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Examiners' Report
June 2016

GCE Economics 4 6EC04 01

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June 2016

Publications Code 6EC04_01_1606_ER

Introduction

This was the seventh examination paper for the 2008 syllabus.

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

The demands of this paper appeared to be similar to those of the paper in 2015.

The paper proved to be accessible for the vast majority of candidates, with nearly all candidates able to access some marks on all questions. While less impressive answers contained superficial and/or inaccurate analysis, those at the high end were characterised by analysis showing clear chains of reasoning, a clear knowledge and understanding of current economic issues and evaluation demonstrating the ability to think critically.

In Section A, Question 2 relating to inequality was the most popular option (44%) with a similar proportion of candidates answering Question 3 on tariffs and trade patterns (29%) with Question 1 on productivity (28%).

Some candidates found difficulty in the data response questions - which required use of the data and extracts. Given that quantitative skills are a key element of the new specification, a facility to interpret data is of key importance and so this is an area which needs to be given careful consideration in the delivery of the course.

A continuing concern is that the handwriting of some candidates is very poor, which may mean they may not achieve the marks which the content merits. Centres should advise candidates of the importance of writing with a black pen and with clear handwriting.

Question 1

In part (a), most candidates could identify and explain one or two factors influencing competitiveness such as exchange rates. However, only the strongest responses were able to analyse convincingly the significance of productivity for international competitiveness. A weakness in some responses was a confusion between productivity and production. Furthermore, a key issue for those candidates not achieving high marks was the lack of application to the information provided and weak evaluation.

In part (b), most answers included a discussion of at least two relevant effects of low productivity on an economy, for example on the trade balance. These answers were well developed and included extended chains of reasoning. However, only stronger answers considered the impact of a fall in productivity on a range of macroeconomic objectives.

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

1.

(a) International competitiveness is how well the countries compete with eachother

Factors influencing international competitiveness could be exchange rate for ~~ext~~ example if the UK had a high exchange rate compared to the other G7 economies less trade is likely to occur with them as other countries will have to pay more ~~to by~~ buy that type of good it could buy somewhere else.

Another factor affecting international competitiveness is the availability of skills and raw materials, if there is low skill in the economy output is likely going to be less decreasing international competitiveness but governments could also provide subsidies and incentives to increase output and also increase skills of workers therefore increasing international competitiveness

Productivity could be seen as the most significant factor because if productivity is high more firms are willing to enter and there will be more skilled workers in that country and also the government will boost productivity through supply side policies. Also with productivity you are able to compare it with other countries and able to see if international competitiveness has increased or decreased.

However productivity may not be the most significant factor as some countries specialise and are therefore naturally more productive, the ~~ext~~ exchange rate has a bigger impact on whether firms move countries and tariffs can also increase cost of production drastically outweighing the significance of productivity.

(b) Productivity is how much a work produces over a given cost or a given time period.

Productivity can fall when workers make less for the same wage or make the same amount as wages increase.

A fall in productivity will cause firms to lose out as the cost of production has increased. This will lead to an decrease in investment on the aggregate demand curve causing economic growth ~~to~~ to decrease. This would be especially true if labour productivity fell as labour is one of the biggest factors of production.

however if the economy is mainly a services economy like the UK then the fall in ~~producti~~ productivity will have a severe effect on the economy. If the economy produces manufacturing goods then a fall in labour productivity may cause them to switch factors of production.

If investment falls and firms start to lose money they are likely to reduce wages, if wages decrease consumers will have less disposable income causing a decrease in consumption leading to a fall in economic growth

The magnitude of this impact would depend on inflation and how real wages are affected. Instead of lowering wages firms may start firing people causing an increase in unemployment which will again lead to economic growth

Another impact could be that domestic firms would go abroad to ~~locate~~ locate where there is better productivity, this is bad for the domestic economy as it causes a brain drain and there is less tax revenue for the government to collect decreasing the fiscal budget.

This would depend however on the economic climate in other countries for example if interest rates or tax rates are low high this may not incentivce firms to move to countries of higher productivity

As productivity falls less people will shut to invest in the economy and could have negative effect on exchange rate. This could happen in the short run but due to the J curve effect is could lead to an increase in the current account balance and economic growth.

Overall a fall in productivity generally has a negative effect on the economy but if the government implements supply side policies such as education and training or increasing technological advances then the negative impacts may not be so ~~serve~~ severe.

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Examiner Comments

Part (a): There were only two valid points relating to exchange rates and availability of skills. The paragraph relating to productivity was not credited because it related to production rather than to productivity. There was no valid evaluation. Therefore, this answer was awarded a level 2 mark (8/20).

Part (b): Several possible effects were identified but there was little associated analysis and the evaluation was superficial. This answer was in line with the criteria for a Level 2 response and was awarded 13/30.

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Examiner Tip

Candidates should understand that analysis is a multi-stage process and that the identification of points will only achieve low marks.

This is a stronger response because it includes more detailed analysis of the issues raised supported by relevant examples and some evaluative comments.

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

a) productivity reffers to the output per worker per hour worked. Some contries have a highly productive work force such as Germany which has allowed them to increase their international competitiveness. Many sub-saharan contries such as Zambia have low productivity among their workforce.

Productivity is the most significant factor in a contries international competitiveness as higher productivity causes labour costs to decrease. This is because if productivity increases, the amount of goods that can be produced is increased. As a result firms in Germany for example that have high productivity of labour are able to produce more goods at cheaper prices thus making them more competitive on the international market and thus increasing Germany's international competitiveness. In this way ~~the~~ productivity is the most significant factor of international competiveness

However, even though high productivity of labour could cause the prices of production to decrease in Germany, other prices ~~of~~ of other factors of production may increase. For example in the German car industry, even though labour productivity may be increasing, the cost of raw materials such as steel or aluminium could be increasing due to a tariff or just global increasing commodity prices. As a result Germany will not improve its international competitiveness through productivity as other costs may be rising.

Productivity could be a major factor in international competitiveness due to it attracting increased Foreign Direct Investment (FDI) One of the main attractions of FDI are high productivity of labour and also low labour costs - which would likely decrease with more labour productivity. As a result there may be more FDI into a country. For example China have spent over $20 billion in FDI to sub-saharan African countries due to their low labour costs. This would increase economic growth as FDI is an injection into the circular flow of income and may increase exports as well as competitiveness as more firms invest into a country with high productivity.

However FDI is effected by many other factors such as regulation and corporation tax. As a result the amount of FDI and thus international competitiveness of a country, may not be entirely effected by productivity but rather other factors.

Finally productivity is a major factor influencing international competitiveness as firms in the country can benefit from higher supernormal profits. This is when Average revenue exceeds Average costs. This may occurr as contries such as Germany with low labour costs ~~due to~~ and high productivity of labour could decrease their costs as goods will become more efficiently produced. As a result they could invest some of the supernormal profits into research and developement which would increase a contries international competetiveness for the quality and innovation of goods. ~~As a~~ The UK is ranked in this third category ~~ref~~ for international competitiveness where it competes for greater innovation and quality. This effect occurred in German car brands such as BMW, Audi and Mercedes Benz as increased profits due to higher productivity enabled greater investment into research and developement thus better quality of goods and more international competitiveness.

B) productivity is measured as the amount of work produced by an individual worker per hour worked.

One effect of a fall in productivity is decreased international competitiveness and a fall in exports. This is because as ~~to~~ productivity falls, essentially, the cost of labour rises as firms pay the same wages to workers who are now producing less goods, less efficiently. As a result it is likely that the costs of production will increase as ~~po~~ labour is a significant factor of production. This occurred in many sub-saharan African ~~countries countries~~ contries as their work force became more uneducated and less productive. This lead to decreased interactional competitiveness and less exports as goods ~~of~~ grew in price.

However the effect of a fall in productivity on exports and international competitiveness depends upon the costs of other factors of production. If raw material costs are falling such as the prices of oil recently from the united Arab Emirates, then firms may be able to ~~subsidise~~ offset the increase in labour costs due to a fall in productivity with falling costs elsewhere in production. In this way the effects of falling productivity may be limited.

Additionally another effect of falling productivity is higher unemployment. This may be because as productivity decreases firms may sack workers to reduce costs and attempt to become more efficient. As a result the unemployment levels of a country could rise like in the global recession of 2008 where UK unemployment levels rose to 8.2% by 2012.

However the effect of falling productivity on ~~unemploym~~ unemployment may be reversed. As the workers become less productive and efficient the firm may opt to hire more workers in order to keep up with the current levels of production. As a result the decrease in productivity could cause an increase in employment rather than a decrease.

A fall in the productivity of a country may discourage Foreign Direct Investment (FDI.) This is because many TransNational Companies may be attracted to high productivity in an economy as they will be able to produce more goods at a more efficient rate. As a result large TNC's may not invest in countries with low levels of productivity and will preffer to invest in coutries such as Germany where productivity is higher.

However many TNCs such as Coca Cola and Amazon may not actually decrease their investment in countries ~~with~~ with low productivity. Many of these firms may either bring workers from their home country or look for other factors that are perhaps more attractive for FDI such as low regulation and low corporation taxes such as in the Bahamas where corporation tax is at 0%. This may explain the recent FDI that companies in China have invested in subsaharan African countries such as Malawi.

Decreasing productivity may cause average wages to decrease as well. This is because as productivity falls firms may pay workers less as they are producing less goods, less efficiently. As a result wages may decrease as firms will be less willing to pay higher wages for a lower productivity of labour. This could result in a negative multiplier effect as people will have lower incomes and spend less in the economy which may reduce aggregate demand.

However this depends on the magnitude in the fall in productivity. If the fall is small it may not be significant enough to decrease wages as firms may not experience a significant decrease in the labour productivity.

Finally firms may experience a deficit or decrease in their ~~state~~ balance of payments on the current account. This is because as productivity falls goods will become more expensive to produce and thus less attractive ~~of~~ on the international market. This will bring a deficit on a contries balance of payments. This occurs in the UK as they have had a deficit on the balance of payments since 1998.

~~However the J curve shows that the~~

However the effects of falling productivity may take time to set in as trading agreements have already been agreed and thus a defect on the balance of payments may not be immediate.

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Examiner Comments

Part (a): The significance of productivity for international competitiveness in relation to labour costs, foreign direct investment (FDI) and supernormal profits were considered. The latter point was developed to show the significance of profits for research and development which might result in improvements in the quality of products and innovation. There was good evaluation of the first point but the evaluation relating to FDI was less strong. Furthermore, the Quality of Written Communication was not always strong. Consequently, this response scored a Level 4 mark (16/20).

Part (b): Four effects of a fall in productivity were analysed well: a fall in exports (linked to the final point on the balance of payments); higher unemployment; a fall in FDI; and a decrease in wages. Evaluation of the first and third points was good; other evaluative comments were less strong. Some relevant examples were used to support the points made. It was judged that this answer just merited a Level 5 mark (26/30).

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Examiner Tip

This answer demonstrates analysis through the development of chains of reasoning. However, it could have been improved further with more effective evaluation and greater clarity of expression.

Question 2

This was the most popular of the three essay questions and most candidates were able to include some relevant material in both parts.

However, in part (a), many answers focused simply on factors which might explain income inequality rather than on the reasons for an increase in inequality.

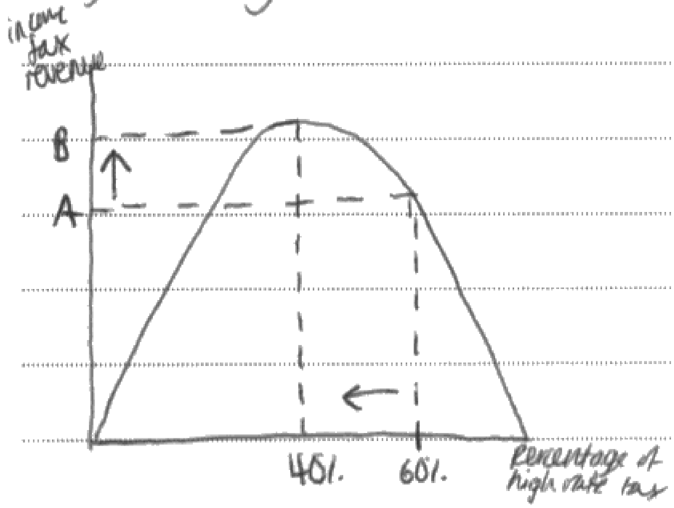
In part (b), the most common response was to consider changes in income tax which was generally explained well. A large proportion of candidates used the Laffer curve in their evaluation. Other popular polices included a reduction in VAT and investment in education and training. However, some candidates penalised themselves by considering only ways by which income inequality could be reduced, ignoring discussion of measures by which wealth inequality could be reduced. It was evident that some candidates did not have a clear understanding of the distinction between income and wealth. Furthermore, a minority of candidates related their answers to a developing country and not to a developed economy as required by the question and so were unable to access the full mark range.

