and evaluation that better candidates were able to prove themselves as such.

Part (a)

This candidate manages to identify some relevant points, but his/her analysis is very limited. This is a Level 2 response, which was awarded 5 marks.

Part (b)

This is a Level 1 response, and was awarded 1 mark.

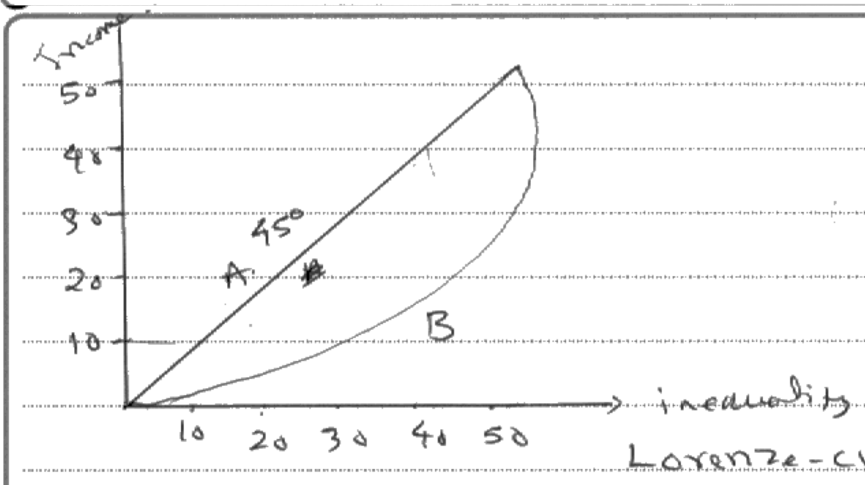
1) a) ~~Ans~~ Economic development is broadly defined for a country to grow and rise in economic growth.

Due to rapid growth of population in a country there ~~are~~ might ~~to~~ be significant effect on economic ~~de~~ development, which can be negative or possitive.

~~Fts~~ Firstly, due to rise in ~~econor~~ population country may suffer from ~~reductio~~ unemployment, ~~Bec~~ which reduces economic growth ~~hen~~ hence reduces economic development. Because, there are going to be excess supply of labour, therefore, the people who are out of work they may suffer for ~~eaxmple~~ example) no disposable income and therefore they can not contribute ~~to~~ in the economy ~~by~~ by paying taxes. Finally, the ~~ma~~ the government will have less tax revenue which could have generated in the economy, hence the revenue could have rise the economic development in a country.

However, government could try to ~~decr~~ ~~Present~~ ~~&~~ impose policies such as education and training, & which could lead higher economic development in the long-run. Because, people will be more skilled and educated. Therefore, it will rise the productivity of labour. ~~b-Hence~~, which encourages firms to invest in the economy and rise economic development.

Secondly, due to rise in population, there are might be significant effect of inequality in the economy which reduces economic development. Because, as ~~Populatio~~ inequality rise one part of the population might be better off than rest of the population which reduces the economic development. Which means ~~the~~ ~~other~~ the ~~re~~ rich people earning whole ~~econ~~ 2/3 of the ~~inc~~ income than the rest just earning 1/3 of the income. Therefore, the differences gap between the rich and poor reduce the economic ~~gro~~ development.



Lorenze-curve.

I Ginni coeffecient in static measure of inequality in the economy. It is ~~k~~ divide by area of A ÷ ~~Areas~~ area of B. Income inequality is low ~~to~~ when it is nearer to 0 ~~or~~ and income ~~a~~ inequality is high when ~~than~~ it is nearer than 1. Which can be identified by using lorenze curve diagram.

However, income inequality ~~as for~~ might not be the ~~res~~ reason ~~b in fu~~ for the rapid population growth. Because, government can use ~~reg~~ regional policies to redue inequality and rise economic development. For excmple, ~~buildin~~ helping ~~new~~ firms to set up in the less developed regions by giving goverment fund, Which ~~rises~~ ~~f~~ enourage the business to invest and therefore business will shift to another region. ~~Wh~~ Which, ~~rise~~ in more employment and rise in economic development.

b) Ans: Economic growth is rise in GDP level for a country. Debt relief ~~reteif~~ is is when othe countries reduces the debt of developing country, which may ~~to~~ be helpful to ~~developed~~ developing country.

Firstly, debt ~~retif~~ reliet may be not only way to rise in economic ~~growth~~ growth for developing country for example

Bangladesh. Because, ~~to~~ developing country can invest in their economy, for ~~exam~~ example, ~~rise in~~ buid ~~in~~ new Infrastructure ~~or~~ and roads and make better transportation system. Which may attract FDI (foreign direct investment). ~~*~~ Because, TNC is mainly attracted to low labour cost ~~and~~ which reduces their cost of production Therefore, ~~for~~ due to TNC they will hire more labour ~~from~~ in Bangladesh, which rise the empolyment in the economy, by reducing the unemployment rate and rises economic growth. ~~AS~~ Also TNC will pay tax to the domestic government which rises the tax revenue. Hence the tax revenue can be generated in the economy which will rise the economic growth.

However, due to FDI there are ~~crit~~ critical issue of exploitation labour. Because the ~~labours ar~~ labourer are not paid enough for their servivces for example bangladesh grament industry. Therefore, ~~it reduces the * the workers~~ dispos due to earning of low wage, worker will have ~~little minium minimum &~~ little disposable income, which reduces their consumption and standard of living therefore country may suffer ~~from~~ from low economic growth. Also, there are argument that

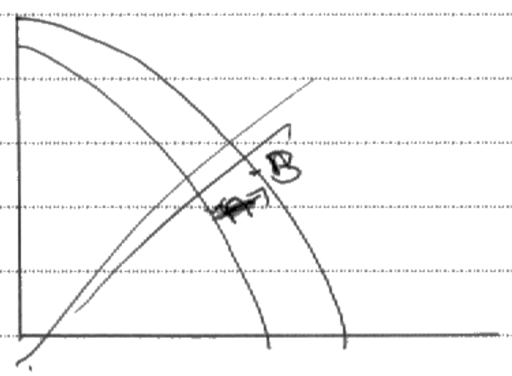
FDI ~~to~~ pay less porportion of their ~~Secondly,~~ tax to domestic economy and ~~g~~ it generate to their country. Therefore domestic government will have low tax revenue and ~~it may rel~~ it might not be sufficient for ~~to~~ generate in ~~the~~ the economy; which reduces economic growth.

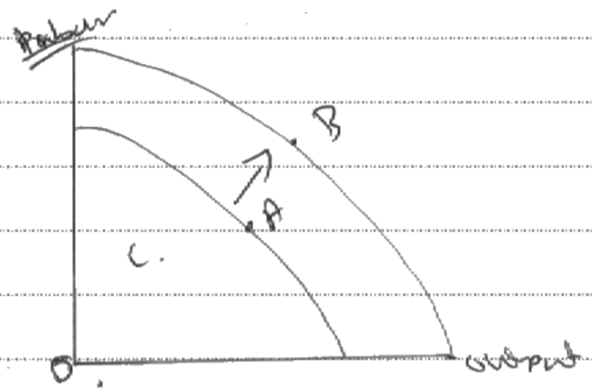
Secondly, developing country could use research ~~and one~~ and development.

Secondly, domestic government could invest on new products to rise ~~interal~~ international competitiveness. Because by ~~of help~~ ~~by~~ ~~using~~ R&D it might help the country to gain from comparctive advantage which is country can be make a product more effecient than other countries. Therefore, demand for their product will rise, therefore rise in demand it may rise in export. ~~a~~ Which result firms investing more in the product because they will ~~earn~~ maximise profit, ~~a~~ ~~and pay the~~ workers or even narrowing the brand. ~~Which~~ Therefore rise in investmend may help ~~to eco~~ in economic growth.

However, R&D is quite expensive to ~~sell~~ set, therefore for developing country it might be expensive, which rises goverment expendeture. Also R&D may not be successful in the future, therefore there are no gurentee because of this reason the economic growth.

Thirdly, economic growth can be achieved by ~~rising~~ ~~ris~~ increase of education and training. Because, then the people will be more educated and skilled which rise the mobility of labour in the economy. Therfore, in critical cases such as structur unemployment or deindustrilisation labour can be shift to new sector of the ~~econom~~ economy. ~~Therf~~ ~~It~~ Hence the productivity of labour will ~~rise and~~ be increased and rise in economic growth which takes the production possibility frontier in ~~to~~ right ward shift.





However, ~~the policy for this~~ education and training take ~~for~~ long time to come in effect. Therefore, economy have to wait to rise ~~in~~ its economic growth which in this case ~~&~~ they might be ~~in~~ in negative economic growth. Also education and traing ~~has~~ might ~~to~~ have opportunity cost. The ~~mo~~ cash generated in education it could be generated in elsewhere such as in health care.

Overall, in developing ~~count~~ countries might improve theirs economic growth by using diffrent method and policy. But it ~~has~~ might come in ~~for~~ effect in long-run. ~~Therfor~~ Therfore, there are no significant proof that due to debt relief there are going to ~~lead in~~ ~~lead~~ rise in economic growth.

ResultsPlus
Examiner Comments

Part (a)

This candidate was one of many who assumed that population growth would lead to increased unemployment without explaining why the labour market would not clear ('there are going to be excess supply of labour'). Similarly the candidate goes on to state that rapid population growth might lead to increased income inequality, which is true, but again offers no explanation of why this might happen. The explanation of the Gini coefficient and Lorenz curve is incorrect in places, and although it shows some knowledge, it is not really applied to answering the question.

Part (b)

This is an example of a response which was has failed to engage with the question. The candidate does show understanding of economic growth, but makes no meaningful reference to debt relief and does not explain why it may or may not promote growth. Although credit could be given for candidates suggesting that other methods might be better to promote growth, there did need to be some element of comparison between strategies for this to be valid, that is an explanation of why they are better than debt relief, not just why they might lead to economic growth themselves.

The candidate mentions Bangladesh on the first page of the response, but does not continue to apply his/her answer to this, or any other, country.

ResultsPlus
Examiner Tip

Make sure that you read and re-read the question carefully, and engage with all of its key elements. You might find it useful to re-read the question before you start each new paragraph to make sure that you haven't wandered off track. It is perhaps even useful to paraphrase part of the question in the first or last sentence of some of your paragraphs, to make it clear to you and the examiner exactly how your argument is addressing the question.

Part (a)

This candidate shows a limited ability to select and apply points; there is no real analysis of the issues involved. This is a Level 2 response, which was awarded 5 marks.

Part (b)

This response does not really go beyond the reproduction of learnt economic facts: there is very limited analysis only. This is a Level 2 response, and was awarded 9 marks.

1 a) Economic development is the increase in real GDP with an increase in output.

Rapid population growth is a feature of poor countries like Africa or developing countries like China.

With rapid population growth ~~~~ death rates may rise due to disease. In countries like Africa absolute poverty exists. Which is the inability to afford food, shelter etc. Income maybe less than $50. Lack of education leads to a increase in birth rate. The inability to afford medicine, food etc may be a cause of increase in death rates. Economic development may not occur. In Zambia population with HIV/AIDS is 20%

However, increase in population maybe a reason for ~~incre~~ increase in labour work force. Which may lead to a increase in productivity, so development is likely to occur.

Moreover, due to growth in population demand of goods may rise. As a result inflation can take place due to rise in commodity price.

