



Pearson

Examiners' Report
June 2017

GCE Economics A 9EC0 03

Edexcel and BTEC Qualifications

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

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



Giving you insight to inform next steps

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

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

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

Pearson: helping people progress, everywhere

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

June 2017

Publications Code 9ECO_03_1706_ER

All the material in this publication is copyright
© Pearson Education Ltd 2017

Introduction

The mean for the paper as a whole was 63.0, standard deviation was 13.3, compared to a mean of 64.3, standard deviation 13.2, on Paper 1 and 60.7, standard deviation 13.3, on Paper 2, showing that it was accessible as the only fully synoptic paper in the new and rigorous linear A Level.

The exam paper followed all the command words and structure as set out in the Sample Assessment Materials, and the data covered a broad range of both micro and macro issues. The exam appeared to be fully accessible, well received, and an effective discriminator.

Many candidates had been prepared for Paper 9EC0 03 by employing past papers from the previous syllabus, which certainly proved useful in terms of the type of question and level of complexity required. Many candidates were prepared specifically and effectively for the structure of the new paper – especially the new 25-mark microeconomics and macroeconomics essays. It was an accessible paper, broad ranging and specification based, with a high degree of differentiation. The main issue seems to be that the questions themselves are very full and demanding, and simple responses cannot go far in terms of rising up the levels. Rote learning has a very small role to play when preparing for this exam.

Many candidates demonstrated an over eagerness to discuss austerity (2(e)), Brexit (2(d)) and there was a huge number of references to the current views of the Labour and Conservative parties (the election being held 11 days before seems to have had an overbearing influence). While it is advised to be both aware and have an understanding of contemporary economic events, it should be stressed that this two-year course is based very much on theory and analysis which is then applied to the real world. The evidence provided in the exam is rich in terms of content, and should drive the analysis and inform the evaluation.

Question 1 (a)

Candidates performed well with this question, with a mean mark of over 3 out of 5. Most candidates could interpret the data easily, recognise a depreciation, and give good responses in a wide array of arguments. Many used a diagram to show a shift in supply or demand for the peso and consequently a fall in the value of the peso, and although a diagram was not necessary it did help candidates to think carefully about whether demand or supply was increasing or decreasing.

Many answers were centred around the fall in copper prices as illustrated in Figure 1, and the fact that Figure 2 was vertically aligned did make it very clear that there was a strong positive correlation between copper prices and the value of the peso. This was strongly backed up by the text ('weak currency' Extract A line 10, 'copper accounts for 50% of its exports' line 2).

A surprising number of candidates referred to a *devaluation* rather than depreciation, despite mentions of the 'free trade model, which is unrestricted by government interventionism' (lines 17-18) and the independent central bank (line 22). A tiny minority thought that the value of the peso was rising, but this was rare. This is a sign that most other candidates were largely well rehearsed in using exchange rate data such as this.

The most significant difference between high and very high mark answers was the ability to make a chain of reasoning or 'analysis' between the factor that changed, for example copper prices, and the demand or supply for the currency. There were many candidates that could observe copper prices had fallen but then did not make the link that the revenue of exports would therefore fall, for example by showing that the demand for exports does not increase in proportion to the price fall. Many candidates mis-stated that the demand for exports had fallen, when in fact it was the increase in demand that was slowing (in China) or worldwide oversupply, but not a fall in demand. This counter-observation was a common weakness in responses, and illustrates the importance of using the data very closely.

This is typical of a 4 out of 5 mark answer.

(a) With reference to Figure 2, explain **one** likely reason for the change in the Chile peso exchange rate between 2013 and 2015.

(5)

Depreciation is where the value of one currency falls against another. As shown in figure two the cost of Chile peso fell from around 0.215 to around 0.15 US dollars. This could be due to a lack of demand for exports from Chile. If there were less exports demanded, there is less demand for the currency, peso, meaning it would lose value.



ResultsPlus

Examiner Comments

There are two marks for the data (the reading of values and the trend) and 2 knowledge marks (X had fallen and the demand for the peso had fallen). However, there is no reason given for the fall in value of exports.