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

1a) One possible cause of an increase in income inequality within a country could be low levels of income tax During Thatcherism in the UK, income rates were cut from 60% to only 40%. This would increase inequality within ~~a country~~ the UK as it means that less of the income of the very wealthy is being redistributed to the poorest in a country. often, this is done ~~through~~ through government spending on public services such as the NHS and public healthcare, as the poorer people within the UK are more reliant on such services, as they are unable to afford private education and healthcare, however a decrease in tax revenue leads to a decrease ~~in~~ in spending on these public services. This means that the poorer people are not provided with services to the same quality of the wealthier, ~~eventually leading~~ and are forced to use more of their own income to spend on these goods, meaning more is taken from their income and less is taken from ~~larger~~ high earners.

However, a reduction in the highest rate of tax may have increased equality within the UK, as it may have moved from a percentage that was too high, causing high tax avoidance and

generating lower income, to an optimum level of tax, leading to lower levels of tax avoidance and generating higher levels of tax. As shown on the laffer curve, a reduction of the rate of tax from 60% to 40% may have increased income tax revenue from A to B, meaning that the government ~~will~~ recieved more tax. This would improve income inequality, as more money would be distributed from the wealthy to the poor.



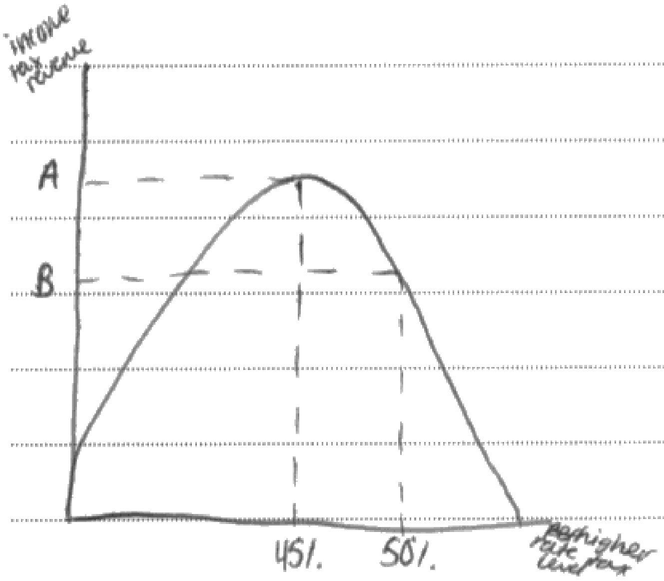
Another cause of income inequality within a country could be the reduction in benefits given to the poorest within a country. Using the UK as an example, after ~~the recession of 2008,~~ Conservative government came into power, there has been a period of austerity where there have been large cuts in welfare; specifically unemployment benefits. In 2015, unemployment benefits have only attributed to £2bn of the £742bn in government spending, equating to roughly 0.27% of all spending. This creates higher income inequality as many people who are unable to find jobs due to no fault of their own are seeing their income reduced yearly. Therefore, this shows that the poorest in society are seeing reduced income, leading ~~to~~ the income gap to increase.

However, in the UK, there are many services provided by the government to help get these people into jobs in order to close the savings gap. Back to work programmes and ~~job to~~ skills workshops are made available to enable ~~those~~ people to be able to get higher paid jobs. For example, the UK offers free education up to college to train people with the right skills and qualification to get better paid jobs.

A final cause of income equality would be the global recession. Using the US as an example, many of the highest earners saw their income fall by only 6% - 10%, whereas lower earners saw their incomes fall by 24-41%. This would have been a large cause of the increased inequality as whereas wealthier socio-economic groups would have been only slightly impacted, poorer socio-economic groups saw their income fall drastically. As shown by the gini co-efficient, this would have caused the increase from 0.37 to 0.41 in the US.

(b) ~~I~~ One way that income equality can be reduced in the UK is through increasing the highest rate of tax. This would ~~benefit~~ improve inequality by reducing the income of the highest earners and redistributing it to the lower earners. In the UK, this could mean an increase from 45% to 50%, which could increase tax revenue significantly, allowing the government to increase government spending on public goods such as the NHS, rather than reducing spending. This would reduce inequality as higher incomes will be decreased, and lower incomes will be increased.

However, an increase in the highest rate of tax may cause an increase in income inequality. As shown by the laffer curve, an increase of the highest rate of tax from 45% to 50% may cause actual income tax revenue to decrease. This would



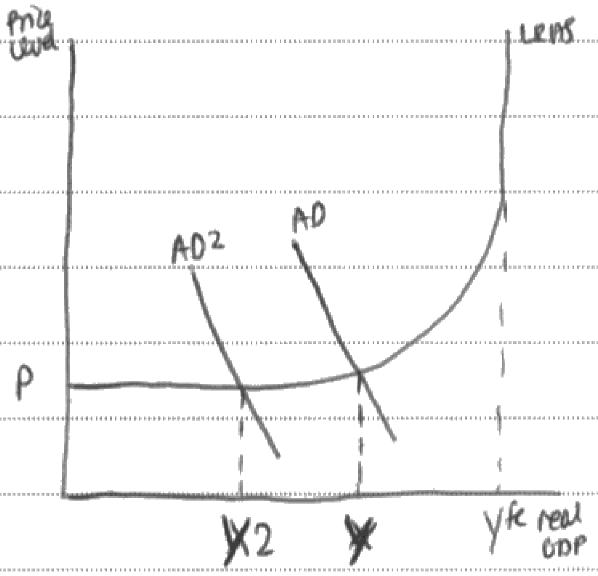
happen as 45% may be the optimum, and once you begin to increase the rate of tax beyond this, you will see an increase in tax avoidance and of many high earners choosing ~~the~~ to relocate to a country such as France, with a 40% tax rate. Overall, ~~an increase~~ this would cause income inequality to worsen, as less money is redistributed to the poor from the wealthy.

Another way to reduce income inequality is to increase spending on higher education for those with lower incomes. Currently in the UK, the £9,000 a year price tag of higher education deters many low income students from going to university, as they would incur over £27,000 of debt by the time they finish their course. This means that many low income people ~~remain~~ continue to have low incomes, as the lack of qualifications means that they are often ~~unable~~ less able to progress to higher paid jobs than those with qualifications are. This could be solved by the government restoring student grants that were removed in 2015, as more low income students would have access to the qualifications needed to get ~~to~~ a higher paying job. This would reduce income inequality as those with lower incomes would have a greater ability to increase their incomes.

However, ~~a~~ the government increasing spending on grants for university could mean an increase in the budget deficit. The UKs current budget deficit is at around £98bn, around 8% of GDP, and an increase in government spending would lead to a further increase in the budget deficit. This would have a negative impact, as it would lead to a further increase in our £1.3 trillion national ~~to~~ debt. Also ~~Overall,~~ this ~~would~~ could lead to an opportunity cost being incurred, as that money could be spent on the NHS.

A third way that income inequality could be improved is by increasing the national minimum wage. As many of the ~~lowest~~ poorest in the UK ~~of~~ are likely to have jobs that pay minimum wage, an increase in the minimum wage would mean that they see significant increases in their income. For example, whereas the current minimum wage is £7.25, it could be increased ~~by~~ up to £9. This would see a full time worker having their weekly income increased from £290 to £360; a £70 increase. This would have a large impact on income inequality as lower incomes would increase significantly.

However, this may also negatively impact ~~the~~ the AD of the UK, as an increase in the minimum wage would make it likely for unemployment to increase. As firms will see increased costs of production due to increase in the minimum wage,



they may choose to make some staff redundant in order to keep costs as low as possible. This would cause an increa in unemployment, and would also cause ~~ga~~ tax revenue to decrease due to a smaller working population. Overall this would cause AD to shift to the left, causing negative economic growth. Additionally, it would worsen income inequality as those with lower incomes may see their incomes fall if made redundant.

A final way to reduce income inequality is to increase spending on public goods such as the NHS. As the poorest in society are more dependant on public goods.

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Examiner Comments

Part (a): Three reasons for the increase in inequality were identified: cuts in income tax rates; reduction in welfare benefits; and the global recession. Although the analysis for the first two was good, it was less well-developed for the last point. Evaluation was included for the first two reasons but the second was not well-related to inequality. Therefore, this answer was awarded a Level 4 mark (16/20).
Part (b): Three ways by which income inequality could be reduced (increase in highest rate of income tax; increased spending on higher education; and increasing the national minimum wage) were analysed with some appropriate evaluation. However, there was no consideration of how wealth inequality might be reduced. Consequently, this answer was limited to a Level 3 mark (21/30).

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Examiner Tip

It is important that all aspects of a question are considered in the answer. This answer would have achieved a higher mark if a method by which wealth inequality could be reduced had been considered in part (b).

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

2) ~~Plan~~

a) - ↓ progressive taxes / 33% - 83% ↓ 20% 45% - benefits.
` greater sum.

↑ progressive tax

- Education - £9,000 private schools - loans & grans

- TNCs - MEDCs employ ~~com~~ & ↑ skills.

Income inequality is when income is unevenly spread in a country. In the UK the ~~to~~ top 10% richest earners earn 80% of the country income. The gini coefficient for the UK is 0.32.

A cause of this is the change in tax structure. Progressive taxes are taxes that ~~to~~ take a large proportion of your earnings as ~~you~~ it increases, an example is ~~[illegible]~~ income tax. ~~[illegible]~~ Income ~~[illegible]~~ tax has ~~[illegible]~~ reduced since 1979 with the bottom rate 33% and the top rate being 83% whereas now the bottom rate is 20% and the top rate is 45%. A decrease in progressive taxes would mean that the rich get to keep more of their incomes and the poor lose their income at an earlier stage. This would mean that the rich have more disposable income than they previously had and the poor have less, this would the increase income inequality. Another change in tax structure is the increase in VAT from 8% in 1979 to 20% now. This is an example of a regressive tax, which ~~?~~ takes a greater proportion from the poor than it does from the rich. Therefore an ~~decrease~~ increase in VAT means that the poor have to use more of their disposable incomes on items than the rich which would ~~?~~ increase inequality.

However, even through the rich get taxed less, the tax revenue gained by the government are ~~?~~ redistributed to the poor through welfare benefits. This increase in benefits would increase the income of the poor and would reduce inequality. Before tax and benefits the bottom 20% earn around £5,000 however after they earn £16,000.

Another reason would ~~?~~ be ~~?~~ the education system. The richer parents in society would send their children to private schools which generally have a better standard of education than state schools which are free. This better education would enable the children to gain more skills and then gain a high skilled job which due to lower demand has a higher income. Another reason is the increase in tuition fees for universities in the UK from £3,000 to £9,000. This increase would mean that less people are attracted into getting a higher education as they may not be able to afford the fees. Therefore only the rich can afford it and get better education which would lead to better jobs and an increase in income inequality.

However, the government due offer loans and grants to students with low household incomes of upto £12,000 a year which means that even though initially they ~~made~~ may not be able to afford it, they may be able to after getting a loan.

Another reason to the inequality within a country would be the increase in globalisation. Globalisation has led to an increase in transnational companies due to trade liberalisation. This means that TNCs can move departments such as manufacturing to other countries with low skilled cost labour. They keep the high skilled jobs in MEDCs ~~However, this means that the pe~~ where there is generally higher skilled labour. However, the lower skilled workers in MEDCs such as UK would lose out as the low skilled work has gone abroad meaning that they become unemployed which reduces their income greatly. On the other hand the high skilled workers would sees an increase in income as they can specialise and improve productivity. This would then increase income inequality. An ~~eg~~ example would be Apple having the hq in California and having their manufacturing in China.

b) ~~IHT~~ Inheritance tax — tax on inherited good — reduces wealth — Not enough

Education — subsidies to schools — ~~more~~ scholarships — Optime lag.

Income tax ↑ — Laffer curve.

Income and wealth inequality in the UK is high, these are ways the government can reduce that.

~~A way to reduce inequality~~

Wealth is a stock of assets. Many people may gain wealth through inheritance where when a relative, usually a parents passes away and transfers their ~~s~~ wealth e.g. house, car etc to their children. An increase in inheritance tax would mean that the people receiving the tax would get less. This would then mean that they would have less wealth. Since it ~~s~~ is the richer people that generally have more ~~wea~~ wealth, as with higher incomes yous can buy more assets, the wealth of the rich would reduce. The poorer generally have a high marginal propensity to consume meaning that they would spend more and generally have less wealth, therefore ~~and~~ an increase in income tax wouldn't effect them as much as it does the rich. This would then reduce wealth inequality.