It can be argued that a Country like China is ~~refered~~ known as a developing ~~country~~ country eventhough we consume most of the goods from China. The reason behind this is ~~the~~ their huge popolution. Income per head is less comparing to the population.

Less ~~GDP~~ income per head normally leads to poverty. Workers may work inefficiently, productivity

4

P 4 4 5 6 5 A 0 4 4 0

may ~~[illegible]~~ fall.

Poor countries usually can't afford to equal income to everyone. Inequality may rise. Death rate may worsen development.

However, government can spend on education training. If most of the labours are skilled and educated, country may face econonomic growth due to rise in productivity. As ~~[illegible]~~ number of labours are more and they are skilled. Production can easily be done without wasting time.

Moreover, government may provide food and shelter or medical facilities to the poor. Death rate may fall.

However, spending on education is costly and it is ~~[illegible]~~ quiet impossible for some countries to afford. Also the medical facilities

5

Turn over ▶

P 4 4 5 6 5 A 0 5 4 0

Government might need to take foreign loan which might increase debt.

On the other hand, education and training takes time to come in effect. Also if more natural resources are used, country might run out of resources.

Poor countries usually can't save and their savings ratio is low. They spend on neccessities. Which goes against the Harrod Domar model.

If birth ratio is controlled number of old people will rise. Which is a hastle for government. As pensions etc need to be provided. Old people are usually inefficient which might not help to increase the growth. In a country like China spending on stuffs won't effect them largely.

If a country has enough skilled labour they can send them to other countries to work. Which will increase geographical

6

P44565A0640

mobility of the labour. Jobs may be created.

1b) In a country like Bangladesh debt relief is a huge gift.

Bangladesh is considered as a least developed ~~countries~~ country. Where literacy rate is 65%, most of the people are unemployed and some face absolute poverty.

As debt is cancelled, government can use on infrastructure development which might attract FDI. So more jobs are created reducing unemployment. Moreover, government can use some money to educate and train people / labours. Which might increase productivity as a result economic growth. Economic growth is the increase in real GDP due to increase in output.

~~Death~~ In some areas of Bangladesh people's condition is so bad that ~~their~~ the death ratio is high as they can't afford medical facilities. Government can provide aid to people.

However, FDI ~~may ru~~ may ruin the heritage and cultcre of ~~Ban~~ Bangladesh. Profits would be transferred to their countries.

Only cancelling debts won't promote economic growth. Their are other factors such as globalisation, trading bloc etc.

Moreover, education and training takes time to come in effect. Developing infrastructure may need more money. Further loans might not be provided.

It is really difficult to reduce income and inequality ~~to~~ on poverty in a country like Bangladesh. As population is huge.

8

P 4 4 5 6 5 A 0 8 4 0

On the other hand, corruption is a major factor in Bangladesh. The debt money may not be provided directly to the people. It would go ~~to~~ the pocket of elite political members. Assymetric information may exist.

However, Bangladesh may join trading bloc.

Bangladesh is really rich in garments sector. Government may use ~~do~~ the money to make ~~them~~ the sector internationally competitive. So economic growth may rise.

As Bangladesh is ~~a~~ a developing country, people are dependent on agriculture. And agriculture sectors YED is low. Government may provide ~~geo~~ facilities so that they ~~dont~~ don't become inefficient.

It can be argued that the debt relief may be temporary.

Government of Bangladesh may think that as the debt is cancelled, further loans might be taken. Which will result in inefficiency.

~~FDI~~ MNC's may exploit consumers by charging high price and less variety. As a result consumer welfare may fall.

Moreover, debt might be ~~cancelled~~ cancelled with some conditions e.g.:- lowering interest rates. Which might not be accepted as Bangladesh's economist might not want this to happen. Balance of payment might be effected.

However, the debt money can be used on domestic firms as Bangladesh's people have affinity for imported goods.

So, I think debt relief is the best way to promote economic growth.

10

P 4 4 5 6 5 A 0 1 0 4 0

ResultsPlus
Examiner Comments

Part (a)

This candidate is able to identify some relevant points, such as the increased strain on government finances, and shows an understanding of some basic concepts, such as absolute poverty. However, there is a lack of analysis, both in terms of breadth and depth, and some errors in economic reasoning (for example, the assertion that an increase in the population may lead to an increase in productivity).

Part (b)

The candidate identifies that the money which would have gone towards debt/debt interest repayments could instead be spent by the government on infrastructure development and/or education, and is able to link this to more inward FDI and job creation. The candidate also offers several valid evaluative points (the time lag before spending on such things would lead to economic growth, corruption as a limiting factor, conditions that might be applied to debt relief), but these are mostly simply stated, rather than being well explained and applied. There is some application to Bangladesh, but in several places this does not go beyond naming the country within a paragraph.

ResultsPlus
Examiner Tip

Application is a key skill. You will look at several case studies of developing and developed countries over the course, and it is very useful to be able to refer to some of these in the exam. Application needs to be integrated into your analysis and evaluation: use your knowledge of a specific country or countries to support your points. It is not sufficient to simply name a country within your response. The best answers will show evidence of application consistently and throughout the essay.

Question 2

This was the most popular choice within Section A, with approximately 55% of candidates opting to answer this question. Answers were generally of a good standard.

The vast majority of candidates understood the meaning of a depreciation of the currency, and were able to correctly infer the effect on the relative price of imports and exports for the Indian economy. Weaker candidates were able to move from this to identifying a likely impact on the economy's trade balance, and perhaps the balance of the current account on the balance of payments. Stronger candidates were able to provide a more comprehensive picture of the likely economic effects, often using aggregate demand and aggregate supply analysis, and discussing the possible changes in the economic growth rate, the unemployment rate, the inflation rate and so on.

This question offered a good opportunity for candidates to show the strength of their evaluative skills: able candidates often offered detailed discussions of the relevance of the Marshall-Lerner condition and the 'J-curve' effect among a range of other relevant evaluative points. Candidates were not expected to have knowledge of the Indian economy, although some application was necessary to reach the higher levels. As the question told candidates that there had been a 20% depreciation over just a seven month period, we were expecting a comment on the expected magnitude of the economic effects, and further as candidates were told that India had a relatively large current account deficit, they should have been able to integrate this fact into their analysis by possibly writing about a likely reduction in the size of the deficit, rather than, for example, the depreciation leading to the economy running a current account surplus.

Candidates should note that this question was not asking them to look at the costs and benefits of the depreciation for the Indian economy, but rather the likely effects. Analysis of effects, whether positive or negative for India, were therefore awarded KAA marks, not evaluation marks. Evaluation marks were awarded for assessing the significance of the arguments made etc., as per the markscheme. For example, evaluation marks were not awarded for a simple explanation that the depreciation may lead to demand-pull and/or cost-push inflationary pressures, but were awarded if, for example, the candidate went on to say that such inflationary pressures may negate some of the effects on price competitiveness of the initial depreciation.

Part (b) was less well answered, but did function well as a discriminator of candidate ability. Weaker candidates tended to focus their answers on one or two possible supply-side policies (for example increased spending on education and training), with perhaps a brief consideration of the use of protectionist measures such as tariffs. Stronger candidates often covered examples of both 'expenditure switching' and 'expenditure reducing' demand-side policies and showed a good awareness of the relative strengths and weaknesses of each, as well as recognising that supply-side policies might be useful if there was a supply-side problem in India. Different protectionist measures (e.g. tariffs, quotas, export subsidies) were awarded as separate points in terms of judging the breadth of a candidate's response if they were each sufficiently well explained and applied.

Part (a)

This response shows a decent level of knowledge and analysis, but no application to the Indian economy. Evaluation is very limited, allowing it to just access a Level 4 mark, but to only be placed at the bottom of the Level 4 range of marks. This response was awarded 10 marks.

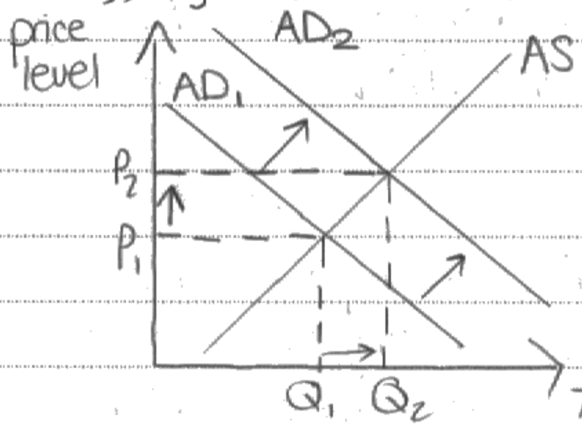
Part (b)

Once again, this response shows a lot of knowledge, but here there is limited analysis and discussion of points; this is really a list of learnt points. There is no application or evaluation. This is therefore a Level 2 response, and was awarded 9 marks.

a. Depreciation is the fall in the value of a country's currency

• Depreciation has a number of effects on a country's economy:

1) The Price of its exports to foreign countries will fall This means that their products will be more competetive & attractive internationally & so the demand for exports will rise & aggregate demand will rise



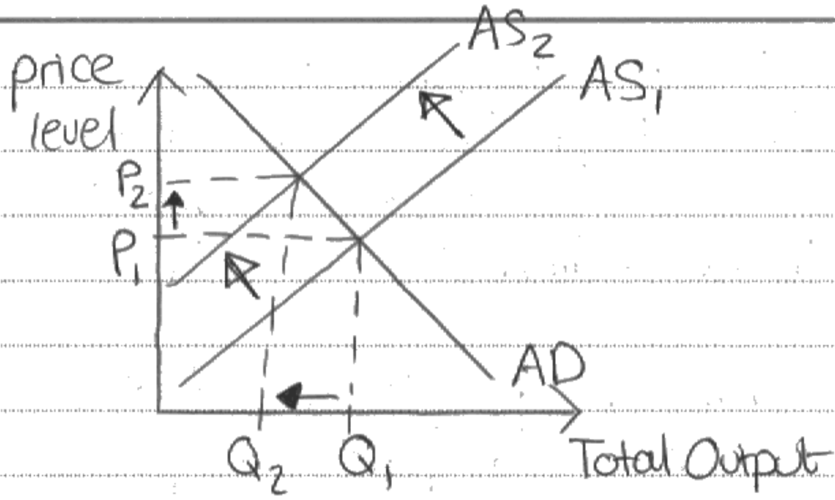
an increase in aggregate demand means that price level will rise which might cause inflationary pressure (Demand-pull inflation) & The total output will increase which causes economic growth. ⇒ so living standards will be higher.

• An increase in the total output will equal to an increase in total income & a reduction in the level of unemployment & living standards will be higher.
• A depreciation of the currency of a country will also cause the price of imported goods to rise which will increase the competitiveness of domestically produced products & so consumers will consume more of them & the aggregate demand will increase.

* A fall in the price of exports & a rise in the price of imports of a country will both increase the international competitiveness & the domestic competitiveness of a country which will cause an increase in Aggregate demand & will have the effects shown in the diagram above.