Sample 2:

K Reduced X
K Less demand for currency
AP ER dropped
AP Data reference
AN -

4/5: needs more development



ResultsPlus

Examiner Tip

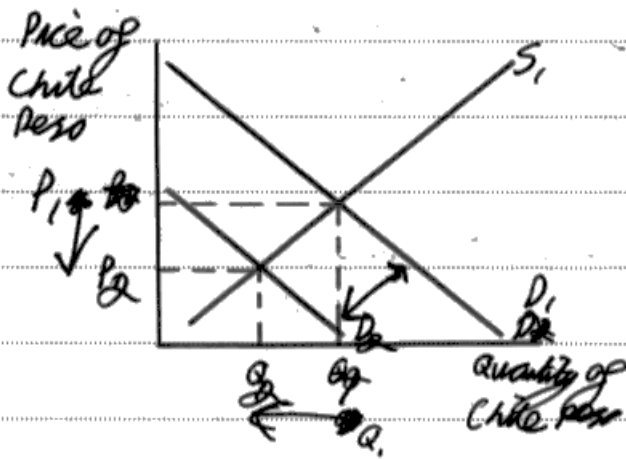
Using the data is worth up to 2 marks on the 5 mark questions, although there are other ways to gain application marks.

This answer uses a well-labelled diagram.

- (a) With reference to Figure 2, explain **one** likely reason for the change in the Chile peso exchange rate between 2013 and 2015.

(5)

Between 2013 and 2015, the Chile peso exchange rate fell from approximately \$0.22 USD per 100 to approximately \$0.15 USD per 100. One reason for this fall in value may have been reduced interest rates in Chile. This would have the effect of discouraging foreign investors from undertaking foreign portfolio investment by saving in Chilean banks. As demand for foreign currencies is falling, demand for the Chilean peso falls and its price falls.



The diagram above shows how demand for Chile peso fell from P_1 to P_2 and consequently the price of the peso fell from Q_1 to Q_2 .



ResultsPlus

Examiner Comments

K Reduced interest rates
 K Less saving by foreigners
 AP ER dropped
 AP Data reference
 AN Diagram

5/5



ResultsPlus

Examiner Tip

Using a diagram can save a good deal of writing, if relevant.

Many candidates had flawed analysis, for example in saying that slowing growth in China meant demand for copper fell, as in this example.

(a) With reference to Figure 2, explain **one** likely reason for the change in the Chile peso exchange rate between 2013 and 2015.

(5)

Between 2013 and 2015 you can see that the value of 100 Chile pesos has fallen from roughly 0.21 US dollars to 0.15 US dollars. This

could be for multiple reasons one of which
maybe the slow down of growth in China. Chile
relies on its exports of copper and China are
a large buyer of its copper. China's slowdown has
decreased their demand for Chilean copper and
so demand for Chilean pesos has fallen lowering
the value of their currency as seen.



ResultsPlus

Examiner Comments

K Reduced demand for X
K Due to China
AP ER dropped
AP Data reference
AN -

4/5: error on China slowdown



ResultsPlus

Examiner Tip

Falling *growth* means *levels* are rising more slowly.

Question 1 (b)

This question caused problems for some candidates, particularly the request for the **impact** of externalities, rather than the externalities themselves. Candidates also struggled to apply it to both communities **and** firms.

The negative production externality diagram was used effectively by many candidates, as a means of illustrating the impact of over-consumption and inefficiency in allocation of resources. Many candidates used examples from the extracts, such as "water shortages", to explain the negative externalities for communities and non-copper firms such as farms (mentioned in the extract in Ext B line 18) but they also recognised the potential for positive externalities from copper mining which scored marks for evaluation.