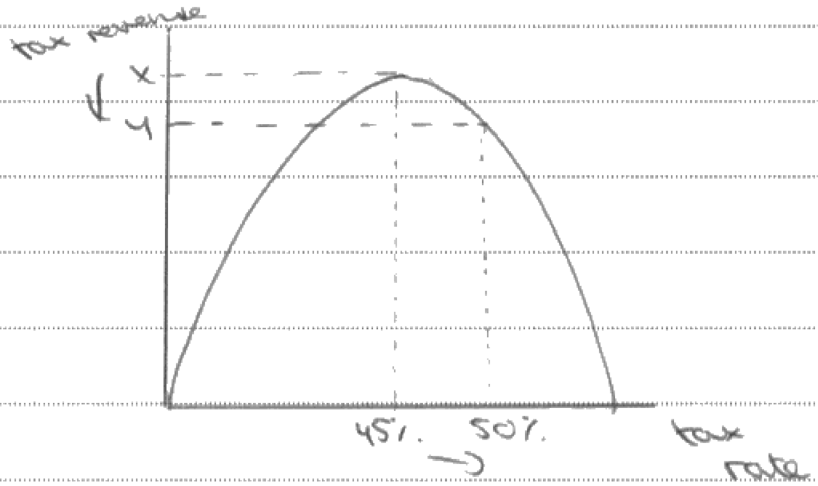
However, it would be unfair to ~~tax~~ increase inheritance tax as the wealth is generally bought from high income which is already taxed, therefore they are taxing them again at a higher rate. This would then mean that the rich may give the wealth at an earlier age meaning that they don't get taxed. (inheritance tax only taxes wealth that is given within 7 years of the death of the person).

~~Anoot Another~~ A way the government could reduce income inequality ~~inequal~~ is to increase the amount of government spending on education. This increase in expenditure would go to state schools which ~~would~~ could be used to buy new equipment and improve the facilities. This would then mean that ~~the~~ quality of education in state schools would increase and this would then improve the skills of the students and enable them to get a better paid job and this would reduce income inequality. An example could be extending the school time so that it closes at 4:30 rather than 3:00 or 3:30, this increase in schooling hours ~~wit~~ will ~~mean less~~ mean more less time for the students and this would increase their skills.

However, if the government was to increase expenditure on schools, the most effective age (according to studies) would be at a primary level. This would then mean that there would be a large time lag between the initial increase in expenditure to the full effects of ~~an~~ a better education system. This would then mean that income inequality would still be high in the short run.

Another way to reduce income inequality would be to increase income tax for the top tax rate. The current top tax rate is 45% in the UK, an increase to 50% or 55% would mean that the income that the rich get would be reduced at this would reduce income inequality. Also, the increased tax revenue would mean that the government could redistribute it to the poor through JSA which means that the poor can also increase their income. After tax and benefits 60% of the bottom 20% UK earners is gained through benefits. This decrease in income for rich reduced their disposable income and the increase in income for the poor increases their disposable income and therefore an increase in top level income tax would reduce inequality

~~Howver~~ However, not everyone would ~~be~~ agree to the new tax structure. The rich wouldn't want to pay more tax and this would lead to tax evasion and avoidance. This would mean that an increase in the tax rate would ~~only~~ lead to a reduction in tax revenue. This can be seen through the laffer curve, where revenue falls from X to Y when the top income tax rate increase from 45% to 50%.



Another ~~reason~~ way the government could reduce the level of inequality is to reduce government spending on welfare benefits. A decrease in welfare benefits would incentivise many people to look for a job and start earning, this would generally be higher than the level of benefits that they get. If the government reduced ~~SR~~ JSA from ~~$~~ £70 a week to around £50 a week, many people may not feel that is enough to live on and this would motivate them to get a job and ~~thus~~ they would be earning more. This increase in income would lead to a reduction in income inequality.

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Examiner Comments

Part (a): This answer referred to four factors affecting income inequality: a change in the tax structure; the education system; an increase in university tuition fees; and globalisation which were illustrated with relevant examples. However, the point relating to the education system did not consider why income inequality had increased, and evaluation was rather superficial. Consequently, this response scored 16/20 (top of Level 4).

Part (b): Four ways by which both wealth and income inequality could be reduced were discussed with three evaluative paragraphs. The UK was used as the context for the answer and included relevant information to support the lines of argument considered. This response was awarded a Level 5 mark 28/30.

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Examiner Tip

Candidates will be credited for answers not in the mark scheme if the analysis is relevant. In part (b), the last point was a reduction in government expenditure on welfare benefits. The candidate supported this policy by arguing that this would provide an incentive for the unemployed to look for a job and start earning thus reducing income inequality. Consequently, it received credit.

Question 3

Part (a): This was an accessible question and many candidates scored highly. There was a good understanding of tariffs, often illustrated with accurate diagrams. A variety of reasons to explain why a country might impose tariffs was considered with relevant evaluation, although some were quite narrow, simply focusing on the need to protect domestic industries. Weaker responses were characterised by an inability to discuss at least three reasons for tariffs or were entirely generic with no reference to any context.

Part (b): A large proportion of candidates developed good analysis around globalisation and the opening up of China and the countries in Eastern Europe. However, this proved to be a challenging question and many candidates were confused between absolute and comparative advantage. Furthermore, some answers were poorly focused on the question because they considered reasons for current trade patterns rather than considering reasons for changes in trade patterns. Evaluation was often weak.

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

3 a) Plan Eval

terms of trade!

→ tariff - explanation & diagram → c. welfare.

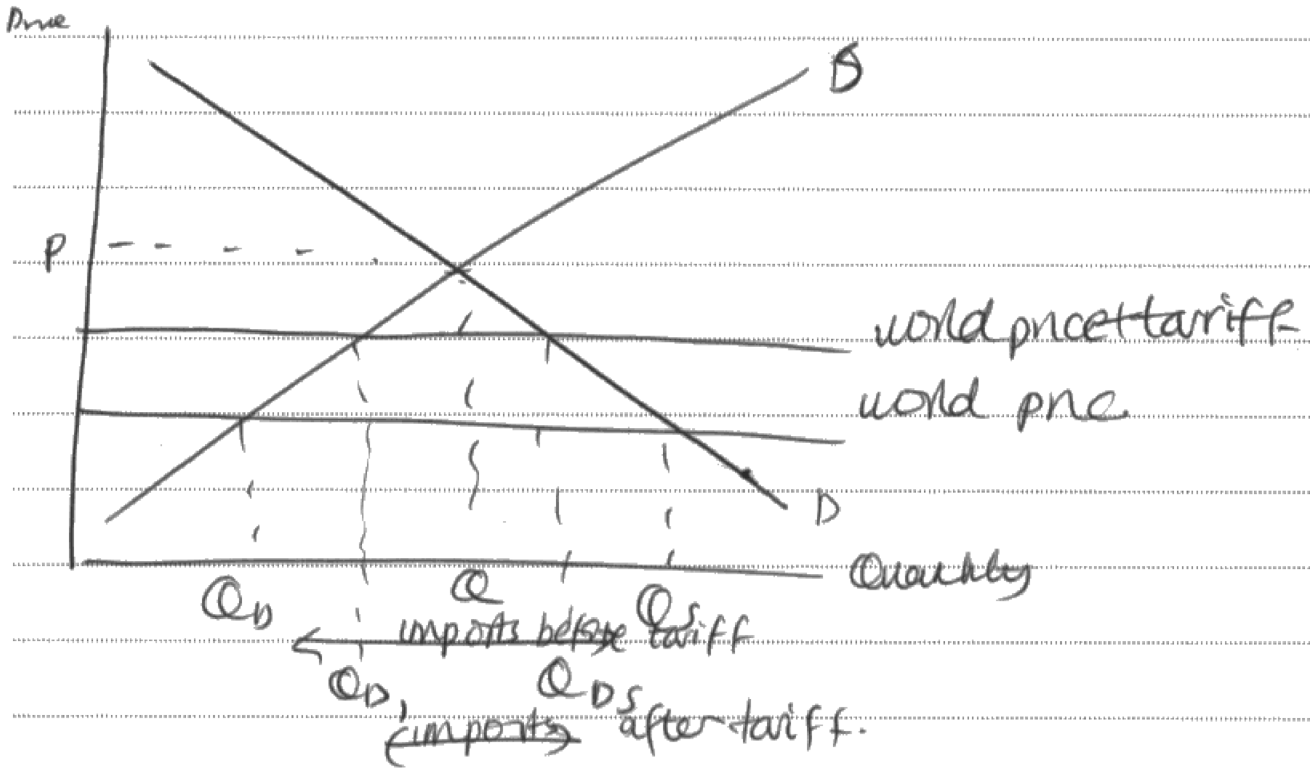
→ protects infant industries → retaliation

→ ~~domestic employment~~ BoP → other policies like subsidies better - no welfare loss

→ ~~Ar~~

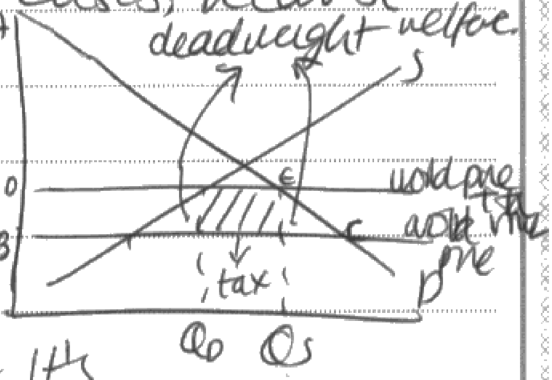
Essay

A tariff is a tax on imported goods which ~~makes~~ makes them more expensive, thus increases demand for domestic good.



The diagram shows how many goods are imported as a result of a difference between demand and supply. The number of imports fall, as a result of the tariff because tarrif increases the world price thus supply increases. This shows one reason why countries like Nigeria have placed a tarrif. It makes motor vechiles more expensive when imported, so domestic consumers will buy it domestically instead. ~~One benefit is~~ ~~of~~ ~~impor~~ This increases sales for domestic sellers of motor vechiles parts, which increases revenue which can be used to reinvest back into better methods of production. Overall, the benefits for a Nigerian producer are ~~a~~ enormous

However, for Nigerian consumers this means consumer welfare decreases, because price increases. The diagram shows a deadweight loss, as consumer welfare has gone from ABC to ADE. This means it's not allocatively efficient. It's also not productively efficient because there's no incentive to reduce costs as a tariff helps them anyway.

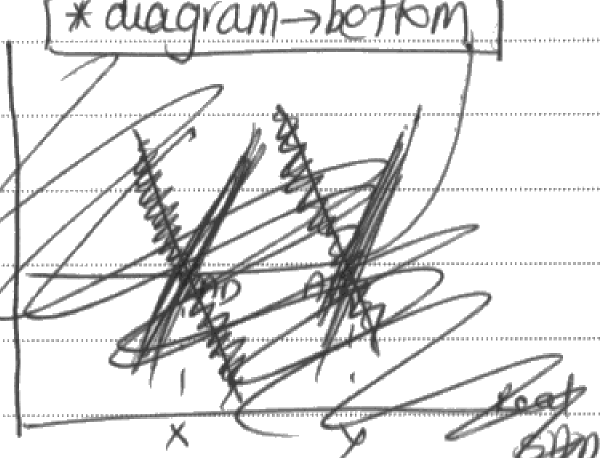


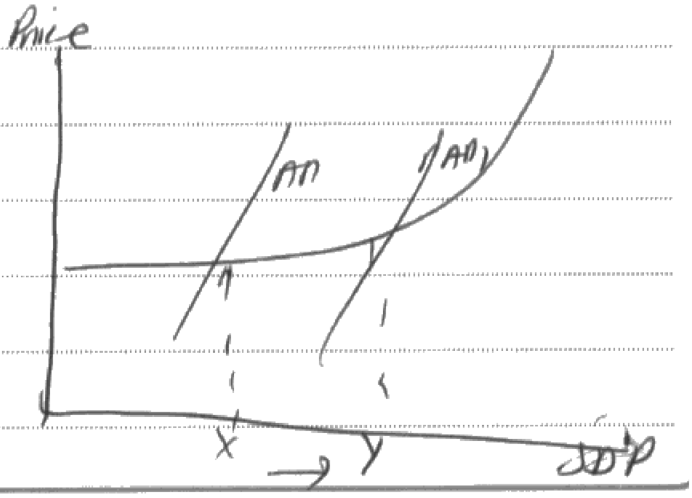
Another reason for a tarrif is to protect domestic producers from competition. In countries like Nigeria, the industries are infant and need protectionist policies to become more efficient. They can focus on developing their firm in Nigeria, increasing output, benefit from economies of scale and thus lower ~~costs and~~ AC. They can use profits to lower costs further explaining the use of tariffs and import substitution policies. They also need to be protected from monopsony. After a period time, and Nigerian producers are efficient, the barriers can be removed, and they can complete in the global market.

However, if one country puts protectionist policies, other countries might do the same in retaliation. This means once Nigerian producers are ready to compete in the global market, they can't because imports are placed on their goods, so it becomes more expensive, thus demand decreases.