* An increase in the price of imported raw materials & capital will mean an increase in the cost of production of firms which will cause Aggregate supply to decrease

P 4 4 5 6 5 A 0 4 4 0



~~A~~ A decrease in the aggregate supply from $AS_1 \rightarrow AS_2$ will cause a rise in the price level which will exert inflationary pressure on the economy. Since this ~~p~~ rise in the price level is because of a fall in aggregate supply because of ~~the~~ an increase in the cost of production then it is called cost-push inflation. A decrease in aggregate supply from $AS_1 \rightarrow AS_2$ will cause the total output to fall from $Q_1 \rightarrow Q_2$ which means that unemployment will rise ~~to~~ to decrease the costs of production & ~~tot~~ the level of total income will fall & people will be living in lower living standards.

If the demand for the country's exports or

5

Turn over ▶

P 4 4 5 6 5 A 0 5 4 0

The goods it imports is price inelastic Then ~~This way~~ Depreciation will not have an effect on the competitiveness of a country's products domestically & internationally

price-inelastic demand: people will continue to demand a particular product even if there were changes in its price.

b. Balance of Payments: A list or a number of accounts that show a country's financial transactions with other countries. It is divided into two main accounts → current account
→ capital & financial account

• Current account :- shows the day to day financial transactions of a country with other countries.

It is divided into:

1) Trade of goods balance :- The value of the exported goods minus The value of the imported goods

2) Trade of services balance: The value of the services it exports – The value of the services it imports

3) Investment incomes: incomes recieved by the U.K. from foreign investments by U.K. – incomes given by the U.K to abroad from foreign investments in the U.K.

4) Transfer Payments: Payments recieved by the U.K (from EU) – Payments made by the U.K. to the E.U & food aid to developing countries.

• Current account deficit: When the value of a country's imports exceeds the value of a country's exports.

To Reduce the current account deficit :-

1) Increase the value of the exports: By increasing the competitiveness of the products produced domestically this can be done by increasing the productivity of ~~tax~~ ~~dome~~ labour by investing in human capital by education & training to

to improve their talents & skills & this will also increase the demand for them.

• Decreasing the value of the imports by imposing tariffs & quotas

• Providing Subsidies to domestic firms will decrease their costs of production & will make their products more competitive which will increase the demand for them domestically & internationally so exports will rise & import will fall.

Imposing Tariffs on imported goods increases their prices & makes them less competitive & attractive however this is a method of protectionism that might be rejected or not accepted by WTO (world trade organisation) & GATT (general agreement of tariffs & trade)

• Increasing the FDI (Foreign direct investment) abroad to increase the level of investment income into the U.K.

• A decrease in the income tax to

8

P 4 4 5 6 5 A 0 8 4 0

give the workers the incentive to be more productive although this might not really work as they might spend the extra disposable income on imported goods or save it.

• A decrease in the corporation tax which will allow firms the chance to engage in research & development which will increase the productivity & so international competitiveness & so exports. R & D (research & development) will also help improve existing products (domestic) & invent & innovate in new products which will also increase the demand for exports as it will both increase domestic & international competitiveness so demand for domestic products will rise & for imported products will fall.

ResultsPlus
Examiner Comments

Part (a)

There is a good range of possible economic effects outlined here: the candidate cites a likely greater demand for exports and a lower demand for imports leading to an increase in aggregate demand, economic growth, increased living standards and reduced unemployment. He/she also explains the likely demand-pull and cost-push inflationary pressures.

There is a hint of evaluation when the candidate mentions that living standards may not rise if inflationary pressures grow. The point about the price elasticity of demand of imports and exports is incorrect, as even if demand is price inelastic competitiveness will improve, it's just that consumers' response to this improvement will be relatively small.

There is no application at all to the Indian economy in this response.

Part (b)

The first part of the response shows knowledge of the current account of the balance of payments, but is not really answering the question. The candidate then goes on to really list a number of possible policies, without really engaging with them. The point about increasing FDI abroad is confused, and a reduction in income tax would most likely have the opposite effect to that desired. Again, there is no application here.

ResultsPlus
Examiner Tip

When a question asks about the economic effects of an occurrence or policy, you can use the government's macroeconomic objectives as a framework for answering by thinking about the likely effect on each of the objectives.

Part (a)

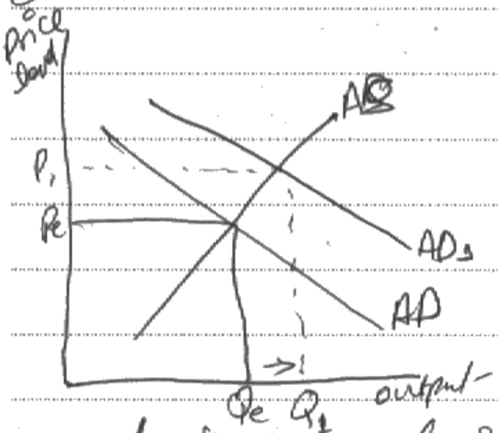
This response shows a good level of knowledge, application and analysis with some evaluation. It was judged to be Level 4, and was awarded 11 marks.

Part (b)

Much of this response involves incorrect economics or irrelevant analysis. The candidate shows some knowledge only. It is therefore a Level 1 response, and was awarded 4 marks.

When a currency depreciates it means it looses value compared to other currencies. The Indian currency fell (depreciated) by 20% between January and August 2013.

With this depreciation the Indian goods are cheaper to other countries, which further leads to a rise in the net exports and as export is the component of AD it leads to a rise in the Aggregate demand of India.



This leads to more firms producing in the industry further leading to firms achieving economies of scale as they will have reduced costs and increased revenues. When firms have a lucrative domestic business it leads to more people getting jobs and the unemployment level being falling; And if so continues it can lead to the growth of the economy.

As India is a developing country rising exports because of depreciated currency will lead to the balancing of the current account. Moreover, the deficit of 4.9% (on GDP) on the current account can be stabalized as now India can produce and sell to the global market.

Moreover, domestic businesses also will benefit this as there is reduced demand domestically and with the increased cheaper exports demands for Indian exports will rise. It also can lead to the domestic firms enjoying lower costs by efficiency as there is more demand for labour now and less are unemployed.

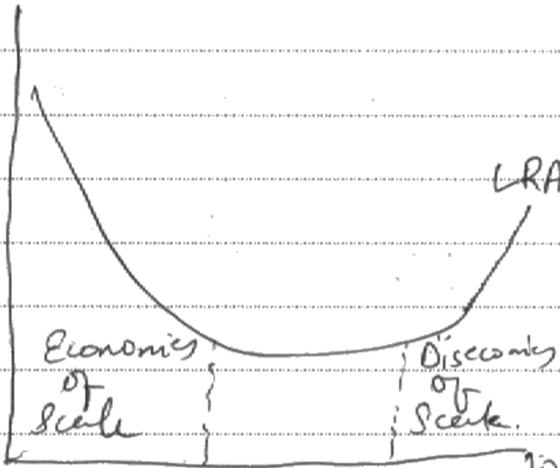
To add to this as the employement rises the HDI of India will rise equally as the people will have more life expectancy as they are now educated. Also they will have a better living standards.

However, it may not always be a good time the firms who achieve the economies of scale can run into

4

P44565A0440

a diseconomis of scale is the long run as the costs will rise.

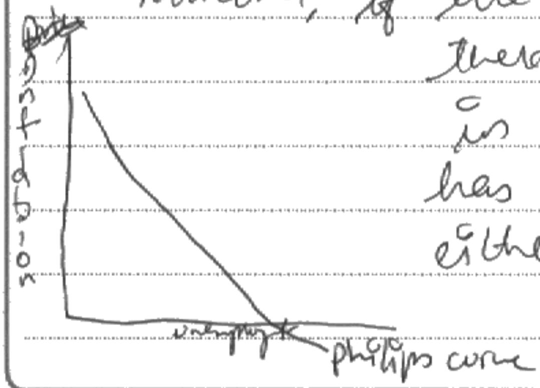


The firms has a rising cost and further if it is unable to co-op up with the costs it has to shut down and also can lead to cost-push inflation

Moreover, with increased exports ~~&~~ rising GDP also ~~&~~ having boom may lead of inflation and if so continues again the firms have to rise their prices and fire worker to cover their costs.

Moreover, with increased growth and more profits (because of more demands) the labours will demand more wages and there will be a wage price spiral in the economy.

Moreover, if the inflation is rising there will be unemployment in the society and goverment has to choose between either of them.



~~b) Current account is in deficit~~

Moreover, if India has continues depreciation in its currency it can prove to be bad for the Indian economy. Although depreciated currency brings a lot of merits for economy but if it is just for a few months it may not affect the economy much.

With ~~lower~~ depreciated currency the Indian econy will also have lower amount of FDI's into the economy and thus it can lead to Indian economy having a bad image. To add to this the Indian economy also will face a problem of growth. If this currency continues to depreciate it will be hard for the currency to appreciate and thus it can be the root cause for the pause to the growth of the Indian economy.

6

P 4 4 5 6 5 A 0 6 4 0

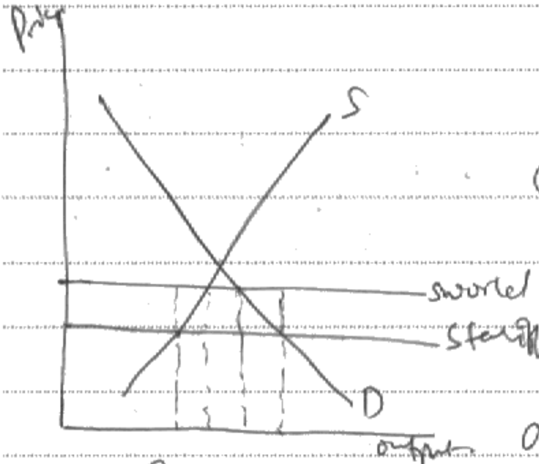
b) When the country has more imports than exports then it is said to have a deficit on its current ~~account~~ account. The current acount deficit on the Indian economy was 4.9% of its GDP.

To reduce the current account deficit the Indian economy can increase the Aggregate demand by using expansionary fiscal policy which increase the government spending and reduces the taxation (~~and also use~~) When a ~~firm~~ government starts to do this the firms starts hiring more workers and further it leads to a fall in unemployement. Moreover, when the taxes are reduced people will spend more on luxuries and the total spending of the economy would rise which leads to the growth of economy ~~and to the firms~~.

Secondly, the Indian economy also can use monetory policy to solve this issue. Using loose monetory policy of reducing the interest rates and ~~the~~ increasing the money supply. This leads to people borrowing more and thus spending more which in turn leads to a rise in the Aggregate demand. And if this continues it can allow the ecomy to grow.

The Indian ecomy can use these two policies to encourage production and making the domestic businesses to work and further starting to export more.

Moreover, the Indian ecomy can impose tariffs on the imported goods which discourages the imports as the firms will charge more to the Indian costomers and so this way the imports may be reduced.



Moreover, this tariff discourages the supply and leads to a fall in it. This way the Indian custom ~~would~~ will not spend on the imported goods.

Secondly quotas also can be used by the Indian government to reduce the imports.

If is all these factors if implied by the Indian ecomy the Indian ecomy will have a net increase in

P 4 4 5 6 5 A 0 8 4 0

the ecomy and further cause a balence is the current account.

Moreover, if firms start to have economies of scale and enjoy a lucrative business they will have more incentive to produce and many firms will offer jobs which will reduce unemployment.
The government can start giving subsidies to firms and reduce the unemployement benefits to encourage more labours to produce and it will thus lead to a rise in the aggregate supply of the econony.