Evaluation was often very brief, as expected on an 8-mark question, but many candidates did not attempt to evaluate at all. Two small pieces of evaluation or one more developed point is all that is required. Positive externalities were frequently identified and used as evaluation of the negative externalities, and other evaluation centred on the increased length of time in Extract B (line 25) to get an environmental impact assessment. Another effective source of evaluation in the passage was the reference to the prolonged drought (Ext B, line 20) and the use of desalination plants (ibid) with a further development that the seawater is pumped 200 km with its own set of negative externalities.

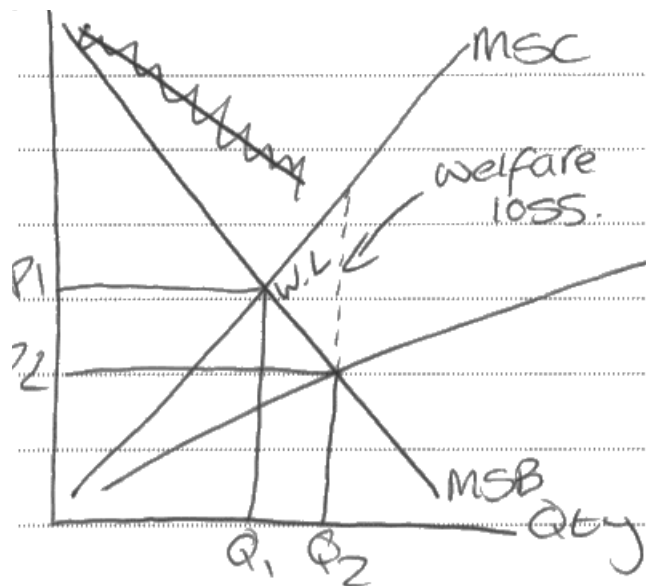
The reference to externalities encouraged many candidates to draw a diagram, and one page was therefore not enough for this 8-mark question. There was not the same problem for the equivalent question 2(b) where only a small handful went over one page.

Copper firms are not third parties in this context. They are first or second parties.

(b) Examine the likely impact of externalities of copper mining on firms and communities within Chile.

(8)

Externalities are something that affects third parties these can either be positive or negative.
Extract B states "causing water shortages in to keep their operations running". This is a negative externality in production.



The diagram shows how the mining firms are $(MSC - MPC)$ over-producing so are causing problems on communities due to increasing the shortage of water.

Firms only think about their private costs and not the external costs.

"wages are high and trade unions are powerful!"

This is stated in extract B showing how mining is increasing firms competition and therefore increasing their costs.

Overall copper mining ^{can be good for firms} is ~~having negative~~ as increased competition leads to increased productivity.



ResultsPlus

Examiner Comments

K Define
 K -
 AN Impact on community
 AN -
 AP Diagram
 AP Diagram
 EV -
 EV -
4/6 + 0/2 (4): last point isn't really external and no evaluation offered



ResultsPlus

Examiner Tip

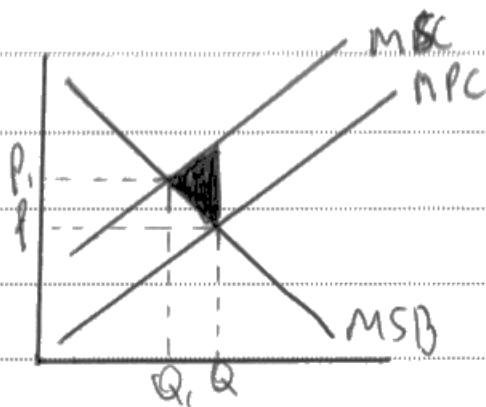
Distinguish between the externalities themselves (e.g. noise pollution) and the impact on third parties (e.g. lower standards of living).

Brief answers can be effective.

(b) Examine the likely impact of externalities of copper mining on firms and communities within Chile.

(8)

Externalities are third party effects away from the market transaction.



A negative externality copper mining produces a large amount of negative externalities due to its use of natural resources and the pollution it causes.

The pollution can affect the health of local communities and as a result it can make workers sick, causing local firms to not have a full workforce. This reduces their ability to work at full capacity which can hinder ~~quantity~~ supply meeting quantity demanded.