The final reason for import policies is to improve balance of payment, which is exports minus imports. If imports are more expensive, they will decrease. This will improve ~~the BoP bala~~ AD because it's made of X-M, which leads to increased AD and economic growth. GDP increases too.
The diagram* shows as AD increases so GDP. In countries like Nigeria, economic growth is important as they have contraints such as lack of human capital (38% can't read or write) and high levels of debt - (they borrowed $17 billion and now have to pay ~~$38~~ $37 billion in interest) and these contraints can be combacted by economic growth

*diagram→bottom





b) Change patterns of trade

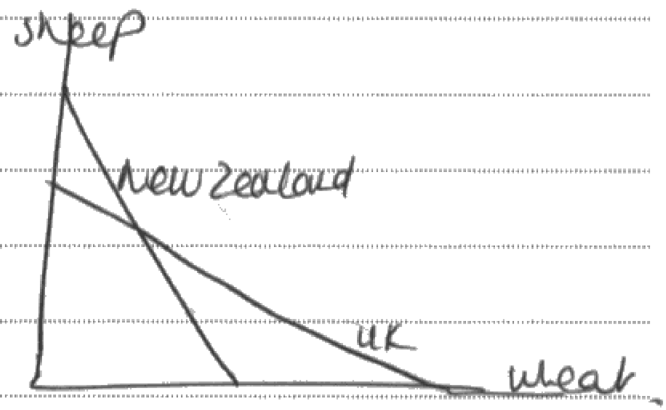
Plan: Comp Adv — ~~As~~ Eval assumptions:

Trade blocs — Trade diversion

Chimerica — Financial crisis

Goods that can't produced — Transport costs

A reason ~~patterns~~ for increased trade is comparative advantage. This is the theory that says you should produce what you have a lower opportunity costs. So for ~~the~~ example ~~in~~ the diagram, ~~the~~ shows that New Zealand should produce sheep since ~~the~~ the PPF is further out, so it has a comparative



advantage in that.

	New Zeald	UK	Opp cost wheat	Opp cost sheep
wheat	~~30~~	~~20~~ ~~25~~		
sheep	~~40~~	~~35~~		
	~~[illegible] 80~~	~~90~~ ~~90~~	~~before comp~~	

This is because of the gains from division and specialisation lower costs. If you produce something you specialise, you can benefit from economies of scale and thus lower costs as output increases. There is also an increased demand for the good since it cheaper, leading to increased sales and thus increased revenue. Increased revenue and reduced costs means increased profits. This is why comparative advantage leads to increased trade, as countries have found what they have a lower opportunity cost in producing, and they trade more of that for more profits. For example, UK has a comparative advantage in pharacemeticals and law/banking. This also theory goes hand in hand with the factor endowment model - ~~trade~~ export what you have an abundance of and import what you have scarce resources. In terms of America, it means trade food (abundance of land) and imports cars (lack of manufacturing sector.)

However, the comparative advantage theory is limited since it ~~makes~~ assumptions.
It assumes there are no transport costs – ~~if~~ if transporting goods are really expensive; ~~since~~ for example trading with countries in the North and Southern hemisphere – it might not be worth trading. It also assumes that there are only 2 goods and 2

economies – in reality there's many more and thus it can be hard to find the country who has a comparative advantage in a good. Final it assumes there's free trade – protectionism adds ~~to~~ the price of the good.

Another reason trade has been increasing is trade blocs. Examples are ~~NAFTA~~ NAFTA which a free Trade Area in North America, MERCOSUR which is a Customs Union in South America and EU which is a economic and monetary union. ~~This~~ Trade blocs are is where a group of country adopts the same trade barriers. This has led to trade creation, because you trade more with countries you're in a trade bloc in. For example, UK is part of the EU and 60% of their trade is with the EU. This is because there's no taxes within the tradebloc, maximising UK's profits from trade blocs.

In an evaluation however, it has also led to trade diversion, this is when you trade less with countries you're not in a trade bloc with. For example, UK used to trade with countries like India, as well as other commonwealth/colony countries but they've stopped this, because there's more economic benefits of trading with EU - free trade!

Another reason there's been an increase in trade is due to mutual reliancy on eachother. For example 'Chimerica' is a term Niall Ferguson uses to describe a mutual relationship between China and America. China provides Americans with cheap goods, since China has low cost of labour due to low cost of living, no minimum wage and a high population. This allows American citizen to enjoy a higher standard of living as they get cheap goods. America wouldn't buy their goods elsewhere, since its more expensive explaining this pattern of trade

However, there are also negative impacts of this relationship as China have built up large reserves from US dollars from exporting Chinese goods in America. They used this to buy up American debt - China is the holds 60% American debt bond ~~a the~~ This ~~[illegible]~~ is what lead to the 2008 financial crisis as it fuelled cheap lending/borrowing to the subprime market. It also increases the indebtedness of the country

Finally, another reason for increased trade is because some countries can't produce the certain goods. For example, UK can't produce agricultural goods due to climate. This means it relies on developing countries who are primary product dependent and can produce it at a cheaper rate. ~~In terms of another reas~~ Whereas developing goods have low human capital so can't produce ~~the~~ capital equipment, so they import that from developed countries to improve their methods of production.

ResultsPlus Examiner Comments

Part (a): The first two points concerning increasing demand for domestic goods and protecting domestic producers from competition were very similar. The third point 'to improve the balance of payments' was incomplete because it should have made reference to the current account or to the trade balance. The evaluative comment on the first point was generic and there was a brief evaluation of the second issue. This answer was, therefore, deemed to meet the criteria for a Level 3 mark and scored 12/20.

Part (b): This answer included reference to comparative advantage but the associated diagram related to each country having an absolute advantage in one product. Furthermore, the response did not really address the reasons for changes in trade patterns. The same is true of the point made in the very last paragraph. There was some relevant analysis relating to the increase in trade blocs which were discussed in the context of trade creation and trade diversion. Evaluation was very limited. Consequently, this response only met the criteria for a Level 2 mark of 15/30.

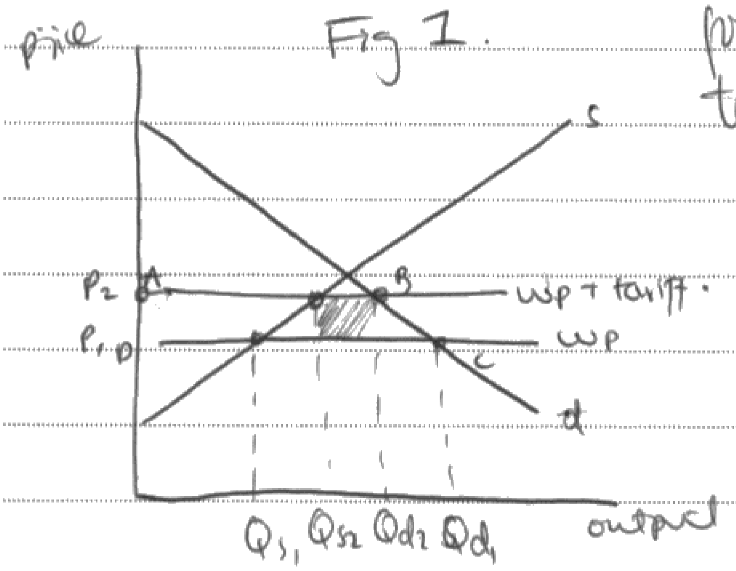
ResultsPlus Examiner Tip

It is important to be able to explain the significance of the law of comparative advantage for free trade and for explaining patterns of trade. It should be noted that the new specification requires candidates to be able to explain this concept with reference to numerical examples and diagrams.

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

3.a) A country imposes tariffs on imports ~~of~~ where it is undergoing protectionism policies, to decrease the amount of import and attempt to increase exports. Protectionism policies are put in place to protect domestic employment. ~~and~~ As developing countries have low levels of competitiveness therefore a majority of goods are imported into the economy. This makes infant industries unable to complete nationally. Therefore by putting tariff on good ~~imported~~ price of imports ~~to~~ rises from P1 to P2 this decrease demand for imports from Qd1 to Qd2.

Fig 1.



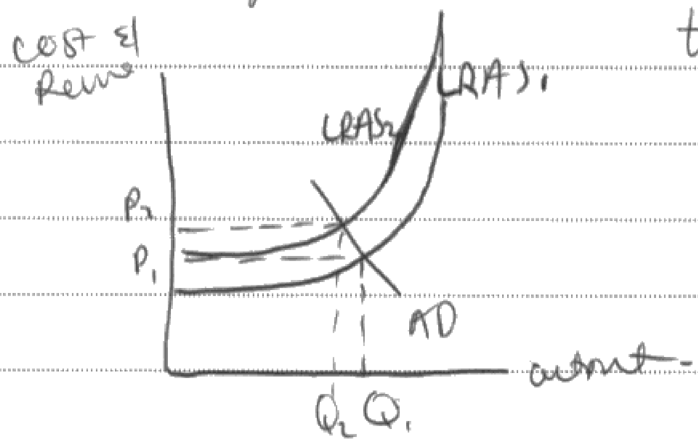
This protectionism policy therefore allows the domestic market to thrive, protecting domestic employment, as the amount imported decreases from Qs1 - Qd1 to Qs2 - Qd2, imports are supplied by the domestic market, increasing domestic profits, GDP and national income.

However ~~the~~ increasing a tariff from world price (WP) to world price plus tariff (WP+tariff) decreases consumer welfare. As ~~international~~ the country is protected from international competitiors, this prevents gains from comparative advantage resulting in higher prices ~~from con~~ for consumers. Higher prices from P_1 to P_2 ~~also~~ are also followed by ~~th~~ decrease in choice, e.g different brands ~~or~~ of rice or different commodites that aren't produced in Nigeria. This net consumer welfare loss can be seen ~~be~~ on figure 1 as ABCD.

Additionally protectionist policies help to protect the economy from dumping. E.g the EU which subsidies its commodities through the (CAP) common agricultural policy promotes the supply of commodies. Therefore, ~~prices~~ this (CAP) might lead to an excess surplus of commodities. To keep ~~comod~~ commodity prices high in EU ~~or to~~ the goverment buys up the excess surplus, (buffer stock scheme). This excess surplus can then be sold in LEDCs like Nigeria to ~~earn~~ to break even and prevents ~~losses~~ huge loss to ~~the~~

~~government~~ EU countries. The prices are too low for ~~ea~~ farmers in Nigeria and ~~less~~ ~~LEDCs~~ to compete with therefore ~~&~~ by charging tariffs of up to 100% of commodity or creating laws to prevent the entry of such commodites the Nigerian economy is protected from dumping. As Nigeria is a primary product dependent country with more than 30% of its population employed in agriculture ~~& th~~ dumping would have significant effects on the economy.

However this may lead to cost push inflation ~~a~~ in the short run where factors of production are fixed. and ~~the~~ contracts to import commodities are fixed. leading to a rise in prices from P1 to P2 and a balance of payments deficit.



Furthermore, a country imposes tariff to protect old ~~industry and~~ firms in industry's. These firms may have high potentials and spare capacity but due to low competitiveness ~~the~~ they are unable to compete, therefore a protection policy can allow the firm to become allocatively and productively efficient through dynamic ~~effi~~ efficiencies reducing costs of production. Resulting in competitiveness to increase in the long run. leading to export lead growth. which would ~~However, they may be fears of retaliation for exam~~ improve the balance of payments, as gains from specialisation and division of labour are achieved.

However, countries that employ protectionist policies may fear retaliation. where other countries ~~...~~ or trade blocks may impose tariffs to decrease export lead growth as prices of exports rise out of the economy. E.g EU may increase tariffs on Nigerian commodities as a result of relatiation of Nigeria increasing tariffs on EU imports. This decreases trade and gains from trade e.g comparative advantage as well as causing political upsetting and global disagreements.

3b. ~~Glo~~ Many factors may lead to a country's pattern of trade to change. This might be due to increasing or decreasing exports, due to globalisation, trade liberalisation and exchange rates, and trading blocs. Globalisation is the increase in integration between national economies in terms of trade, capital flow, ideas, technology and labour. An increase in globalisation due to an increase in technology, e.g. faster internet, quicker and easily communication. Resulting in a country's trade to increase to the rest of the world for example large TNC or MNC may increase trade due to easier online services which increase demand. E.g Apple can trade to the rest of the world which increases USA trade with the rest of the world. Also technology makes it easier for outsourcing or offshoring, e.g Apple outsources to India, Korea, China, Russian etc. This increase UK trade with ~~at~~ other countries due to an increase in MNC trade with the rest of the world. This majorly effects ~~to~~ a country's trade as a brand like America ~~is~~ has total B revenues higher than many economies e.g Bangladesh

Additionally Trade blocs, impact trade between countries. A trade bloc is a area of free trade. E.g the EU is an area of free trade with no tariffs. This ~~[illegible]~~ changes patterns of Trade as it promotes trade within a trade bloc. E.g UK joined the EU in 1970's since then 50% of UK total trade is within the EU as this opens up markets, decreases barriers to trade.

However, this changed B UK trading patterns with countries outside the UK, which is known as trade diversion. Trade is diverted from ~~the~~ countries e.g UK to common wealth e.g India. This affects the UK as they loss out of newly industrialising markets with high markets size and spare capacity. As well as lossing out on comparative advantage. E.g.

	cost of a tonne of corn	cost of a tonne of wool cheap	op of corn	op of sheep
UK	12	8	0.6	1.5
new Zealand	6	12	2	0.5

Here the comparative advantage would be to trade with ~~the~~ new Zealand. UK supply New Zealand ~~to~~ with corn and new Zealand supply UK sheep. This results in comparative advantage gains and well as a ~~go~~ efficient allocation of world resources. However trade diversion may move trade from new Zealand to France where the will be smaller comparative advantage and an misallocation of resources.