However, it might not be a wise idea ~~@~~ to impose tariffs and quotas on the imports as the ~~Po~~ firms will reduce their imports and there will be lower transfer of modern technology and a lesser training for the Indian employees which in turn will lead to a ~~fa~~ pause in the growth of the Indian ecomy.
It also is quite costly for the government to cover up all the policies at once and imply a single policy as government has many

9

Turn over ▶

P 4 4 5 6 5 A 0 9 4 0

other areas to focus on. Also there will be a wage price spiral as the business will achieve E.O.S. and earn profits the workers will demand more wages. Moreover for a slight change in the current account the government cannot risk other factors; so there will be lots of choices for the Indian economy.

To add to this when firms start to produce more and government increases spending it can lead to a rise in the inflation as the AD rises the firms will increase their prices and it will continue.

Also, there will be increased pollution at the same time as the firms will produce more and dump more wastage which again will be a burden on the Indian economy and they again have to react in the form of the imposition of pollution permits etc.

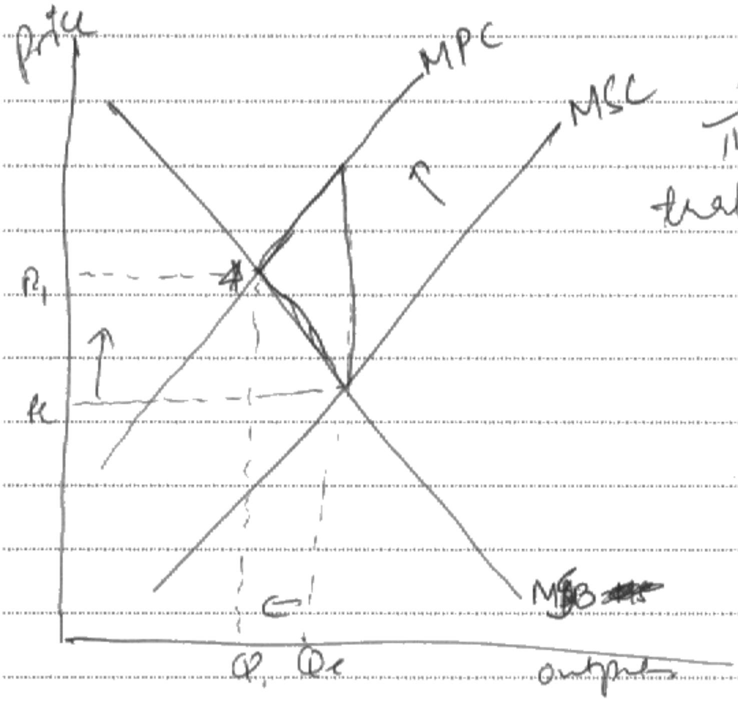
Moreover, increased exports also can be quite costly as firms have to go through transportation costs and other sundry expenses.

P 44565A01040

~~Lastly it~~

Moreover, it can be time consuming for the government to focus on solving this issue. It also can lead to rise in the crime rate and other pollution acts if the government focuses on just one sector.

To add to this there also can be a chance of demand-pull inflation if the government focuses on increasing domestic demand and subsidising the firms.



The diagram shows that the MSC>MPC

ResultsPlus

Examiner Comments

Part (a)

This candidate shows some good knowledge, application and analysis. He/she identifies the likely increase in net exports leading to an increase in aggregate demand, increased job opportunities leading to a likely improvement in India's HDI score, and an improvement in the economy's current account balance. In evaluation he/she discusses how increased inflationary pressure may mean that the expected decreases in the unemployment rate do not occur. Note that the attempted analysis in the final paragraph of the response is largely incorrect.

Part (b)

Much of this response is not answering the question. In the second and third paragraphs the candidate considers the use of expansionary fiscal and monetary policy to generate economic growth, rather than to reduce a current account deficit. The idea of using tariffs is correct, but the diagram is not labelled, and the written explanation is rather unclear. The discussion of economies of scale is irrelevant, and although the use of subsides might be a valid policy, here the candidate only explains how it might lead to an increase in aggregate supply, and does not link this to an improvement in the current account balance. The fourth and fifth pages of the response are not really answering the question as they are largely evaluating the use of expansionary fiscal policy.

Question 3

Very few candidates chose to answer question 3. Weak candidates tended to confuse fiscal deficits and trade/current account on the balance of payments deficits, and were awarded no marks for discussions of causes of the latter.

Candidates should have recognised that part (a) was asking about **fiscal deficits**, while part (b) was about **national debt**. Discussions of the other variable were not rewarded unless they were explicitly linked to the variable in question.

In part (a), candidates could not achieve a Level 5 mark without applying their response to a country of their choice as this was explicitly required in the question. The ability to apply answers in this way proved to be an excellent discriminator of candidate ability, and strong candidates produced some excellent responses doing just this. All candidates did find it relatively difficult to evaluate their responses to part (a), with prioritising the different factors identified being the most common way of achieving this. The strongest candidates were also able to explain how different factors would contribute to the cyclical or structural components of the deficit also, and perhaps make good use of the Laffer curve.

In answering part (b), most candidates were able to identify the opportunity cost of servicing a large public sector debt, and many explained the ideas of resource and/or financial crowding out also. Stronger candidates were able to successfully evaluate their responses, often explaining either how Keynesian economists would view the accumulation of national debt during an economic slowdown/recession as a necessary cost of the government successfully managing the economy, and/or how the implications vary depending on what the money was spent on (capital or consumer goods, for example), as this would affect the amount of economic growth generated by the spending, and hence the economy's ability to repay the debt. Strong candidates were also able to apply their answer to part (b) to a named country or countries, even though this was not explicitly required in the question.

Part (a)

This is a very strong response to the question, which in particular shows excellent knowledge of the UK economy and ability to apply economic theory with appropriate evaluation. It is a Level 5 response and was awarded 13 marks.

Part (b)

Again this response shows excellent knowledge, application and analysis, with good evaluation but no real conclusion. It is a Level 5 response and was awarded 22 marks.

(a) Fiscal deficit ~~occurs~~ occurs when a governments' expenditure exceeds its revenues. It can be categorised into cyclical deficit, which is temporary, and structural deficit, which is persistent and may even be permanent.

~~Rd~~ Fiscal deficit is created when an economy enters into a recession, such as UK, which faced a huge financial meltdown during 2008. The gloomy ~~ecFo~~ economic climate meant high unemployment, low consumption and a fall in growth rate to negative. High unemployment meant a high bill of job seekers allowance along with low bills of corporate and income taxes as firms faced losses. Tax bills from VAT also reduced then representing a fall in revenue and rise in spending, thus creating the deficit. It was also due to UK government bailing out banks such as Royal Bank of Scotland. ~~The~~ UK's ~~export~~ currency depreciated but due to other trading partners, such as USA, going through recession, ~~of~~ export volume decreased by 1.5% and the trade imbalance rose further reducing government revenue. On the contrary, it depends on the length of the recession – the UK economy has now recovered with expected growth rates of 2.9%, highest in the G8 countries. However, UK is still ~~on~~ a sensitive phase, the interest rate of 0.5% has still not risen indicating partial recovery. This recovery isn't enough to fund the deficit adequately but the government has ~~raised~~ reduced expenditure on investments (but maintained spending on the universal welfare payments) in order to fund the deficit. Furthermore, other countries such as Italy, Greece, USA etc. have even higher fiscal deficits hence UK is comparatively performing better.

Another reason for the fiscal deficit is the large public debt of $10 trillion, with falling sterling raising the real cost of debt. This means a huge outflow from the government's revenues in the form of interest payments and cost of servicing the debt which are a long term costs. However, because of UK's credit rating of AAA, its credit worthiness is high hence low interest rates are charged which reduces the fiscal deficit.

Fiscal deficit may also be due to UK's governments presumably incorrect policies, such as the choice of maintaining universal welfare payments over reduction in investments, realising that a fall in investments will slow down recovery, reduce tax bills and keep the deficit high. However, it may be that the UK government is focusing on ~~on~~ reducing relative poverty (or preventing an increase in it), the data may be incorrect or they may have found

5

rise in investments pointless due to high households debt and sensitive consumer confidence which reduces the marginal propensity to consume.

Therefore, there are several reasons for fiscal deficits, interlinked with each other. One might want to realise the proportion of structural deficit and cyclical deficit from the total fiscal deficit as a large structural deficit shows problems of underlying financial management.

It also happens that a prolonged recession turns a cyclical deficit to a structural deficit, However, they can be financed, although extremely difficult, as with the pressure of UK's \$10 trillion public debt creeping up.

(B) Public sector debt is part of the public finance referring to the accumulated money borrowed by the government over a period of time. The national debt of USA is approximately $16 trillion, with UK's debt at $10 trillion. This indicates the large debt accumulated by a country, with Japan as one of the world's most indebted countries. This shows a governments' incompetence and may drive out FDIs as confidence shrinks, which means risking jobs and growth. However, it depend on the governments' ability to reduce its national debts, which may improve with a growth in the aggregate demand of the economy. If that's the case, then it may not impact FDIs, or may even retain them as the borrowed funds may be used to invest in capital projects such as roads and bridges.

Secondly, large public debt means the government has to rely on borrowing which may prove troublesome if lenders discontinue lending. It also risks the chances of a sovereign default or debt crisis, as faced by USA recently. Additionally, it risks a ~~A~~ credit downgrade which results in a reduction in credit-worthiness of a country and may push interest rates higher, thus enhancing the burden. When USA faced the debt crisis, S&P downgraded its AAA credit rating to AA+ for the first time. However, arguably Fitch maintained USA's AAA credit rating. One might question the credibility of the credit rating agencies themselves; S&P was ~~fined~~ sued with ABN Amro in Australia for wrongly over-rating ~~at~~ Amro's investments which resulted in severe losses. Hence in a way, the credit downgrade may not have a significant impact - although the negative media coverage may raise questions.

Furthermore, the larger the debt, the larger the interest payments and the cost of servicing the debt. This creates a deficit in the financial accounts of the balance of payments. On one hand, the deficit causes the currency to deteriorate ~~as~~ which raises the cost of debt even further. On the other hand, the deficit also requires funding which means increased borrowing which again piles debt, creating a loop hole. In contrast, if a government's underlying financial management is sound, then this loophole can be prevented. In addition, this government borrowing will reduce the supply of credit in the economy creating a crowding out effect and raising interest rates. This may be beneficial for the economy if it is overheating but could mean doom for an economy in the phase of recovery. Paradoxically, the rise in interest rates ~~may~~ will attract foreign investments and this inflow of hot money will restore the finance and stabilise the interest rate in the long run and appreciate the currency thus

11

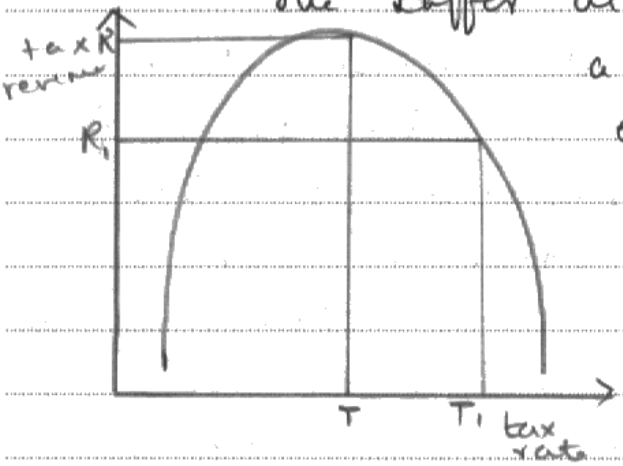
Turn over ▶

P 4 4 5 6 5 A 0 1 1 4 0

reducing real cost of debt, but it will also harm exports if they are price elastic. Hence, there will be several effects on the balance of payments, both current and financial account.