However, copper mining provides jobs to local communities which increases the disposable income and thus the standard of living. Which in turn should keep the workforce in the community healthy as they can afford necessities.



ResultsPlus
Examiner Comments

K Define
K Firms + Communities combined
AN Development
AN Development
AP Diagram
AP Diagram
EV XB
EV XB

6/6 + 2/2 (8): full marks



ResultsPlus
Examiner Comments

Diagrams are effective when asked for *impact*.

Question 1 (c)

Many candidates recognised this as a question on primary product dependency and were able to explain the potential problems of this for Chile. Some used theories and extended analysis to support their explanation.

The question discriminated effectively, for many answers did not discuss copper *dependency*, but gave a more microeconomic answer focused on the issues of low prices for copper mining firms rather than the problems for Chile as a whole as a result of dependency.

The better candidates employed relative PED and PES well for analysing volatile prices and were able to use these concepts in their evaluation in addition to the analysis. Higher-level responses included data to provide support for their argument. However, many responses failed to explain the volatility of hard commodity prices and some candidates were insufficiently focused on the context, employing unsuitable examples such as wheat or other soft commodities. The Prebisch Singer theory was also used to success for the better responses but it was rare to see it fully explained in terms of low YED for exports of primary products and high YED for imports. Answers, which did use this effectively, picked up evaluation marks by observing that copper has high YED. Other models were used including Lewis and Harrod-Domar, but these again were not always effectively employed or with the accuracy expected at this level.

The best answers focused directly on dependency and used economic theory, such as inelastic PED/PED, Prebisch-Singer and Dutch disease. Many candidates used the wine and salmon industries as counter-arguments to show that Chile is not over-dependent, while others discussed the benefits the Chilean government has reaped from high levels of tax income from copper mining, the low levels of debt and the sound financial sector.

Use of textbook theory and clear chains of reasoning are rewarded generously.

(c) Apart from externalities, discuss the problems that Chile faces as a result of dependency on copper mining.

(12)

Dependency on a product means that you rely on it to keep your economy going. Chile's dependency on copper mining has caused them many problems.

One of these is the price volatility that rely on such a primary commodity brings. As figure 1 shows copper prices have varied hugely between 2007 and 2015 with a low of around 1000 in 2008 to a high of around 9,000 in 2010. This volatility makes it hard for firms as they can't be sure of the price they get for

their products on a month to month basis. This leaves firms insecure and often reluctant to invest as they are unsure if ~~after~~ prices will fall making their investment not worthwhile. This therefore means firms are unlikely to be dynamically efficient.

However the effects of this problem may not be as large as more recently in the years 2012 to 2014 the price changes seem to be much less volatile than they were in previous years such as 2007 to 2011.

Another problem Chile faces is declining terms of trade due to their dependency on copper. This is because of the Prebisch Singer hypothesis that states primary products will increase in price less than other products over time due to having a ~~low~~ more inelastic income elasticity of demand figure. This is because when one's income rises we are more likely to buy finished products more rather than primary products. As a result of declining terms of trade people in Chile will be able to import ~~less than they could before~~ comparatively less than they could before meaning their standard of living is likely to decrease as they can't access as many goods and services as they previously did.

However this may be less of a problem for Chile compared to other countries as ~~extreme~~ it says they do also have "strengths in tourism and high tech products". These goods are

likely to have much more elastic income elasticities of demand and therefore the terms of trade may not worsen as much as anticipated.



ResultsPlus

Examiner Comments

KAA L3 (8):

L3, L3+ (Prebisch-Singer)

EV L2 (4)

sustained L2 L2

12/12



ResultsPlus

Examiner Tip

For a 12 mark question there are only 2 levels of evaluation, two brief points or one well made point can reach the top of Level 2 evaluation.

This answer starts well, using the data and referring to price volatility rather than just copper price falls.

(c) Apart from externalities, discuss the problems that Chile faces as a result of dependency on copper mining.