Trade liberalisation may result in a countries trading patterns to change. ~~E.g~~ Trade liberalisation is the opening up of economies e.g communism of Eastern Europe, Soviet union (Russian) or China. Trade liberalisation of China has lead to changes in Trade as it open the market. as china has has rapid economic growth levels from 15-5% in the last 10 years there has been an increase in Production and Therefore ~~at~~ has benefitted from economies of scale ~~This can~~ China can then trade its surplus with other countries for example china trades majorly with the US so much they are called chimerica. Therefore trade liberalisation increases Trade as it opens up market, increase international demand, and gains from comparative advantage as china has low labour costs.

ResultsPlus
Examiner Comments

Part (a): This is a convincing answer which considered three reasons to explain why tariffs might be imposed, supported by examples, and included some evaluative comments. However, it was not awarded full marks because there was some imprecision in parts. It scored 18/20.

Part (b): The response made reference to globalisation, trading blocs, comparative advantage, and trade liberalisation as reasons for changes in trade patterns. However, there were some weaknesses including the following: the numerical example demonstrated absolute rather than comparative advantage; and there was no evaluation. Consequently, this response was awarded a Level 3 mark (20/30).

ResultsPlus
Examiner Tip

It is important to include a critical approach in answer to any question which contains a command word demanding evaluation.

Question 4 (a)

By using the information provided, most candidates were able to identify at least one role performed by the IMF and were, therefore, able to score some marks on this question. Better answers made use of the numerical data relating to Ghana to access the application marks.

(a) With reference to the information provided, outline **two** roles of the IMF.

(5)

The International Monetary Fund helps with financial assistance with developing countries such as Ghana after it's currency depricated by 40% against the US dollar, and help decrease the national fiscal deficit which is 11.8% of their GDP in 2013.

In addition the IMF help to support the country's growth programme like ~~subsidising~~ helping to subsidise investment grants in ~~G~~ Ghana.

ResultsPlus

Examiner Comments

This answer outlined the roles of the IMF in providing financial assistance and in supporting Ghana's growth programme. It was supported by two specific references to the data provided (the 40% depreciation of the cedi and the fiscal deficit of 11.8% of GDP). It was, therefore awarded 5/5 marks.

ResultsPlus

Examiner Tip

This was an excellent answer because the roles of the IMF were explained and good use was made of the data.

(a) With reference to the information provided, outline **two** roles of the IMF.

(5)

The IMF helps countries when they are experiencing financial difficulties. They renew countries economic progress and provide them with financial support when in need. The IMF is the international monetary fund

ResultsPlus

Examiner Comments

This answer identified two roles of the IMF with no explanation or no specific data references. Therefore, this response scored just 2/5 marks.

ResultsPlus

Examiner Tip

To achieve a higher mark, some further explanation of the roles was required as well as the inclusion of two data references.

Question 4 (b)

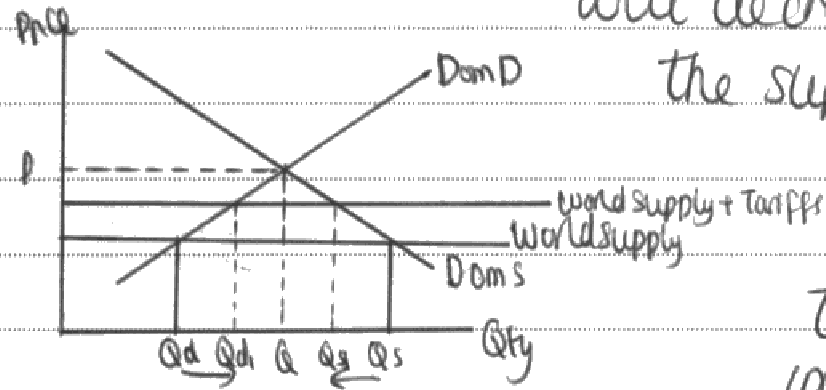
Most candidates found this to be an accessible question which enabled them to score some marks. However, only the best responses used the context and the information provided effectively. The main weaknesses included the following: no explanation of how the measure selected would help to reduce the current account deficit and occasionally there was no reference to the measures mentioned in the fourth paragraph of Extract 1. Furthermore, some candidates misused their time by including evaluative comments which were not required given that the command word was 'explain'.

(b) With reference to the fourth paragraph of Extract 1, explain **two** measures which the Government could take to reduce Ghana's deficit on the current account of the balance of payments.

(8)

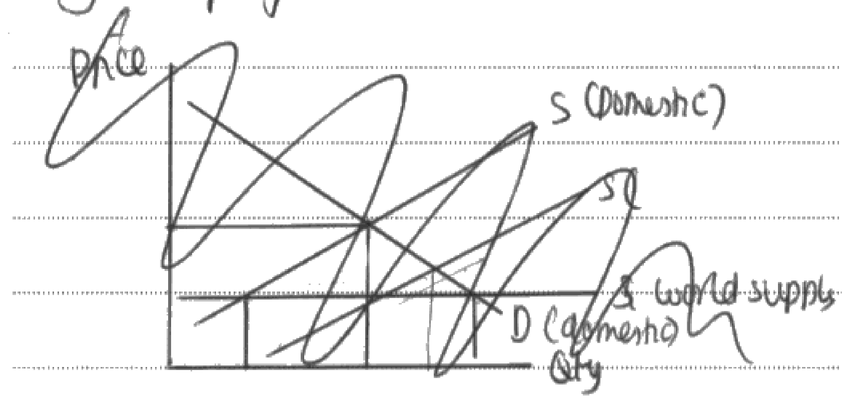
~~The government can reduce their spending on military~~

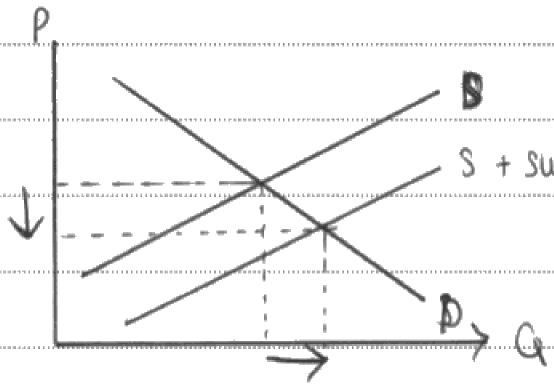
The government can implement protectionist measures to reduce / discourage imports. They can put tariffs on these imports so that they appea more expensive. Therefore the demand for them will decrease as well as the supply. They can also implemant quotas so that the amount of imports into Ghana is restricted and domestic consumers are then obliged to purchase domestic goods.



However, trading countries will retaliate and also enforce these measures and therefore Ghana would not recieve as much export revenue as expected

They can also give subsidies to producers such as the cocoa traders so that they can be more productive. If unit cost per output falls, average costs will fall and therefore the prices of the cocoa would be lower and would be more competitive. The same applies for investment grants and removal of export taxes:- It would lead to lower average costs which ~~domestic firms can use to gain~~ leads to lower prices and higher profits





ResultsPlus
Examiner Comments

The first point relating to tariffs was allowed because the extract made reference to 'new taxes'. However, the answer was largely generic and the diagram was incorrectly labelled. The evaluative comment was not required. The analysis of the second point relating to subsidies was better but did not include specific reference to how this measure would affect the current account of the balance of payments. Consequently, this answer was awarded 5/8 marks (2 for the first measure and 3 for the second).

ResultsPlus
Examiner Tip

It is important to ensure the question is addressed directly which, in this case, means that the impact of each measure on the current account of the balance of payments must be explained.

2d + 2ap + 4an

(b) With reference to the fourth paragraph of Extract 1, explain **two** measures which the Government could take to reduce Ghana's deficit on the current account of the balance of payments.

(8)

One measure the Government could take is to create a system to incentivise cocoa traders through subsidies to process more beans within the country. In the short term there will be a lot of costs involved as the Government will be ~~the~~ ~~o~~ the one financing this system. However, in the long run the beans which will be processed into raw materials for chocolate production, such as cocoa powder will bring benefits for the country. The ~~price~~ value of the raw material is higher than the commodity so the country will be exporting higher value goods. These goods have a higher price so the value of exports increases. In order to reduce the BoP deficit, ~~exp~~ ~~the~~ the revenue from exports must exceed the cost of imports. Processing the goods is one way of achieving the goal.

Another measure is to introduce investment grants & the removal of export taxes to encourage agricultural business to produce foodstuffs domestically. Current foodstuff cost the country $1 billion per year to import. This is a heavy burden on the current account of the balance of payments. If farmers start to grow food within the country Ghana no longer has to import food. It can even sell surplus food ~~is~~ if production levels are high. Exports rise and imports fall leading to a reduction of the deficit.

ResultsPlus
Examiner Comments

This answer considered two measures ('subsidies to cocoa traders' and 'investment grants and removal of export taxes') effectively. In both cases the explanations contained clear chains of reasoning, relevant references to the context and to the impact on the current account of the balance of payments. This answer, therefore, achieved maximum marks of 8/8.

ResultsPlus
Examiner Tip

This answer provides a useful model of how maximum marks may be accessed.

Question 4 (c)

This question was generally answered quite well. The current account deficit and loss of confidence were the most popular explanations for the depreciation of the cedi and most candidates were able to access marks for application by making use of the data provided. In contrast, evaluation of the factors selected tended to be weak. A minority of candidates misinterpreted the question by discussing the effects rather than the causes of the currency depreciation.

(c) With reference to the information provided, examine **two** factors which might have caused the depreciation of Ghana's currency, the cedi.

(10)

The currency may have depreciated due to rapidly rising inflation.
It depreciated to 0.26% of the ~~$US~~ US$ in 2014, and as shown in Figure 4.

This may be due to an increase in international competition, making Ghana's goods ~~less~~ less competitive globally.

Also, ~~as it~~ if it was a currency fixed to the US$, ~~it would~~ if the US$ depreciated, this may have caused Ghana's to depreciate too.

~~It~~ However, as it a floating exchange rate, it is ~~a~~ quite volatile.

It may have been caused by an increase in inflation of the country.

ResultsPlus

Examiner Comments

This answer begins by identifying a possible reason for the depreciation of the cedi, namely, 'rapidly rising inflation'. However, the subsequent analysis is either confused or irrelevant. Therefore, this response scored just 1/10.

ResultsPlus

Examiner Tip

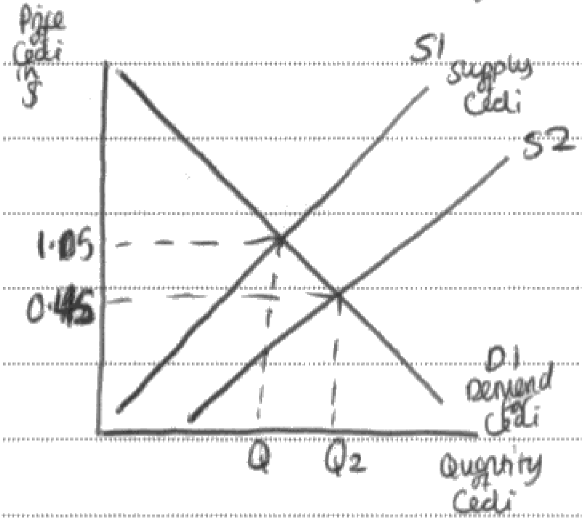
Causes of changes in exchange rates is a feature of both this specification and the new specification so it is important that candidates secure an understanding of the forces which might cause changes in the external value of a currency.

(c) With reference to the information provided, examine **two** factors which might have caused the depreciation of Ghana's currency, the cedi.

(10)

Depreciation of a currency is when it is worth less in terms of another currency.

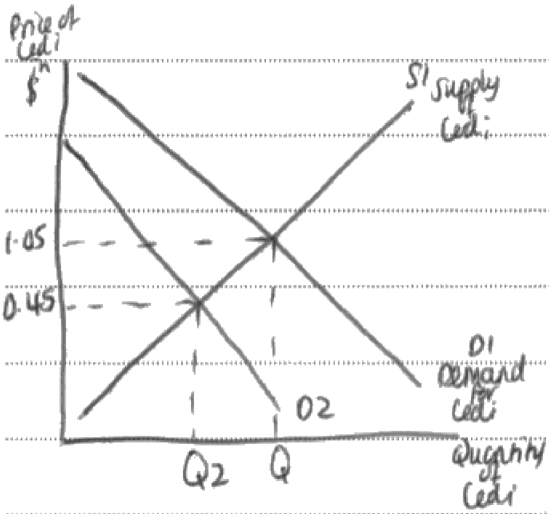
One factor that may have caused the depreciation of Ghana's currency could be a '75% increase in public sector wages'. Such a large increase would have meant that public sector workers were using their increased wages to spend on importing more goods.



~~rather than buy~~ To import goods, workers would have to convert their money into a foreign currency, meaning that the supply of Cedi would increase. As shown on the diagram, this causes the price of Cedi in $ to decrease.