Moreover, a large public debt ~~no~~ will result in a cut in ~~taxes~~ public spending and a raise in taxes. This will increase relative poverty, consumption will fall and growth rates will slump. ~~Loss~~ Loss of public sector jobs combined with rising costs of businesses which means slashing jobs will raise the bill for job seekers allowance.

The Laffer curve shows that



a rise in tax rate encourages firms to evade taxes which reduces tax revenue. Hence, on one side cutting benefits and raising taxes reduces government revenue rather than increasing it.

P 4 4 5 6 5 A 0 1 2 4 0

However taxes raise and cut in benefit also could create a ~~stats~~ income and substitution effect, motivating people to work harder. It will reduce inequality depending on how progressive the tax system is and reduce reliance on the government.

The large public debt will also have a negative impact on the intergenerational equity: the cost to future generations in the form of high taxes, low income, low development and growth. One might argue the high unsustainability involved with large public debt — which although is very risky, but if accumulated through spending effectively on the economy, then will reduce the risk and may even result in future repayment — ~~UK's predicted to repay its~~ depending on its size — both apparent and hidden ~~and~~ debts accumulated by the government. Hence, to conclude, ~~it~~ large debt will mean lower development for the economy in the long run.

ResultsPlus
Examiner Comments

Part (a)

This candidate explains how the fiscal deficit could be the result of: the recession in the UK, with excellent application; having to service a large national debt; and discretionary, expansionary fiscal policies. He/she goes on to evaluate that the cost of debt service depends on an economy's credit rating, and that different factors are responsible for the structural and cyclical components of the deficit. This is clearly an excellent essay, however, there is the potential for a little more economic theory to be included: the candidate needs to be wary of writing answers which are too descriptive.

Part (b)

Again, this is an excellent answer which considers a range of relevant points: the likely effect on FDI; the possibility of a credit rating downgrade leading to a higher borrowing cost in the future; crowding out of the private sector; the need to implement tight fiscal policy; and issues of intergenerational equity. There are also several well-developed evaluative points, and the answer is excellently applied to the UK economy throughout.

ResultsPlus
Examiner Tip

This candidate shows excellent knowledge of the UK economy. We do not expect all candidates to have such an in-depth knowledge: the ability to apply economic ideas, concepts and theories in unfamiliar contexts is more important that memorising lots of facts and figures about economies, but being able to give some examples from the case studies that you have come across during the course will allow you to support and illustrate your points and is very valuable.

Part (a)

This is a Level 1 response, and was awarded 2 marks.

Part (b)

This is a Level 1 response, and was awarded 2 marks.

a) The country that I will assess is Greece. Greece's economy ~~was~~ faced a downturn since 2008-2009 and has reached bankruptcy. The ~~deficit~~ fiscal deficit ~~have~~ exceeded a ~~lot~~ lot and has been caused by many factors.

~~[illegible]~~ All of the factors are interlinked, and ~~a~~ combined have caused Greece's economy to ~~cease~~ growth. ~~[illegible]~~ Firstly, the allocation of resources were inefficient. Because of this, it causes firms to be productively and allocatively inefficient - which rises up costs of production. This then drives up prices and decreases demand - hence less consumption of goods. This ~~[illegible]~~ was a factor of why the 'haircut' on wages and pensions occurred (a 'haircut' is a decrease in wages & pensions).

All of these combined in individual households, caused less exports to occur and over time ~~exports~~ imports exceeded exports. This adds to national debt, and large sums of money is lended to this country in order to be bailed out. Lack of production domestically adds to larger demand ~~[illegible]~~ for imports. Greece ~~[illegible]~~ imports even raw goods such as sugar, or even potatoes. Cypriot potatoes are preferred nowadays, even though the agriculture in Greece was good.

In conclusion, these ~~factors~~ events have all led up to a huge fiscal deficit in the economy. Lack of organisation from the politicians in power caused major problems, because of personal interest and gain. This has caused ~~an~~ ~~[illegible]~~ a cumulated debt, and will cause future generations to suffer.

The large deficit also leads to other things such as unemployment and labour mobility. Many qualified people and young students are leaving Greece, and this could cause ~~is~~ the population of Greece to decrease leading to less consumption in the country.

b) To what extent is a large public sector debt harmful to an economy.

Plan:

large public sector = government controlled.

debt of government = larger taxes on consumers

· less benefits for citizens

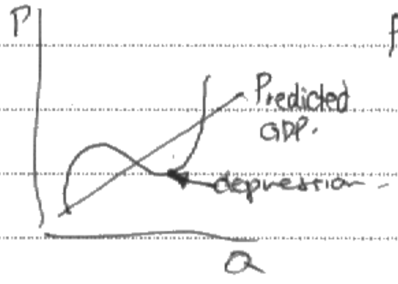
since sector covers most of economy (large sector) = mem up

· cuts in wages.

· decreases growth → lack of AD

· Export - imports becomes negative.

A public sector is a sector of the economy that is government controlled. If they face a large debt this could cause a ~~harm~~ harm on an economy. The debt on the large public sector practically means a large debt on the government. This will force governments to increase taxes and therefore decrease consumer spending. In the long run the government will then have to decrease wages to compensate for the loss of consumer spending. They will also cut benefits such as unemployment benefits. Because of the decrease in AD (firstly consumption, government spending & investment) there is an overall decrease in growth. The slow-down in production makes imports larger and exports fall. The number falls to a negative number - this is the stage of depression on a business cycle. This leads to money borrowing from other countries, and eventually bankruptcy.



In conclusion, a large public sector can be extremely harmful to an economy. It increases leakages and slows down growth dramatically. It causes first domestic problems and then leads to ~~~~ problems for other countries lending money too. They cannot keep on funding for the lack of growth in a country. This is what happened with Germany and America after the first world war. America was helping Germany by lending money to pay off their debt, ~~which was a large amount of~~ (This of course is an extreme case, but it is used ~~for~~ to describe the potential harm a debt can have on a country).

ResultsPlus Examiner Comments

Part (a)

This candidate seems to confuse a fiscal deficit with a trade deficit, meaning that the vast majority of this response is irrelevant. Towards the bottom of the first page, the candidate does identify that governmental mismanagement of public finances might be a possible cause of a fiscal deficit, which raises this response into Level 1.

Part (b)

The candidate only really makes one point here, that a large public sector debt may mean that the government is forced to raise taxes and decrease benefit payments, leading to a fall in aggregate demand and a decrease in economic growth rates. The rest of the response is largely irrelevant.

ResultsPlus Examiner Tip

Be aware of the most commonly confused terms (for example budget deficit and trade deficit) and double check your use of them.

Question 4 (a)

The four marks available for this question were split between two (1+1) for knowledge and two (1+1) for application. Most candidates were able to identify some relevant information from the extract, but only stronger candidates understood that a high value of exports from a developing country would put upwards pressure on the value of that country's currency and to explain either verbally or diagrammatically that this was due to an increase in demand for the currency.

(a) With reference to Extract 1, explain the effect of China importing large quantities of raw materials from a developing country on the value of the developing country's currency.

(4)

Line 9 Extract 1 shows that 85% of China's ~~in~~ imports from Africa are raw materials. When the developing country is exporting ~~raw~~ materials to China, its currency will appreciate. This is because China would demand and pay for the raw materials in home currency. ~~and~~ This increases the demand for home currency thus it appreciates. Currency is the medium of exchange. ~~[illegible]~~

ResultsPlus
Examiner Comments

This response was awarded 3 marks as follows:

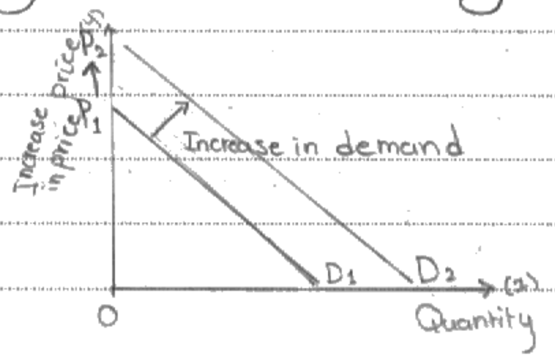
Knowledge (2) - an increase in demand for the currency (1) will cause the currency to appreciate (1)

Application (1) - 85% if China's imports from Africa are raw materials (1)

(a) With reference to Extract 1, explain the effect of China importing large quantities of raw materials from a developing country on the value of the developing country's currency.

(4)

As China importes large quantities or raw materials from a developing country, the currency of the developing country will appreciate, which means it will be more expensive in terms of another currency. This will be due to the increase in demand for the developing country's currency.



ResultsPlus
Examiner Comments

This response was awarded 2 marks as follows:

Knowledge (2) - the currency will appreciate (1) due to the increase in demand for the developing country's currency (1)

Application (0)

ResultsPlus
Examiner Tip

To gain application (data reference) marks you must do more than simply restate the question. Here the question mentioned that China was importing raw materials, so we were looking for examples of specific raw materials, exporting countries, or other relevant details from the extract.

Question 4 (b)

In answer to this question we were looking for candidates to identify two possible reasons for the changes in trade patterns, to develop/explain these points, and to support each reason by referring to the figure or extract. One mark was awarded for identifying each reason, and one mark was awarded for each piece of data reference (both up to a maximum of two marks). The final four marks were awarded for candidates' analysis of the reasons that they had identified. If candidates offered more than two possible reasons, the best two were marked. As this was an 'analyse' question, there were no marks for evaluation.

Most candidates were able to suggest one or two valid reasons and to offer some data reference in support of these points (Level 1/ low Level 2 response). Stronger candidates differentiated themselves through the strength of their analysis, often offering detailed explanations of their points, showing sound economic knowledge and application to context (Level 3 response). A minority of candidates misread the question and wrote about the likely effects of the changes in Sub-Saharan African trade patterns, rather than the possible reasons for the changes. Such responses received few marks.

(b) With reference to the information provided, analyse **two** possible reasons for the changes in Sub-Saharan African trade patterns between 2002 and 2011.

(8)

~~The two possible reasons for the changes are the increase in trade with the European countries~~.

The sub-Saharan African countries has switch to net exports of raw materials such as oil and ore to the Chinese economy. There is an increase demand from China - 85% of China's imports from Africa ~~fo~~ are raw materials. However, most minerals mined in Africa is exported in an unprocessed ~~for~~ form.

Another possible reasons for the changes in Sub-Saharan African trade pattern is due to its currency apprecating against other countries.

ResultsPlus
Examiner Comments

This response was awarded 3 marks as follows:

An increase in demand from China for raw materials from Sub-Saharan Africa (1) with data reference (1)

An appreciation of the Sub-Sahara African countries' currencies (1)

(b) With reference to the information provided, analyse **two** possible reasons for the changes in Sub-Saharan African trade patterns between 2002 and 2011.