(12)

Primary product dependency refers to commodities taking up a percentage of its exports revenue, GDP or employment.

Extract A mentions commodities like copper taking up '20% of Chile's GDP' and 60% of its exports. ~~one third~~

One drawback would be price volatility occurring with the price of copper fluctuating. Figure one

Shows a huge drop in Copper price from \$8500 per tonne in 2008 to \$2600 in late 2008. This was due to a 'slowdown in China' which purchased 40% of global over-supply world's copper, combined with 'increased global over-supply'. Copper may have price inelastic supply as with a sharp drop in price, this means firms lose out with low prices sold.

Another drawback is the government receiving less tax revenue according to extract A. Chilean government income from copper exports had reached \$11.5 billion before copper prices began to fall. As now the prices have fallen, this means the government would receive less tax revenue.

However, with now the currency depreciating, it has helped Chile's GDP, for example boosting export industries outside mining sector like the wine industry. Therefore, despite the dependency on mining, with other industries increasing their goods sold overseas, this does not stop from Chile increasing their GDP.

Also, the governments are planning to place

a Progressive tax on the rich higher incomes.
For the higher incomeed people, this will not be
responsive as of the Price Change and
continue purchasing goods at a higher price
(with the tax) which leads to growth and
increase in tax revenue in the long run.



ResultsPlus

Examiner Comments

KAA L2 (4): Intro L2 - (what is the problem)
Tax revenue L2 (no reference to type of tax)

EV L1 (2): One paragraph at E2 (currency depreciation), no credit for top level
income tax, not sustained L2

6/12



ResultsPlus

Examiner Tip

The data should be used to link to a point made rather than be simply rewritten.
There must be a **discussion** of the *problems*.

Question 1 (d)

The essays in general proved problematic for the candidates – often demonstrating a lack of preparation for the structure and content of the new 25 mark essay. Consequently there were many long essays that were lists of L2/3 analysis and E2 evaluative comments. It was common to see candidates trying to make four points, with the chains of reasoning rushed through for each one, when clearly depth as well as breadth was key. A question that allows for so many policy approaches clearly necessitates some selection of salient points. Q1(d) was one that demonstrated this characteristic most frequently.

There were many abstract descriptions of different policies rather than two policies analysed in detail and showing a depth of understanding of the micro and macro effects. The few L4 responses managed to develop arguments that were focused on Chile and employed the data provided and their knowledge of economic concepts to evaluate the impacts of two policies that focused successfully on both growth and development. Most candidates gave only a brief acknowledgement that the question was on both growth and development and focused primarily on growth with the effect and development added as an afterthought. This gave rise to many L3 essays.

This was a popular question (chosen over 1(e) in a ratio of 3 to 1) in which candidates gained the highest mean across the four 25-mark essays by a factor of 2 marks. This is explained by the opportunity to use a large amount of first-year materials on macro policy, and there were strong indications in the passage regarding monetary, fiscal and supply side policies. Weaker answers used these policies in a generic way, and the stronger ones used the passages to apply these to development. Examples include reference to the 2-4% inflation target being missed and inflation reaching 5%, the relatively low public debt, the secure financial services sector, over-dependence issues, trade union power and 'education is key'. It was clearly better to use a few points well, with data from the extracts, rather than trying to use all the policies and examples that could be used. This answer has very little micro and is limited in its application to development rather than growth.

This answer has very little micro and is limited in its application to development rather than growth.