However, this depends on Ghana's marginal propensity to import. If ~~it~~ it is low, around 5%, ~~there~~ the increased incomes wouldn't have had much of an impact.

Another factor that may have caused the depreciation of the Cedi is a high rate of inflation. Line 35 of extract 1 says that inflation was rising quickly, which may have caused a decrease in the competitiveness of Ghana's exports as their prices would be relatively higher when compared to other countries. Due to this, the demand for Ghana's exports would decrease, causing demand for the Cedi to increase. As shown on the diagram, this would cause the price of Cedi in $ to decrease.



However, this would depend on the rate of inflation in other countries. Burkina Faso has seen inflation rates at more than double Ghana's, therefore, ~~comparatively~~, Ghana's inflation wouldn't have deterred people from buying their exports.

ResultsPlus
Examiner Comments

This was an excellent answer which considered the impact of the 75% increase in public sector wages on imports and the significance of this for the supply of cedi on the foreign exchange market, supported by an appropriate diagram. There was a relevant piece of evaluation of this factor with reference to the marginal propensity to import. This was followed by analysis and evaluation of the impact of the high rate of inflation on the exchange rate of the cedi. There was an error (slip) in the analysis but the diagram conveyed the correct analysis. Consequently, this answer scored maximum marks (10/10).

ResultsPlus
Examiner Tip

This answer demonstrates the importance of using the material provided in the question to provide a well-reasoned, coherent response which is firmly based in the context and includes thoughtful evaluative comments after each of the points made.

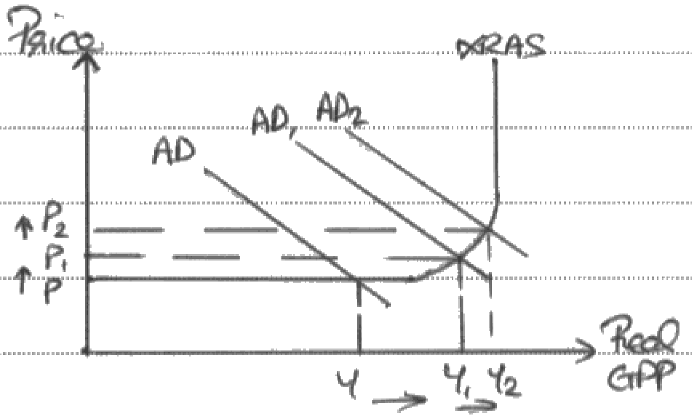
Question 4 (d)

This question was generally answered quite well with many candidates being able to identify at least two effects of the fall in the external value of the cedi on Ghana's economy. In relation to the possible impact on the current account of the balance of payments, many candidates evaluated effectively by referring to the Marshall-Lerner condition and to the J curve effect. However, some responses lacked precision and sufficient depth in their analysis and unconvincing evaluation. For example, weaker responses suggested that the effects would depend on the magnitude of the depreciation although the extract indicated that it was 40%.

*(d) Assess the likely effects of the fall in the external value of the cedi on Ghana's economy.

(12)

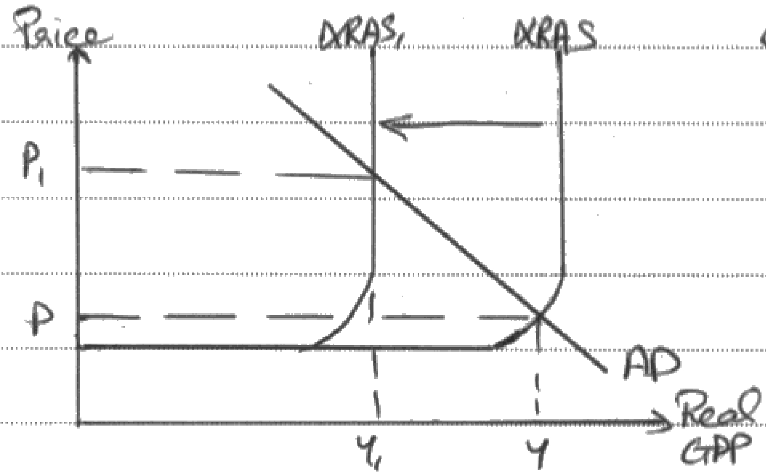
Exchange rates are the value of one currency, expressed in terms of another. A depreciation in the cedi (as it 'plunged' by 40%) may ~~result in~~ cause Ghana's exports to rise. As the cedi falls, other countries have to convert less of their currency to obtain the same value of the cedi, making Ghanaian exports look cheaper. If exports increase, AD shifts outwards (accompanied by a positive multiplier effect). This results in economic growth, increased employment and potentially a low level of inflation, which is good for an economy.



However, this scenario depends on the Marshall-Lerner condition. If the sum of the PEDs of exports and imports exceeds 1, then a depreciation will benefit the economy.

A fall in the value of the cedi may result in a ~~fall~~ rise of costs of production. If Ghana's industries have to import components or raw materials ~~from outside~~, then a depreciation of the cedi may cause cost push inflation. This can

be detrimental to the economy due to reduced economic growth, reduced employment (inflation is rising) (as the cedi depreciates) and increased inflation, ... This may go against all of their macroeconomic objectives.



However, a depreciation of the cedi may be beneficial to the Ghanaian economy as it may reduce the number of imports flowing into the country, reducing the current account deficit.

ResultsPlus
Examiner Comments

This response began by considering the impact on the demand for Ghana's exports with a data reference to the size of the depreciation in the value of the cedi. However, the analysis was rather superficial and the labelling of the diagram was inaccurate ('price' instead of 'price level') on the y axis. In the evaluation of this point the significance of the Marshall-Lerner condition for the current account of the balance of payments was not made clear. A second possible effect (cost-push inflation) was identified and explained briefly and once again the diagram was incorrectly labelled. There was no effective evaluation of this point. Consequently this answer scored 6/12.

ResultsPlus
Examiner Tip

This response illustrates the importance of two issues: precision in analysis (both in written and in diagrammatic form) and also of the need for effective evaluation of the points made.

*(d) Assess the likely effects of the fall in the external value of the cedi on Ghana's economy.

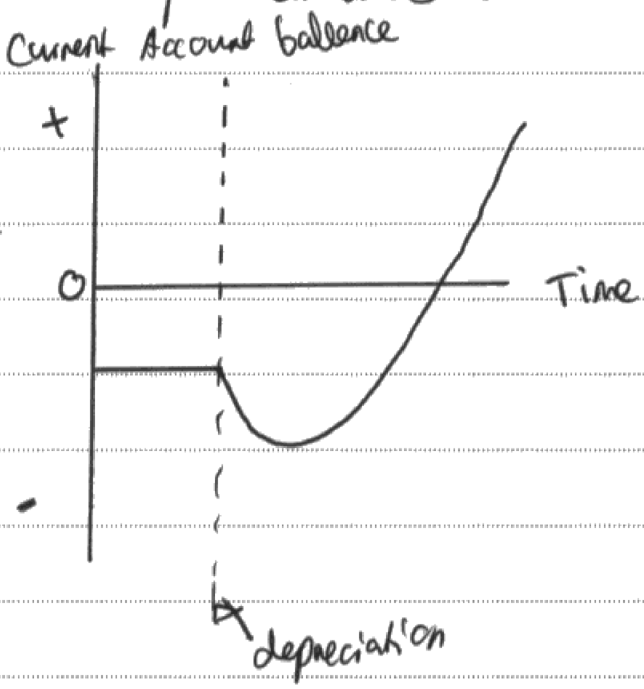
(12)

The exchange rate is the value of one currency expressed in terms of another.

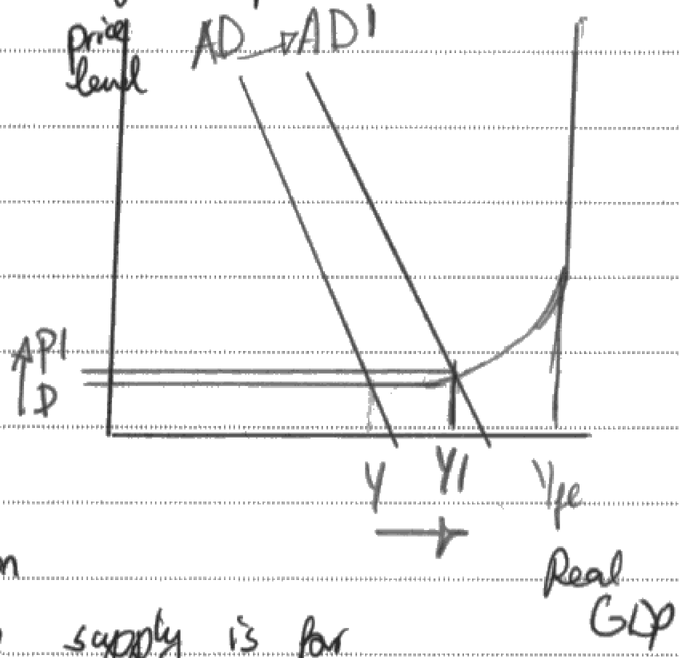
The ballence of payments' deficit on the current account will improve as a result of a fall in the Cedi. Imports will appear very expensive to consumers and as a result they will purchase more domestic goods. This will reduce the value of imports and the deficit on the current account.

However this depends on whether the Marshall-Lerner condition has been met. Further more it takes time for consumers to change their habbits

So the current account deficit may worsen before it improves as consumers carry on importing at high prices.



A fall in the external value of the ~~[illegible]~~ Cedi will have a positive effect on ~~the~~ Ghanian exports. Ghana's goods, such as cocoa beans, appear cheaper to foreign markets so they will ~~[illegible]~~ purchase more goods from Ghana. This is an injection to the circular flow of income which will boost real GDP for Ghana and stimulate economic growth.



However this depends on what the elasticity of supply is for some goods. For example, it is difficult to scale up production of agricultural goods which are planned in advance. The extract says Ghana lacks a large manufacturing sector, which could scale up production as a result of ~~[illegible]~~ an increase in demand more quickly than agriculture. This means the boost in GDP may not be ~~to~~ as large as expected.

ResultsPlus
Examiner Comments

This was a generally sound answer which began by discussing the impact of the depreciation on Ghana's current account. In the evaluation, the Marshall-Lerner condition was not explained but the discussion of the J curve was more impressive. This was followed by consideration of the impact on economic growth. This was analysed fairly well with appropriate reference to context (export of cocoa beans) although one label on the diagram was missing. There was effective evaluation of this issue which made good reference to the context. Despite the minor deficiencies in this answer, the candidate had included sufficient analysis and evaluation to score maximum marks (12/12).

ResultsPlus
Examiner Tip

This answer demonstrates the importance of applying economic concepts and models appropriately and of using the context to make informed judgements when discussing the change of an economic variable.

Question 4 (e)

Most answers included reference to cuts in public expenditure to tax increases as means by which Ghana could reduce its fiscal deficit. Consequently, most candidates were able to score some marks on this question but it was not common for high marks to be achieved. One possible reason for this was that, in many cases, the answers were relatively short perhaps a reflection that candidates had left themselves insufficient time to provide a full response.

*(e) With reference to the information provided, evaluate measures by which Ghana's Government could reduce its fiscal deficit.

(15)

One way of reducing Ghana's fiscal deficit is by increasing taxes. ~~Ta~~ This is because by increasing taxes, the government can collect greater tax revenues. Income tax ~~is one~~ and corporation taxes are examples of taxes that should be increased. ~~These~~ The increase in tax revenues would mean that government spending and tax receipts slowly balance out or at least reduce the fiscal deficit.

However, there are negative impacts of ~~tax~~ increasing taxes. If taxes are increased, consumers have less disposable income and businesses have less of the profits they made. This causes a decrease in consumption and investment, two key components of aggregate demand. This leads to a fall in AD and reduces real GDP, resulting in a rise in unemployment and slow economic growth. Therefore increasing taxations has a significant impact on two major macroeconomic objectives.

The other way of reducing a fiscal deficit is by reducing government spending. By reducing government spending, ~~the~~ on areas such as education, benefits and JSA, the fiscal deficit would improve as a fiscal deficit occurs when government spending is greater than tax revenues. This

way government spending lower to a point where it can balance with tax revenues.

However, reducing government spending has negative consequences associated to it. Government spending ~~is~~ a component of aggregate demand and so if that was reduced, it would cause aggregate demand to fall leading to slow economic growth. It would also hinder ~~the~~ Ghana's growth and development as there would be less spending on education, meaning the quality of education is reduced. Also, if spending on benefits is reduced, the unemployed and incapable of working would have low incomes, possibly increasing relative poverty and increasing inequality.

The third way of reducing Ghana's fiscal deficit

ResultsPlus
Examiner Comments

This answer considered two methods of reducing the fiscal deficit: increasing taxes and reducing government expenditure. In both cases the analysis was not developed with little application of economic concepts. Credit was given to the evaluation of both these measures but, overall, the candidate scored 8/15.

ResultsPlus
Examiner Tip

The answer should include clear chains of reasoning to explain how the measures suggested might lead to a decrease in the fiscal deficit. For example, it could be explained that a cut in unemployment benefit might increase in incentives to find employment. In turn, this would cause an increase in income tax revenues from employment and from expenditure and taxes because people would have higher incomes available for spending.