(8)

Sub-Saharan African trade patterns can see there is increase in their trade patterns between 2002 and 2011 shown in firgure 1 especrally with China. China grew rapidly from US$ 10 billion in 2000 to an estimated US$200 in 2013, mentioned in extract 1 line 7.

Countries like USA, Europe and China ~~need~~ source for cheap raw materials for their own country's firms and that's why about 85% of China's imports are raw materials, such as oil and ~~it~~ minerals. Because of cheap raw materials, it will reduce the cost of production and hence, the price.

ResultsPlus
Examiner Comments

This response was awarded 3 marks as follows:

Growth of Chinese economy and related increase in demand for imported raw materials (1) with two pieces of data (1+1)

Question 4 (c)

This question was generally well answered, and most candidates made good use of the information given in the extract as to the likely benefits and costs of Sub-Sahara African countries receiving loans from China. This allowed them to achieve a Level 2 mark for KAA and a Level 1/low Level 2 mark for evaluation. The difference between weaker and stronger candidates tended to be that while the former used the data in the extract as their points, and did not really go beyond the information given to them, the latter were able to use the information to illustrate and support their more general points, which were based in economic theory. This gave a focus to their responses, and meant that they were not purely descriptive. This integration of theory and context is what we are looking for in high level responses, as well as the required depth and breadth of analysis and evaluation. Responses did need to make appropriate reference to context to be awarded a Level 3 mark for KAA.

(c) With reference to Extract 1, evaluate the benefits to countries in Sub-Saharan Africa of receiving loans from China.

(12)

The first benefit is that African governments can now finance large infrastructure projects without conditions relating to democracy, governance and human rights. Government can now build more roads, airports, power generating stations, water treatment facilities. ~~This will help to encourage~~ This will have a multiplier effect onto the economy, creating jobs such as construction and maintenance crews.

The second benefit is that the African government can now improve the level of healthcare and education. With the access of loans, more hospitals can be built. In the long run, it will help to create a productive workforce. Also, the level of education is relatively low. Education reforms can be carried out, more schools can be built and therefore more development.

~~Thirdly, there will be a transfer of technology~~

Thirdly, it can be used to fill in the savings gap. As income levels are low, savings level are also low in African countries. The loan is then used for investment purposes, filling in the vacuum. This creates a multiplier effect, leading to rise in income and jobs. In the long run, it will help ~~keep~~ to increase productivity, and international competitiveness of these countries.

However, there is an issue of corruption. These loans are given out without conditions relating to democracy and governance. These corrupted leaders may choose to siphon the money out, leaving nothing for the population. Also, it may be used to purchase military equipment to oppress the citizens and stay in power.

With reference to line 38, extract 1, it seems that it is a form of tied aid. It ~~has~~ must be spent on Chinese goods or Chinese-built infrastructure. ~~This~~ ~~the~~ This means that the government can not use it to build what it thinks is best, but only Chinese infrastructure, which may be inferior or more expensive.

ResultsPlus
Examiner Comments

This is a very good answer that was awarded 7 marks for KAA (Level 3) and 4 marks for evaluation (Level 2) giving a total mark of 11.

The candidate relates the information given to various economic concepts, for example the multiplier effect, productivity, a savings gap to make it clear why the loans may be of benefit to the economy. There are two well reasoned evaluative points, both rooted in the context of the question.

(c) With reference to Extract 1, evaluate the benefits to countries in Sub-Saharan Africa of receiving loans from China.

(12)

~~The~~

The benefits to countries in Sub-saharan Africa of receiving loans from China is the loan can help to finance large infrastructure projects like building roads, highways and seaports. With the improvement in infrastructure, rural area are now accessible. People in rural area are able to sell their output mostly ~~agri~~ agriculture products to a greater market. They do not have to depend on wholeseller which keep the price of the ~~agri~~ agriculture product low and keep their income low. Furthermore, government are now able to teach some modern farming techniques such as GM crops or pesticides to the people in rural area. This can help to increase the productivity and increase the real output of the country. Moreover, with the improvement in infrastructure, people are now more geographical mobile and are able to find a higher paid job ~~in~~ in another area. ~~where~~ ~~T~~ Better infrastructure will also lower down the cost of production and attract FDI. However, the ~~money~~ loan received ~~to~~ from China might not have ~~as~~ a significant impact on Sub-saharan Africa countries if the money is corrupted by government servant. The money is then taken out ~~to~~ offshore to ~~a~~ world bank account and have no any improvement for the country.

Furthermore, the money from the loan can used to purchase more capital goods and increase investment into the country. The reason why the productivity of SSA countries is low is because they have a relatively low capital to labour ratio. With the loan, the can buy more machine to farm their primary products or increase the production of oil ~~dep~~

extracting. This can ~~be~~ enhance the productivity growth and generate more profits and output to the country. But however, the China's money comes with its own string attached which is the money must be spent on China goods or Chinese built - infrastucture. Hence all the profit generated will flow back into the China's account and left little benefit for SSA countries. the government cannot spend the money on ~~the~~ ~~project~~ other projects which may improve the growth in SSA countries.

moreover, the government may use part of the loan to increase spending in healthcare and education. Increase education can help to increase the skill level of the Africa's workers and help them to ~~improve~~ get into a high paid wage. Government may also establish a mobile clinic in order to reduce the chronic dieasease that are harmful to the society. However, although spending in education increases, but what is the quality of education that the students obtained? Furthermore, even though the skill levels of Africa's workers increase, but there is still lack of job vacancies. Foreign investors often bring in their own management team and provide some low skill jobs and low paid jobs to the local people. ~~So the~~.

ResultsPlus
Examiner Comments

This is an excellent answer that was awarded 8 marks for KAA (Level 3) and 4 marks for evaluation (Level 2), giving a total score of 12 marks.

The candidate uses the information given in the extract well to analyse and evaluate the benefits of the loans, once again rooting his/her answer in economic theory.

Although there are some errors of grammar, these do not detract from the overall coherence of the answer, and so a Level 3 is appropriate. Note that responses do not have to be free of grammar and punctuation errors to achieve the maximum mark, the writing must just be clear and coherent overall.

Question 4 (d)

As with part (c), this question was also fairly well answered, with the vast majority of candidates making good use of the data to formulate and support some arguments both for and against the use of the trade barriers by Sub-Saharan African countries. Also as for part (c), the mean score was approximately half marks.

Weaker candidates were able to argue that such protectionist measures would protect jobs in Sub-Saharan Africa, lead to an improvement in the countries' trade balances, and higher rates of economic growth. Some were able to offer tariff diagrams, although these were often not labelled at all, or were labelled incorrectly, and were not referred to or explained in the necessary level of detail (for example, correctly identifying the areas that represented the net welfare loss, the government revenue from the tariff, the increase in domestic production etc.). Stronger candidates made better use of the tariff diagram, and tended to draw it completely and correctly. They were often also able to refer to ideas of infant industries, the benefits of industrialisation/diversification away from primary product production (perhaps even referring to the conclusions of the Prebisch-Singer Theory), and the benefits of the prevention of dumping.

Stronger candidates were also able to identify themselves through the quantity and quality of evaluation that they offered. Candidates should note that in the 16 mark questions there are 8 marks awarded for KAA and 8 for evaluation, so we are looking for balanced answers.

(d) Assess the case for Sub-Saharan African countries introducing trade barriers against Chinese imports.

(16)

Sub-Saharan Africa countries introduce trade barriers againts Chinese imports so that they can protect their goods. Sub-Saharan Africa countries can ~~focus~~ focus on producing their own goods when they limit Chinese imports.

They also protect their currency. The value of their currency will increase if they limit Chinese imports because they will need to use China's currency if they import from China. This will cause the value of their currency to fall.

Sub-Saharan Africa countries need to introduce trade barriers againts Chinese imports because a large inflow of Chinese imports has accelerated the decline in African industralisation since the 1980s. Africa's textile industry, alone, has lost 750 000 jobs over the past decade. Even in the continent's manufacturing powerhouse, South Africa, about 40% of footwear and fabrics come from China.

ResultsPlus
Examiner Comments

This response was awarded 3 marks for KAA (top of Level 1) and 0 marks for evaluation (Level 0), giving a total score of 3 marks.

The candidate shows some awareness of the case for introducing trade barriers - to protect jobs and promote industrialisation - but these points are taken directly from the extract, with no development. The candidate explains that reducing imports from China would tend to cause the domestic currency to appreciate, but does not say why this would be of benefit to the Sub-Saharan African countries.

There is no evaluative content.

(d) Assess the case for Sub-Saharan African countries introducing trade barriers against Chinese imports.

(16)

Imposing trade barriers is a form of protectionism and a component of inward looking policies. The effect of introducing trade barriers against Chinese imports are:

1) Employment - Sub-Saharan African countries may wish to protect domestic employment. Domestic firms may be unable to compete with foreign Chinese goods and as a result shut down. This creates unemployment. For example: Africa's textile industry lost 950,000 jobs and about 40% of footwear and fabric come from China making it difficult to compete.

2) Infant industries - Sub-Saharan countries may wish to protect infant industries that have future growth potential. If they are exposed to fierce competition from Chinese imports in their early stages, then they cannot compete and may shut down.

3) Dumping - This occurs when a country may sell goods in a market below the market price with the intention of driving out competition and monopolising the market. The Sub-Saharan African country may wish to restrict Chinese imports if they suspect dumping.

4) High revenue for government - Trade barriers such as tarifts can raise a considerable amount of revenue for the government. Sub-Saharan African countries

can use the revenue for public sector expenditure or to improve infrastructure.

Evaluation

1) Inflation- restricting Chinese imports will increase demand for domestic goods. This can cause aggregate demand to increase and cause inflation. If Chinese imports become expensive, then there could be a problem particularly if technology or ~~fo~~ raw materials has to be imported. This can decrease standard of living as consumers have to pay higher price for imports. This can also cause cost-push inflation.

2) Retaliation- Introducing trade barriers can cause retaliation particularly if a country thinks it is being targeted. Sub-Saharan African countries may face a fall in their exports to China.

3) ~~Economies of scale~~ Government may not know which industries need protection. Protection from competition can make an industry inefficient as domestic firms will not have the incentive to be efficient.

ResultsPlus
Examiner Comments

This is a strong response which was awarded 8 marks for KAA (Level 3) and 7 marks for evaluation (Level 3), giving a total score of 15 marks.

The candidate identifies and explains several valid points in favour of introducing trade barriers, and refers to the data given to support these points. He/she brings in ideas that he/she has learnt during the course which are not explicitly referred to in the extract, such as dumping and infant industries etc. There are also several evaluative points identified, although with a slightly lower level of development.

ResultsPlus
Examiner Tip

You may number your points if you wish, but you must write in full sentences - a bullet point list of points will not score highly.

Question 5 (a)

As with question 4(a), the four marks available for this question were awarded as two for knowledge and two for application (1+1). It was disappointing that a good number of candidates were unable to define a fiscal surplus. We looked for some reference to the government/public sector in the explanation: statements that a fiscal surplus was when spending was less than revenue in the economy, or outflows were less than inflows without any reference to government spending, government/tax revenue etc. were not awarded any marks.