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

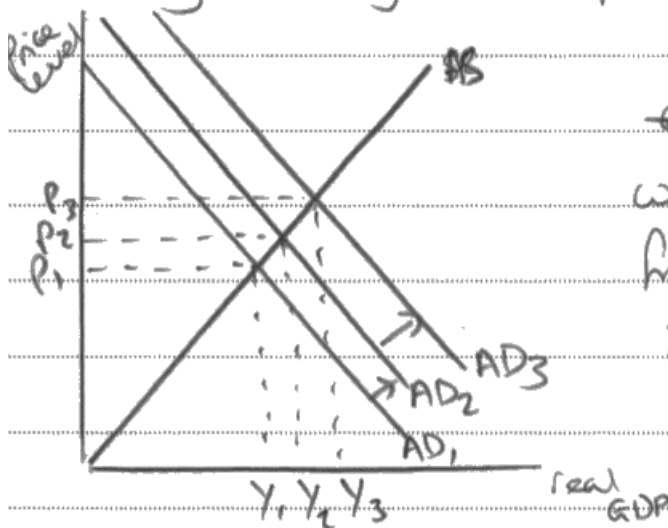
Chosen question number: **Question 1(d)** **Question 1(e)**

Write your answer here:

Economic growth is the increase in output throughout an economy. Policies that governments can use to stimulate economic growth include fiscal policy, monetary policy and supply-side policies.

Fiscal policy is the use of taxes and government

expenditure to either increase or decrease economic growth. If the Chilean government wanted to increase growth they would use expansionary fiscal policy, this involves lowering taxes ~~and~~ and increasing government spending. By decreasing taxes such as income tax, it would mean that people have more disposable income to spend in the economy, helping to boost aggregate demand by shifting it right from AD_1 to AD_2 and possibly causing a multiplier effect which would shift



it multiple times. However ~~an~~ an increase in demand will cause prices to increase from P_1 to P_2 to P_3 . This is demand-pull inflation and as Chile already has 5% inflation which is

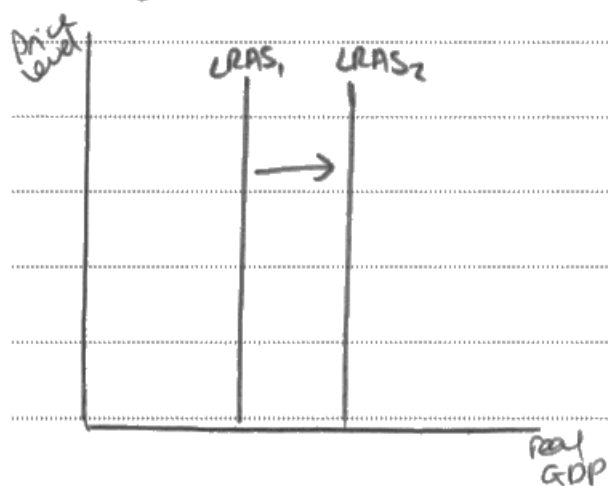
higher ~~that~~ than the central bank's target of 2-4% then using fiscal policy may not be a good way of stimulating economic growth and development. Lower taxes such as corporation tax would increase FDI as it ~~would~~ ^{would} be cheaper for foreign firms to set up here, boosting growth and employment rates.

Monetary policy is the use of interest rates and the money supply to ~~increase~~ change economic growth. One

way the government could use its monetary policy to stimulate growth is by lowering interest rates. By doing this it would reduce the incentive to save, leading to more consumer spending. It would also mean that firms could take out loans for cheaper, meaning it would be easier for them to expand e.g. hire more workers which would ~~not~~ reduce unemployment. However it depends on the size of the decrease in interest rates as a small ^{one} will have little impact. Firms could also invest in more machinery to increase productivity and efficiency, possibly leading to lower prices for the consumer as firms lower average variable costs.

The government could also use supply-side policies such as improving infrastructure in order to reduce unemployment. By improving infrastructure it would help solve geographical immobility of labour, meaning it would be easier for people to get jobs ^{therefore} reducing unemployment.

This would help shift the long run supply curve to the right from $LRAS_1$ to $LRAS_2$. Also by reducing unemployment, the government would therefore have to spend less on welfare, making it easier for them to reduce the deficit. However supply-side policies take a long time to have



an impact, meaning that it won't solve the problem now but instead in e.g 10 years time. Also its effectiveness depends on where the improvements in infrastructure are put because if they're put in places where it is not needed, then there will be little impact.