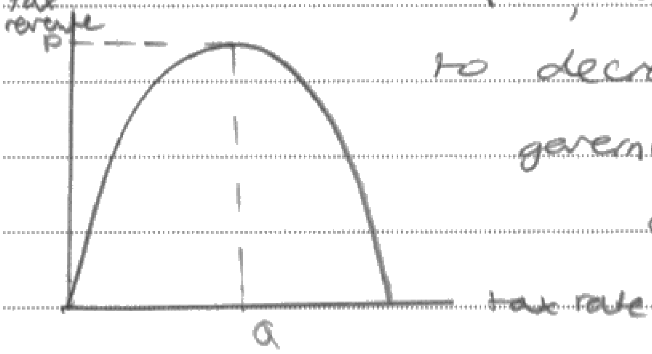
*(e) With reference to the information provided, evaluate measures by which Ghana's Government could reduce its fiscal deficit. (G > T)

(15)

The fiscal deficit is when the government spending is greater than the taxation

To improve their fiscal deficit they can ~~tax~~ increase the taxation on the high income earner. No matter how poor a country may be, there will always be rich elites. By taxing them, the government is able to increase ~~their~~ revenues they receive. They can use the revenues received to reduce the deficit ~~or~~ and ~~a~~ help the economy to grow

However, this can cause the richer people to find ways to avoid taxation as they are not incentivised to work harder and make more money if they are being taxed. This can be demonstrated by the laffer curve. Anything beyond the optimal level at Q, will cause revenue to decrease and so the government are unable to decrease their deficit.



Another way is to reduce the government expenditure in Ghana, in 2014 government expenditure in terms of interest payments was at 6.8%. To reduce this they can try to renegotiate the terms to more they need to repay. This is decribed as debt relief, by cancelling or renegotiating the terms of the debt, Ghanian government will be able to use the money to reduce their deficit.

However the renegotiation of the terms can actually cause their credit rating to worsen. This can be detrimental in times of crises when they need help or need a loan. Being unable to pay back could be seen as a weakness. Furthermore debt relief can cause a moral hazard, as the government may end up borrowing more with no consequences or they may not put the money into reducing the deficit but into selfish gains.

Thirdly, the Ghanian government may try to implement structural change so that their economy grows. In doing so they are able to accumulate more revenue and are thus able to reduce the deficit in the long run. This is implemented by the

Ghanaian government in terms of subsidies, which incentivise cocoa traders to process more beans into the production of chocolate rather than exporting them. This is beneficial for the economy as richer countries tend to invest more in secondary and tertiary sectors rather than primary sectors. This will not only garner more income for the economy to reduce the deficit but also improve the terms of trade. (*)

However this incurs an opportunity cost to the government who could directly use the money to reduce the deficit rather than providing a subsidy. This is because the structural change incurs a time lag.

ResultsPlus
Examiner Comments

This response discussed three different ways by which the fiscal deficit could be reduced, the last of which was particularly impressive while the first could have been developed more fully. There was particularly good reference to the context in the analysis of the second and third measures. The evaluative comments relating to an increase in income tax and to cutting government expenditure were very effective although the evaluation of the last point was superficial. Overall, however, this answer scored maximum marks (15/15).

ResultsPlus
Examiner Tip

This is a good example of a well-structured answer which identifies, analyses and evaluates three possible ways by which the fiscal deficit could be reduced. Although the quality of analysis and evaluation varies in relation to each point, it demonstrates the importance of applying economic concepts appropriately and using the information provided to good effect.

Question 5 (a)

This should have been a relatively straightforward question but, unfortunately, some candidates penalised themselves by not making a clear contrast between the growth rates of Ireland and Italy and/or using the wrong timeframe.

(a) With reference to Figure 1, contrast the rates of economic growth of Italy and Ireland since 2008.

(5)

Italy and Ireland's rate of economic growth follows a similar trend, both positive at 2004 → 2007, to negative in 2008 → 2010, back to close to 0. However Irelands dips are more extreme, from around 6% GDP growth in 2005, down to −6.5% in 2009.

Italy peaked at 2.3% in 2006, down to −5.5% in 2009.

As both economies growth fell significantly in 2008 → 2010, a recession may have affected both of them.

ResultsPlus
Examiner Comments

This was a weak response because the candidate largely ignored the timeframe mentioned in the question when contrasting the growth rates between Italy and Ireland. Only the last sentence made reference to the relevant years so this answer scored just 1 mark.

ResultsPlus
Examiner Tip

This response indicates the importance of reading the question carefully so that the answer is relevant to the question set.

ⓐ With reference to Figure 1, contrast the rates of economic growth of Italy and Ireland since 2008.

(5)

In 2008, Italy had a growth rate of -1.2%, which was higher than Ireland's rate of -2.5%. Overall, Italy has experienced negative growth since 2008, with the exception of the period late 2009 to early 2011, where growth was positive. Similarly, Ireland experienced negative growth as well, but since 2013, Ireland has grown almost 4% (in 2014), suggesting Ireland has grown faster than Italy since 2008.

ResultsPlus
Examiner Comments

In every sentence of this answer there is an attempt to provide a contrast in the growth rates experience by Italy and Ireland. This is supported by specific numerical examples from the data to support the points being made. Consequently, this response scored maximum marks (5/5).

ResultsPlus
Examiner Tip

This response provides an excellent example of how to frame an answer requiring the careful interpretation of data to show a contrast between trends. This is a quantitative skill which is required as part of the new specification so candidates would be advised to practise this technique in preparation for the new examination papers.

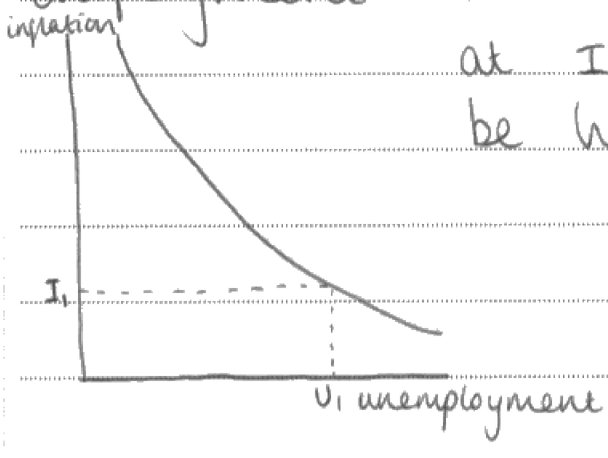
Question 5 (b)

There was a wide range of responses to this question with the best able to identify and analyse two reasons to explain why Italy was experiencing a high rate of unemployment during a period of deflation. However, some responses did not provide much by way of relevant analysis nor did they include any relevant data references.

(b) Analyse **two** possible reasons why Italy is experiencing a high rate of unemployment during a period when the general price level is falling.

(8)

One reason that ~~Itally~~ Italy may be experiencing a high rate of unemployment during a period when the general price is falling is due to their limited control of the deflation. Being part of the Eurozone, Italy doesn't have its own central bank which can have firsthand control over inflation and deflation. In addition to this the EU central Bank can only intervene when inflation rises above target rather than deflation below which is what Italy is experiencing. Therefore due to the Philips curve drawn below showing the relationship between inflation and unemployment, it can be seen that the lack of control of the deflation is causing high rates of unemployment. For example if inflation is low, at I₁ unemployment will be high, at U₁.



Another reason Italy may be experiencing high unemployment rates during a time of falling price level is due to the supply-side policies being put into place by governments not having an "immediate impact". In extract 1, measures to make it easier for firms to make workers redundant have been put in place in order to give companies more incentive to hire more workers. ~~due to~~ Whilst this is likely to decrease unemployment in the long-run, in the short-run, changes to unemployment will not be seen.

ResultsPlus
Examiner Comments

The first page of this answer mentioned that Italy does not have its own central bank and, therefore, has limited control over its economy. However, there was little supporting analysis and no specific data references. On the second page there was a point about the time-lag involved in the use of supply-side policies. Once again the supporting analysis and application were very limited. Consequently, this answer scored 4/8.

ResultsPlus
Examiner Tip

It is important that the analysis provides a clear explanation of possible reasons why Italy is experiencing both a high rate of unemployment during a period of deflation. Furthermore, use could have been made of the data on the unemployment rate and the growth rate to support the analysis.

(b) Analyse **two** possible reasons why Italy is experiencing a high rate of unemployment during a period when the general price level is falling.

(8)

One reason Italy's unemployment has risen from about 6% in 2007 to about 12.5% in 2014 is a high level of taxation. Taxes are a disincentive to work, and therefore if taxes are high, some Italians may decide not working is better for them, as otherwise if they worked, they would pay a lot of tax, so they would have a lower disposable income. This causes unemployment to rise as less people are willing to work in Italy.

Another reason ~~is~~ could be a high level of national debt. ~~If~~ Italy's ~~GDP~~ debt to GDP ratio ~~has risen~~ rose by 29.3% from 2007 - 2013. This discourages investors to invest in Italy. If less investment occurs, less jobs are created, so more workers are unable to find jobs. As ~~less~~ more workers struggle to find jobs, the level of unemployment in Italy would rise, even though general price level is falling.

ResultsPlus
Examiner Comments

The first paragraph refers to the high level of taxation as being one possible reason. It includes some analysis and a data reference to the unemployment rate. However, there is no reference to the falling price level.

The second paragraph provides another reason relating to the high debt to GDP ratio. This is analysed well and there is appropriate reference to the data. Overall, therefore, this answer was awarded 7/8 marks.

ResultsPlus
Examiner Tip

The second part of this answer provides a good example of the way to develop a sound response to this question. It also indicates a good examination technique by demonstrating an effective response to an 8 mark question can be relatively brief if all the key issues are addressed.

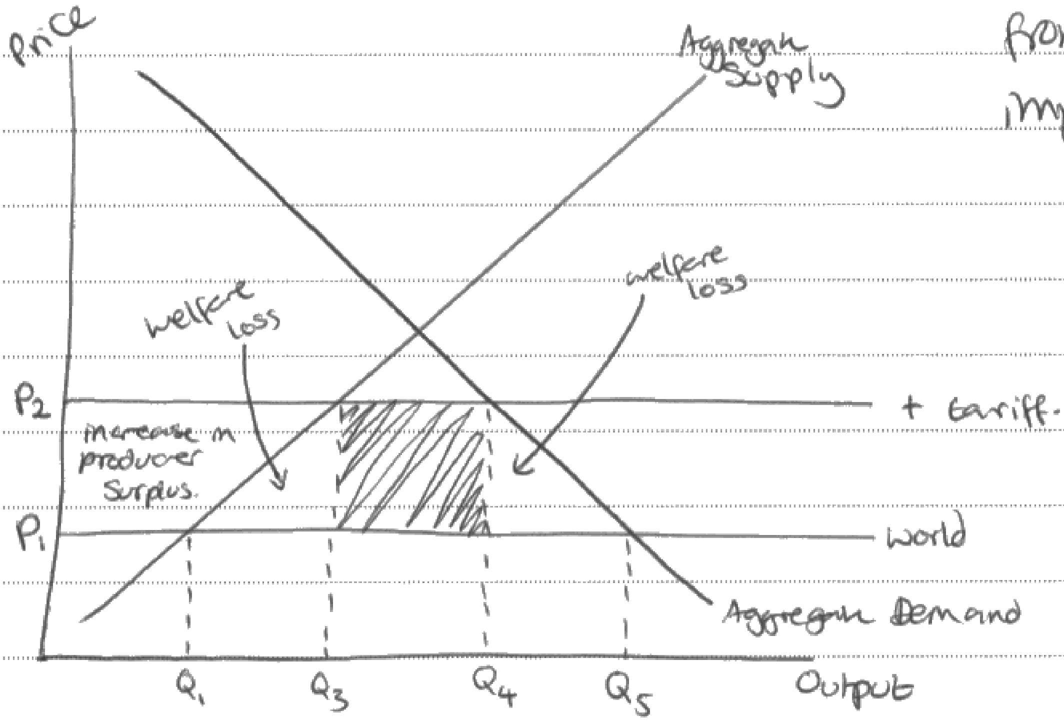
Question 5 (c)

Most answers focused on education and training; tax changes; and to possible improvements in the public sector. Consequently, most candidates were able to secure some marks. However, some answers were generic in nature and did not refer to the context of Italy. Furthermore, evaluation of the measures was often fairly limited.

(c) Examine **two** measures which might help to improve Italy's economic performance assuming it remains a member of the eurozone.

(10)

An increase in protectionism may help to improve Italy's economic performance, as protects domestic firms from low prices in other countries. For example, a tariff on imported goods would increase the price of importing goods, meaning demand for domestic products may increase. Shaded area represents revenue from the imposed tariff.



Another way of improving Italy's economic performance may be through an increase in government spending, as investment in infrastructure or other component of the economy can spur an increase in aggregate demand.

This may be through the increased government revenue from a tariff, or just from tax.