For the application marks, we were looking for candidates to either identify a year in which the German government ran a fiscal surplus, or to give the size of the surplus as a percentage of GDP. For example, 'Germany ran a budget surplus in 2008 (1) and 2013 (1)' or 'Germany had a budget surplus equal to approximately 0.3% of GDP in 2008 (1+1)'. A significant number of candidates defined a fiscal surplus but then gave the years and sizes of the economy's fiscal deficits. This was not awarded any marks. Approximations of the size of the surpluses were awarded fairly generously - any figure between 0.2% and 0.4% of GDP was credited.

(a) With reference to Figure 1, explain what is meant by a fiscal surplus.

(4)

From figure 1 we can see that only in 2008 and 2013 there was a fiscal surplus in Germany. The worst situation was in 2011, when fiscal deficit was more than 4% of GDP. Fiscal surplus occurs when the revenue of a country exceeds its costs. It occurs when the economic situation is stabilized and almost all of the macroeconomic objectives are achieved. In this case, low unemployment rate helped Germany to achieve fiscal surplus. Financial account surplus is needed to provide fiscal surplus.

ResultsPlus
Examiner Comments

This response was awarded 2 marks as follows:

Knowledge (0) - the definition of 'the revenue of a country exceeds its costs' is insufficient for any marks. The reference to the financial account at the end of the answer is confused.

Application (2) - Germany ran a fiscal surplus in 2008 (1) and 2013 (1). Note that no application marks would have been awarded for the reference to the fiscal deficit in 2011.

(a) With reference to Figure 1, explain what is meant by a fiscal surplus.

(4)

A fiscal surplus occurs when a governments' revenues exceed its expenditure. It usually ~~occurs~~ occurs when g a country is in the boom phase. Figure 1 shows Germany enjoying fiscal surplus in 2008 of 0.25% percentage of GDP and in 2013 of 0.30% percentage of GDP. This occured due to Germany's low reliance on debt and borrowing in a midst of credit-crunch hysteria but occured only twice from 2004 to 2013.

ResultsPlus
Examiner Comments

This response was awarded full marks as follows:

Knowledge (2) - 'A fiscal surplus is when a government's revenues exceed its expenditure' (2)

Application (2) - 'Figure 1 shows Germany enjoying a fiscal surplus in 2008 (1) of 0.25% of GDP (1)'. Note that alternatively 2 application marks could have been awarded for the identification of the fiscal surplus equal to 0.30% of GDP in 2013. There are a maximum of 2 application marks available.

Question 5 (b)

In answer to this question we were looking for candidates to identify two possible reasons for the low rates of economic growth in Germany over the specified time period, to develop/ explain these points, and to support each reason by referring to the figure or extract. One mark was awarded for identifying each reason, and one mark was awarded for each piece of data reference (both up to a maximum of two marks). The final four marks were awarded for candidates' analysis of the reasons that they had identified. If candidates offered more than two possible reasons, the best two were marked. As this was an 'analyse' question, there were no marks for evaluation.

As with question 4(b), most candidates were able to suggest one or two valid reasons and to offer some data reference in support of these points. Weaker candidates tended to quote large sections of the extract, usually about the issues with Germany's transport infrastructure, but included very little analysis of their own to complement and develop this. The ability to successfully integrate the most apposite pieces of the given data with a candidates' own knowledge tended to be a real defining characteristic of high quality scripts.

Additionally, weaker candidates tended to focus solely on the supply-side constraints identified in the extract, often trying unsuccessfully to make one point into two, while stronger candidates were able to explain one or two possible demand-side causes of slow economic growth. In either case, using aggregate demand and aggregate supply analysis was a good way to explain why the identified factor would constrain growth, and so to gain some of the available analysis marks.

(b) With reference to Figure 2 and Extract 1, analyse **two** possible reasons for the low rates of economic growth in Germany since 2011.

(8)

In 2011, Germany's growth rate was 3.5%, which rapidly decelerated to 0.70% in 2012 followed by a further drop of 0.50% in 2013, indicating declining rates of economic growth of momentum.
Economic growth is the rise in the real GDP of a country over a period of time.
Firstly, Germany's trading partners involving emerging economies faced a crunch in aggregate demand — Chinese economy rebalanced itself bringing its growth rate down to 7.5%. This reduced demand for Germany's

highly income elastic exports, such as luxury cars, which reduced export volume, thus resulting in a fall in production and lowering real GDP.

Secondly, growth fell due to falling competitiveness of the German labour force. There is a lack of skills in the economy and unit labour costs are rising with wages of across Europe falling. This raises cost of business and raises the retail price of goods which contracts both domestic and international demand, thus reducing production and investment leading to a fall in growth rates.

ResultsPlus
Examiner Comments

This is a very good response which was awarded full marks (8 marks).

The candidate begins by making good use of Figure 2 to securely place his/her answer in the context of the question. He/she then goes on to suggest two possible reasons, and to explain these using a good mix of economic theory and application.

The candidate gives one demand-side factor (reduced demand for exports due to slow growth in Germany's trading partners' economies) and one supply-side factor (issues with the labour force). This gives him/her much scope to show his/her knowledge and to develop alternative economic arguments.

ResultsPlus
Examiner Tip

Look out for questions that begin 'With reference to...'. When you see these, make sure that you do make explicit reference to each of the sources stated. In these questions there are always application marks available for doing so.

Emerging slowed
Chinese less investment ~~2009~~ ↗ recession effects? less competitive
change to
Exports ↘ Weak emerging econ Capital goods
Euro + China less investment

(b) With reference to Figure 2 and Extract 1, analyse **two** possible reasons for the low rates of economic growth in Germany since 2011. 2012 +0.6%
Exports + Int competitiveness
(8)

One of the reasons of low economic growth in Germany since 2011 is decreased demand for exports. This has been caused by 'slowed' growth of emerging markets' according to Extract 1. This has been significantly contributed by China's change in trade patterns from investment ~~to~~ consumer driven. Additionally, ~~[illegible]~~ European countries ~~[illegible]~~ faced recession particularly in the Mediterranean and decreased demand for German Goods. Furthermore, the strengthening of relationships between BRICs and African countries has diverted much trade away from Germany, decreasing exports and contributing to growth rate of only 0.6% in 2012. However, as incomes in ~~[illegible]~~ evidently consumerist China rise, there may be ~~German~~ higher German luxury good exports in future.

Another reason for low growth in Germany is the decrease in international competitiveness. The evidence of extract 1 point to decreases in global competitiveness index due to higher transport costs ~~and~~, lower labour productivity and less business friendly climate, the roads are being neglected and causing increasing transport difficulties and costs, while less qualified workers and higher wages in comparison to other countries less wages decrease labour productivity. ~~[illegible]~~ This seems to have hit firms costs hard and decrease attractiveness of investing in Germany.

ResultsPlus
Examiner Comments

This response also received 8 marks.

In relation to the second possible reason given, we see that the candidate has not just simply identified the problems with transportation and infrastructure in the German economy, but has gone on to link this to falling international competitiveness, possibly affecting the country's trade balance and hence its growth rate. This ability to create linked strands of reasoning is at the heart of what we mean by analysis, and moves this response up into the higher levels.

Question 5 (c)

This proved to be a very challenging question, which even strong candidates found difficult. The most common issue was that this question is really about the benefits of specialisation, not about the benefits to the German economy of producing capital goods, luxury cars and chemicals (among a whole range of other goods and services). Examiners were therefore cautious when marking responses that simply discussed the benefits of producing such goods to a country, rather than **specialising** in these, or any other, goods and services. Ideally we were looking for candidates to make links to the ideas of comparative or absolute advantage and/or to make synoptic links to the concepts of productive efficiency and economies of scale from Unit 3, although there were several other valid points that candidates could develop (see the markscheme). Many weaker candidates failed to really engage with this question at all; stronger candidates tended to be able to explain the concept of comparative advantage, but found it difficult to develop this point so it was obvious why specialisation was **beneficial** to the economy.

Responses were required to make appropriate application to context to be awarded Level 3 for KAA.

Conversely, many candidates did find it easier to explain why specialisation might not be beneficial for an economy. Candidates of all ability levels often pointed out that this could be a risky strategy, making the country more vulnerable to exogenous shocks. Stronger candidates were able to bring in ideas from the Prebisch-Singer Thesis of the possible disadvantages to an economy of specialising in primary products also. The ability to make such links between different parts of the Unit 4 specification content (international trade and specialisation, and constraints on economic development) is very impressive and useful; the nature of macroeconomics is such that candidates should try not to view each topic as a separate, independent entity, but to think about how all of the topics studied interweave to provide an overall explanation of the working of the global economy. The weakest candidates often confused specialisation on a microeconomic scale (the division of labour within a firm) with specialisation on a macroeconomic scale, and so tried to suggest that this would not be beneficial for an economy as workers would find the work tedious, leading to higher labour turnover rates etc. Such responses were awarded very few (if any) marks.

(c) Germany has 'historic strengths in capital goods, luxury cars and chemicals' (Extract 1, lines 5–6). To what extent is such specialisation beneficial for a country?

(12)

• capital goods – ~~[illegible]~~ don't have to import ~~goods~~ – could have raw goods FOP.s

• luxury cars – high demand for cars worldwide – Mercedes, Porsche even Opel & Volkswagen are cars that are demanded worldwide.

• Chemicals → more advanced in ~~[illegible]~~ researches more resources to use. This combined with ~~[illegible]~~ technology ~~means~~ could advance in industries such as medicine – ~~this~~ ~~[illegible]~~ as a result could also ~~find~~ invent cheaper medicine etc.

Over the years Germany's economy has been growing rapidly. ~~[illegible]~~ Most industries have become stronger e.g. the car industry. This is based mainly on the capital goods Germany possesses. Capital goods are Factors of production – land, labour and capital. The population of Germany is relatively large because it is ~~[illegible]~~ a country that many immigrants flee to. The labour market has a good supply for employers to choose from. Land is everything above & beneath it – we can tell from extract 1 that Germany has many chemicals. ~~[illegible]~~

Germany has an advantage by having chemicals. They can be used for different industries e.g. the medicine industry. Research can be done in order to discover / invent new drugs that are cost-efficient and could be more ~~[illegible]~~ efficient for curing diseases. Another advantage of having these chemicals, is ~~[illegible]~~ they can be used for the car industry. The chemicals can be used for better paints, to make ~~[illegible]~~ the plastic used stronger, to ~~keep~~ maintain the leather used in expensive cars (so that it doesn't rip or get destroyed) etc.

The luxury cars are available because of the strong ~~[illegible]~~ market Germany was. The Saarland in the 1900s was a strong asset for Germany since it ~~was~~ had many industries such as steel. Steel is the basic ~~raw~~ material need for cars. Since these luxury cars are being built, it suggests that there is a demand for them. Mercedes and Porsche are known globally and many countries import these brands. This is ~~an extra~~ extra surplus for the country (higher exports).

In conclusion these three assets that Germany have, capital goods, luxury cars and chemicals, all contribute to economic growth. However, ~~for~~ there are disadvantages. Chemicals need to be combined with technology and long hours, even years, of research. Luxury cars are costly to make to ~~fit~~ match the wants of the buyer, and the extraction of steel could be expensive. The capital goods have to be allocated according to highest productive and allocative efficiency. Lastly, ~~the government~~ depending on the type of economy and how much a government influences it, there might be a time-lag in between the current time, and when the resources are being allocated.

ResultsPlus
Examiner Comments

This response was awarded 1 mark for KAA (Level 1) and 0 marks for evaluation (Level 0), giving a total of 1 mark.

This response is representative of the many who focused on explaining why it might be beneficial for the German economy to produce capital goods, luxury cars and chemicals, rather than why it might be beneficial for any economy to specialise. The candidate really makes no reference to specialisation, or to any of the advantages or costs of this. There was a small amount of relevant knowledge shown, so a score of 1 KAA mark was awarded.

national reputation → elastic income

(c) Germany has 'historic strengths in capital goods, luxury cars and chemicals' (Extract 1, lines 5–6). To what extent is such specialisation beneficial for a country?

(12)

Specialisation is the process of a country producing or focusing on commodities that they excel in. Germany having ~~CQs~~ specialised ~~ation~~ in car manufacture, home to names like Mercedes and BMW, means it is very beneficial because it creates a comparative advantage, meaning greater expertise, higher productivity and greater output. This improves the trade surplus of Germany, helping the government to faster reach for a fiscal surplus. This however appreciates ~~slesses~~ Germany's currency value, causing prices of export to rise. But as they have expertise, it improves their terms of trade because the demand is price inelastic, this however depends to what extent.

Although specialisation means greater output, leading to greater income and wealth, one might argue the benefits of this against diversification. Sure, specialisation is risky as it means over reliance on a specific industry but arguably, it may be that diversification creates more wealth. Netherlands is three times more diversified than Chile and ten times richer, ensuring that both have similar population sizes. This might be possible, questing the benefits of the type of specialisation: luxury cars are highly income elastic and the financial melt-down of 2008/2009 is indicated with a slump in sales of those cars, with GDP change of −5.5% in 2009. Hence, it may not be sustainable.*

Bad news for Germans specialising in automobiles — Their manufacturing bases may fall incompetent compared to the emerging manufacturing bases in Mexico and Vietnam. Although Germans have historic strengths, which forms a national reputation >

*However, Germany has the option to sell to China, India, Hong Kong, Taiwan — lucrative markets, with India hardly affected by recession.

33

Turn over ▶

P 4 4 5 6 5 A 0 3 3 4 0

but that reputation is deteriorating with the falling quality of infrastructure – doubled time to reach Volkswagon head quarters.

Hence, to conclude, specialisation itself is beneficial, if kept updated and flexible with the economic climate, which is either Germany lags behind.

ResultsPlus
Examiner Comments

This response was awarded 5 KAA marks (Level 2) and 4 evaluation marks (Level 2), making a total score of 9 marks.

This is one of the better responses that was produced to this question. The candidate begins by explaining what specialisation is, mentions the idea of comparative advantage, and does try to explain the benefits that Germany gains from this. Towards the end of the first paragraph, some of the candidate's points are not well explained, and a little confused, however the response is well applied throughout. Note that candidates were not just limited to referring to Germany in their responses, as the question is wider than this, and the candidate makes good use of this to bring in some of their own knowledge of the Dutch and Chinese economies, as well as making good use of the extract.

The evaluative content of this response is strong, as the candidate contrasts the benefits of specialisation with those of diversification, particularly given the experience of the recent global financial crisis. The candidate also goes on to add a second layer to his/her evaluation by writing that although Germany specialises in a limited range of goods, the fact that they sell them to a variety of different markets does mean that this is a less risky strategy for them overall.

ResultsPlus
Examiner Tip

Some questions want you to answer only in the context of the question, while some others are broader and allow you to bring in your own knowledge of other economies.

Question 5 (d)

In response to this question, examiners credited arguments that used either a 'hard' definition of infrastructure (water, sanitation, power, transport and telecommunication networks), or a 'soft' definition of infrastructure (also including social infrastructure - education and healthcare facilities - governance, economic and cultural infrastructure). Aggregate demand and aggregate supply analysis tended to prove to be a useful framework for responses to this question, as candidates could show knowledge, application and analysis through their explanations of why infrastructure investment would increase aggregate demand in the short run, and aggregate supply in the long run. This also provided a starting point for evaluation in terms of the different time periods when effects might be felt, and the usual evaluative considerations when assessing the usefulness of such analysis. More able candidates were able to develop these points further by discussing the possible effects of investment on Germany's international competitiveness, trade balance, attractiveness to inward FDI and government budget balance among other things, and why each of these would be an argument for or against the spending. Weaker candidates often gave too much weight to references to the extract, quoting long sections of it, and mainly arguing that the infrastructure investment should go ahead because it would help to address each of the problems presented in the extract, with less explanation of the wider economic effects of doing so. In either case, the vast majority of candidates did apply their answers well.

In evaluation, stronger candidates were able to not just consider the possible negative effects of the infrastructure investment, but to weigh up the benefits of this against the alternative course of action - running a budget surplus. They were also able to consider the possible impact of a tax rise to fund the infrastructure programme, and to prioritise these effects against those arising from the investment. Hints as to both of these methods of evaluation were given in the extract, and candidates should read carefully to find such points, remembering that application and data reference has a place in evaluation as well as in analysis. This drew quite a sharp line between stronger and weaker candidates, with the latter simply giving a list of learnt, general evaluation points. In the 16 mark questions, there are 8 marks available for analysis and 8 marks for evaluation, so it is very important that candidates do produce a balanced response, giving just as much thought and time to their evaluation as to their analysis.

(d) Assess the case for increased infrastructure investment by the German government.

(16)

Increased infrastructure investment by the German government will lead to economic growth. Good infrastructure of a country attracts people to your country. This can promote tourism & a huge amount of revenue can be generated from the tourism industry.

It also attracts foreign businesses & transnationals to operate in the economy. This may help the german economy to grow as multinationals or transnationals increase competition between the domestic industries.

The German Government can increase its infrastructure development if only it has a fiscal surplus. It can do this by increasing taxes. Direct taxes such as income tax or corporation tax can be charged to increase its revenue. As a huge percentage of the german population is employed, this means that more revenue can be generated through income taxes.

As the german government has been cutting taxes for the past years, it has a capacity to increase taxes.

The german government can also generate revenue from hidden or indirect taxes. Indirect taxes such as VAT, customs duty, Landfill tax can also be used to increase its revenue.

Infrastructure investment will lead to better roads, bridges, railway systems, waterways etc. This will then make transportation of goods & services within the country very easy & will lower transportation costs for the businesses. This will lead to less prices charged by german producers as ~~to~~ cost of production will be low & eventually demand for german exports will rise & make it more competitive in the international market.

To fund its infrastructure, the german economy can also borrow money or take loans from the World Bank or IMF (International Monetary fund). The aim of these two organisations is to help developing countries grow & so Germany will have no problem acquiring a loan from them.

Evaluation:

However, the extract mentions that germany is planning not to invest in infrastructure & development. Instead it wishes to have fiscal surpluses in the coming years. This can be very harmful for the german economy as not investing in infrastructure will lead to problems for the future generations. And there is no point in

36

P 4 4 5 6 5 A 0 3 6 4 0

saving the money & not using it for development. This can cause the german economy to face recession in the coming years.

ResultsPlus
Examiner Comments

This response was awarded 5 marks for KAA (Level 2) and 0 marks for evaluation (Level 0), giving it a total score of 5 marks.

In this response the candidate makes some arguments for the government investing in infrastructure in Germany, but does tend to drift into answering the different question of how the government could fund an infrastructure investment programme. The discussion of the different types of taxes that could be raised to gain revenue, or the possibility of the government borrowing to fund the investment, are irrelevant, and so did not gain any credit. Although the candidate does make several points, none of them are developed in-depth, making this a Level 2 response for KAA.

Although the candidate does make a heading of 'Evaluation', none of the points under this are actually evaluative. As they are all still arguing that the government should invest in infrastructure, this is a continuation of the candidate's analysis, not an evaluation of it. There is actually no evaluative content at all in this response, and hence no marks are awarded for evaluation.

ResultsPlus
Examiner Tip

Think carefully about your evaluation. Just because you begin a point with 'however' or 'in evaluation' it does not automatically mean that it is evaluative in content! Evaluation is about weighting up the significance of the arguments that you or someone else has made.

(d) Assess the case for increased infrastructure investment by the German government.

(16)

Since after having a great prosperity with one of the Europe's lowest unemployment rates and with balanced fiscal budget, Germany success has been declining. Thus government has increased infrastructure investment which is a government led strategy for development and growth.

Now German government will spend more on infrastructure universities and research institutes. This will improve their infrastructure which in turn the closure of the most important train line from Berline to Wolfsburg can be settled which could reduce time for travelling and costs now. Also now, they may open bridges to heavy roads, thus lorries and other trucks may not need to detours of several hundred kilometres. This will decrease the cost of production of companies and German may now attract more FDI. Also due to investment on education and research, the productive workforce will be produced which would decrease the qualified personnel without a job. This will also enhance the labour productivity more than that of in 2007. Production in Germany will now be flexible and less costly.

However, magnitude of the investment should be considered. If German government invest at high magnitude than the benefits will be more. But there is a question of find sufficient amount of money to invest on infrastructure. Also due to high investment and spending the government of Germany might need to borrow from other financial institutes. so debt crisis and debt servicing effects can enlarge. Also there is a increase in tax after 2 years of tax cut. this

36

P 4 4 5 6 5 A 0 3 6 4 0

might be due to high investment on infrastructure development. Due to this, consumers income, workers income ~~are in~~ will be threatened. Moreover, government is planning to run a growing fiscal surplus instead of those funds investing on infrastructure development. Thus, it can be questioned that weather it would happend or not.

Further more this might create economic problem for future generation as under inter-generational equity concept. Also the infrastructural investment relates to supply side measures, thus there will be time lag of implementing and getting the outcome.

ResultsPlus
Examiner Comments

This response received 5 marks for KAA (Level 2) and 6 marks for evaluation (Level 2), giving a total score of 11 marks.

This candidate gives a reasonable range of arguments for the German government investing in infrastructure. He/she is able to go beyond a simple use of the extract to cite the general benefits to the economy of such investment - for example, decreased costs of production making the county more attractive to FDI.

Evaluation is present and fairly solid here. The candidate compares the benefits of infrastructure investment with the costs of increasing government spending - the need to either raise taxes or increase borrowing.

The candidate applies his/her answer to the context of the German economy throughout.

Paper Summary

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

- Candidates must understand where they are required to evaluate their answers (i.e. in response to both essay questions in Section A, but not to 'analyse' questions within Section B).
- Candidates should include data reference and application to context in their answers to all parts of Section B, and to support their answers where appropriate in Section A.
- Candidates should also be reminded to read the questions carefully, and to make sure that they have answered the question precisely as asked, and not simply rewritten their notes on a topic.
- Read all of the optional questions carefully before making a decision as to which one to answer. Candidates should base their choice on how well they can answer the particular question asked, not on which area of the specification it is testing.
- AD/AS analysis is a useful tool which candidates can often use to illustrate their responses, or extend their economic analysis.
- When a question asks candidates about the likely economic effects of an occurrence, a consideration of its effects on the government's macroeconomic objectives might be a useful framework within which to answer.
- Where diagrams are used, candidates need to integrate them into their written analysis, rather than simply drawing them, and then not referring to them.

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

Ofqual

Llywodraeth Cynulliad Cymru
Welsh Assembly Government

cea
Rewarding Learning

Pearson Education Limited. Registered company number 872828
with its registered office at Edinburgh Gate, Harlow, Essex CM20 2JE