ResultsPlus
Examiner Comments

This answer began by discussing the use of tariffs, ignoring the fact that, as a member of the European Union, Italy does not have the unilateral power to impose protectionist measures. The second measure identified, increasing government expenditure, was more plausible. However, there was little supporting analysis and no evaluation. This response was, therefore, awarded just 2/10.

ResultsPlus
Examiner Tip

Candidates do need to have an awareness of the implications of membership of a trading bloc so that they can suggest realistic policies when faced with questions such as this one.

(c) Examine **two** measures which might help to improve Italy's economic performance assuming it remains a member of the eurozone.

(10)

One measure could be to reduce taxation levels, and bring them down to the eurozone average - as stated in the article. By decreasing the level of tax, for example income tax it increases the incentive for workers as they gain more of their money, hence they get more disposable income. An increase in the workers disposable income would result in more consumption of luxury goods, which would mean aggregate demand rises, hence GDP will rise. Therefore the economy will grow more (economic growth increases). In addition, by cutting taxes such as corporation taxes, firms will have an increased incentive to produce more and produce efficiently as they will gain more of their revenue as profit. This would mean that firms in Italy are able to reinvest into their business and expand their business. This would lead to ~~high~~ an increase in economic growth for Italy.

However, lowering taxes can have an opportunity cost. Seeing as, tax revenue gained would be lower for the government, hence they are not able to invest more in education, training and infrastructure. This can be problematic, as education and infrastructure can have exponential benefits in the long-run, seeing as better education means labour is more skilled, and better infrastructure means that it could attract more transnational companies to invest for future projects.

another measure which can be used is to improve the quality and efficiency of the public sector. This would mean that by educating and training workers so that they are skilled to be able to work more efficiently. this would lead to lower average costs as firms would be producing at an efficient, hence they could meet the revenue maximisation level (MC=MR) if they are efficient and able to produce high quality goods. this would lead to an improvement in Italy's economic performance as they'll be able to compete with other member countries of the eurozone, seeing as their goods will be cheaper if average costs are low due to high efficiency, hence their goods will be competitive. Meaning the demand for their goods will rise.

However, there is a time lag with this measure. It can take a long period of time (a few years) ~~to be~~ to train and educate workers, therefore the measure may not be as effective in the short-run.

ResultsPlus
Examiner Comments

This answer began by identifying a reduction of taxation levels as a policy which might help Italy improve its economic performance and this was developed with some relevant analysis culminating with the possible impact on economic growth. In the first sentence, there was also a clear reference to the context i.e. bring down taxes 'to the euro zone average'. This was followed by some effective evaluation of the policy.

The second measure selected, an improvement in the quality and efficiency of the public sector, was also supported by some analysis but the evaluation was limited. This answer was awarded 8/10 marks.

ResultsPlus
Examiner Tip

The first part of this answer was very convincing and offers a good example of how such a question might be approached. To improve further, the candidate needed to provide more context and to develop the evaluation of the second point more fully.

Question 5 (d)

Most candidates were able to identify and offer some explanation of at least two factors with the most common being foreign direct investment and the housing boom. Evaluation, however, was less impressive although many candidates mentioned the possibility that profits would be repatriated to the shareholders of transnational companies overseas and that the housing boom might be relatively brief. Furthermore, some candidates did not access the application marks by failing to use any of the numerous data references found in Extract 2.

FDI

*(d) Evaluate the factors which might explain why the Irish economy is growing at 'an explosive pace' (Extract 2, line 1).

(12)

A major reason why the Irish economy is growing at 'an explosive pace' is the amount of forgien direct investment it receives from other countries due to the high number of transnational companies taking advantage of the low 12.5% coorperation tax. This is inviting for these firms as it reduces their ~~product~~ costs, leaving them with large profits.

As Extract 2 states, Ireland's largest export earners are Google and Microsoft, who together earn €32 billion through exports.

Forgien direct investment is an effective way of increasing aggregate demand in an economy, resulting in an increase in GDP, shown in figure 1 in 2013/14.

~~However, FDI would not be the only reason for the rate of growth,~~

Usually, high levels of employment result in economic growth, however, in Ireland, the ILO unemployment rate has been falling since ~~to~~ 2012, meaning the economy is not being as productively efficient as it could be.

ResultsPlus Examiner Comments

This answer focused mainly on the significance of foreign direct investment and included two appropriate data references with supporting analysis. However, there was no evaluation of this point and no further factors were discussed which might explain the rapid rate of economic growth in Ireland. Consequently, this response was awarded just 5/12 marks.

ResultsPlus Examiner Tip

Given that the answer provided was good as far as it went, it is unfortunate that it was not developed further to include at least one other reason to explain Ireland's rapid rate of economic growth. If poor time planning was the issue, then it is important for candidates to determine, in advance of an examination, how much time to allocate to the each of the questions. This should be considered carefully in preparation for the examination papers in the new specification.

*(d) Evaluate the factors which might explain why the Irish economy is growing at 'an explosive pace' (Extract 2, line 1). I, S.

(12)

Ireland has made huge spending ~~cuts in the public finances.~~ rise in housing prices. Housing prices have risen by around 24% this means greater asset prices. As a result there is more consumer confidence and therefore larger amounts of consumption in the economy. This is because people feel much safer because they have an increase in wealth, they feel like their finances are protected should anything go wrong. consumption accounts for a significant proportion of AD therefore meaning that the country will experience economic growth as a result, this may be one reason to the explosive pace at which it is growing.

However, changes in housing prices are very volatile and subject to huge price fluctuations. So although it is high right now, house prices may fall as they did in 2009 due to the housing crisis. This can see asset prices plummet and and consumer confidence decrease and the economy become stagnant once again.

Another reason for the explosive growth is the low levels of corporation tax which businesses are exploiting. It is approximately 12.5% in Ireland, ~~almost~~ 7.5% lower than Britain. This incentivises investment from foreign firms ~~and~~ because lower levels of corporation tax means that the firm can keep higher proportion of its profits. This will lead to an increase in the quantity of the factors of production, and capital equipment. It will lead to an increase in short term investment and also long term as there is an increase in the productive capacity of the economy ensuring that Real GDP is rising in the long term as well as short ~~term~~. Export industries also benefit due to an increase in ~~the bat~~ current account balance ~~of payments~~ in pharmaceutical and computer software. As a result AD will further increase, ensuring greater economic growth.

However, the firm may repatriate their profits to their home country and this will lead to reduced investment in the long run. It will put a limitation on the productive capacity on the economy, because no money is being reinvested therefore ~~AD may no~~ LRAS may not increase and there may be lack of economic growth in the long run.

Rising exports in the Irish economy, ~~from~~ it has an ~~ratio~~ export ratio of 188% which means that the terms of trade are high and international competitiveness is strong. This will improve balance of payments of the current account, increasing AD and causing economic growth especially at such high export ratios.

ResultsPlus
Examiner Comments

This was a sound answer which began by discussing the significance of rising house prices. The skills of analysis, application and evaluation were demonstrated impressively. Similarly, there was a sound examination of the significance of low rates of corporation tax as an explanation for Ireland's rapid economic growth rate. A further issue (the high rate of exports) was considered at the end of the answer but there was no evaluation of this factor. The only deficiency in this answer was insufficient evaluation so it scored 11/12 marks.

ResultsPlus
Examiner Tip

The first two factors scored maximum marks for knowledge, application and analysis demonstrating an ability to select and apply economic concepts and to develop coherent, well-reasoned explanations.

Question 5 (e)

Candidates had the opportunity to argue that a high public sector debt to GDP ratio was or was not a cause for concern and then could evaluate by considering the counter-arguments. However, answers to this question were less impressive than might have been expected given that this is a standard part of the specification. In many responses, both analysis and evaluation were not developed in sufficient depth or related to the information provided in a meaningful way.

*(e) To what extent might a high public sector debt to GDP ratio be a cause for concern? Refer to the information provided in your answer.

(15)

Public sector debt can also be called national debt, ~~the amount of money owed by the entire~~ the total amount of debt accumulated by a country. Ireland has a debt to GDP ratio of 124%, meaning its debt exceeds the value of its GDP. ~~A high value~~

One reason this ~~is~~ could be problematic is that the Irish government has to pay interest on the debt it owes. This is an opportunity cost, as the money cannot be invested in services such as education ~~or~~ or healthcare, which can improve economic output in the long run as they both increase productivity, the output per worker.

However, this depends on other factors such as FDI. For instance, Ireland's corporation tax rate is only 12.5%, which may encourage investors to invest in places like Dublin. As these investors invest, the Irish government will earn tax revenue, which would mean despite a high debt to GDP ratio, the economy is still growing, and economic growth is more important than debt repayment in terms of macroeconomic objectives.

Another reason the high debt to GDP ratio could be a cause for concern is that a higher level of debt could dissuade firms such as Google and Pfizer, who collectively generate €22 billion for Ireland. This means that less investment would be made in Ireland as the economy is less stable, making it risky for investors like Google. As less investment is made, less GDP is earned by the government, which means less spending on public services. Which worsens standards of living for Irish people.

However, if debt is higher elsewhere e.g. Italy, where the debt to GDP is at 132.3%, 8.3% higher than Ireland's, this may not be a problem as in relative terms, Ireland may have a lower debt to GDP ratio.

Furthermore, the debt to GDP ratio may be partly due to external factors like a global recession. As this is cyclical, the high debt to GDP ratio may just be temporary.

ResultsPlus
Examiner Comments

The answer begins by considering the problems associated with the debt servicing costs of the debt and includes a data reference as well as a valid evaluative comment. The second point relating to a fall in investment is less impressive as is the associated evaluation. Indeed, there is little more than identification of the point. Overall, this answer scored 9/15 marks.

ResultsPlus
Examiner Tip

This answer suggests that the candidate ran out of time since only two reasons were considered. As previously mentioned, time planning is very important to enable candidates to access the full range of marks.

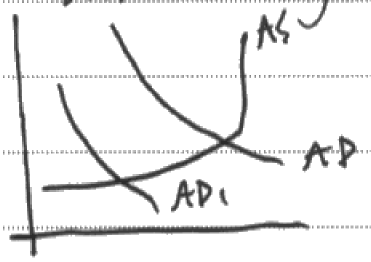
*(e) To what extent might a high public sector debt to GDP ratio be a cause for concern? Refer to the information provided in your answer.

(15)

High public sector debt to GDP comes ~~with a number~~ like Italys 132.6% ratio in 2013 comes with a number of problems.

One is the cost of servicing such debt, the larger the debt the more money that must be devoted towards repayments. These payments offcourse come at an opportunity cost and will rise with the debt as Italys is expected to rise to 150%. However Japans economy is still operational with a debt to GDP ratio of 200%. It does, unlike Italy, control its own central bank however and can thus impliment its own policy.

A further problem when it comes to debt repayments is that goverment borrowing to repay debts will push up intrest rates and lead to a process known as crowding out: where private sector demand is stifled by this rise in intrest rates.



The fall in AD from AD to AD1 will increase unemployment and result in negative growth. However the ECB could very well hold interest rates constant and thus prevent crowding out.

It may not be a cause for concern as the IMF expects Irelands debt ratio to fall from 124% to 111% of GDP by 2018. A similair affect could be seen in the following years both in Ireland and across the EU.

Debt poses a particular problem for investment. High debt to GDP ratios will deter investors from that particular domestic market as it increases volatility around it. This lack of investment could have knock on affects on domestic employment and growth. However Japan has shown that control over ones bank can tackle this issue as if investors believe the debt can be stabilised at a given level they will refinance it. So high GDP to debt may be more of an issue for Eurozone countries with their centralized bank.

ResultsPlus
Examiner Comments

The first issue considered was that of the cost of servicing the debt but the associated analysis was limited and credit was only given for the first evaluative sentence. However, the analysis relating to the danger of higher interest rates was developed more fully, although the diagram did not include labels for either axis. This was followed by two very brief evaluative comments. The third issue raised was that the high public sector debt to GDP ratio could deter investment but the supporting analysis was limited and there was no effective evaluation of this point. Overall, this answer was awarded 10/15 marks.

ResultsPlus
Examiner Tip

This answer had a good structure with three clear reasons why the high public sector debt to GDP ratio might be a cause for concern and there were some relevant data references. However, it would have achieved a higher mark if there were clearer chains of reasoning in the analysis and if the evaluation was developed more fully.

Paper Summary

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

- To develop sufficient confidence in their understanding of the concepts and to be able to apply them in both familiar and unfamiliar contexts.
- To ensure that key concepts are understood and can be defined and explained accurately.
- To develop a facility in the interpretation of numerical and graphical data which is very significant in data response questions.
- To read questions very carefully to ensure that they are interpreted correctly and that all elements of the questions are addressed.
- To secure a knowledge and understanding of current economic issues so that answers can be enhanced in the context of such information. Candidates who were able to demonstrate such understanding were able to offer more informed answers than those who simply wrote generic responses.
- To plan time carefully to ensure that all questions can be answered fully.
- To ensure that handwriting is legible. Marks may well be lost if the examiner is unable to read the answer.

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

Llywodraeth Cynulliad Cymru
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