In conclusion, it can be seen that all three types of policy can be effective, fiscal can help to increase aggregate demand, however this can cause demand-pull inflation. Monetary policy can also increase AD but also make it easier for firms to expand, possibly helping to reduce unemployment. But it depends on the size of the decrease in interest rates as a small decrease will have little impact. Supply side policies will help increase LRAS and employment due to mobility but they take a long time to have any effect. Overall I would recommend

using a combination of monetary policy as it will have effects in the short run and also supply side policies such as improving infrastructure to help the long run supply. This will help stimulate economic growth and development in both the short and long run.



ResultsPlus

Examiner Comments

KAA L3 (11): L3, L3, L3 (no economic development)

EV L2 (5):

16/25: lack of economic development in KAA, so can't get to L4

E2, E1 -, E1+. E2 -, conclusion repeat then E2

EV L2 (5):

16/25: lack of economic development in KAA, so can't get to L4 E2, E1 -, E1+. E2 -, conclusion repeat then E2



ResultsPlus

Examiner Tip

Use micro and macro in the essays, in the sense that they are required in the question. In this case it was the impact of policies that was required, not micro and macro policies.

This answer is not always Level 4, and at times the judgement is thin, however there was enough there for sustained L4 and L3. The answer uses the data effectively throughout, which makes it stand out as a strong answer.

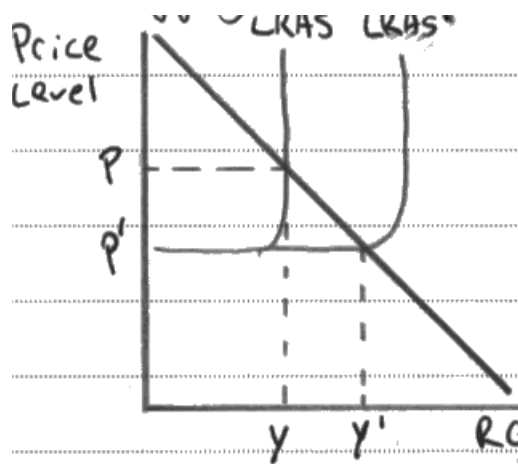
Policies growth + development

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

Chosen question number: **Question 1(d)** **Question 1(e)**

Write your answer here:

One policy that could be used by the Chilean government to increase growth and development could be investment into education and training. Initially, this government spending, should as a component of AD should increase AD and result in higher GDP to some extent (ceteris paribus). Spending into education and training, a supply side fiscal policy should result in increased aggregate supply.



increased aggregate supply due to staff with greater skills and qualifications. These staff should therefore ~~have~~ be more productive which ~~will~~ create the right shift

in LRAS to LRAS' and the growth in Real GDP ($Y - Y'$). In terms of development, this policy should increase Chile's MDI Score by improving education standards. Literacy rates therefore, should rise.

The effectiveness of spending on education on increasing economic growth is dependent

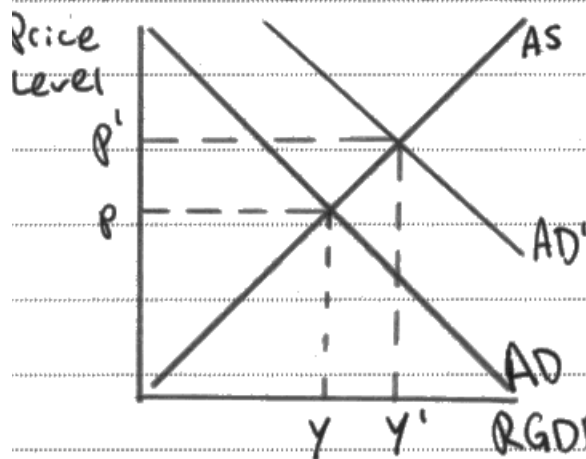
on levels of AD in an economy, a right shift in Chile's LRAS may have no effect if there is inadequate AD to result in economic growth. There are also great time lags associated with such a policy as the effects will not be felt for a generation.

Individual firms are likely to benefit from investment into education and training as the skills and qualifications of Chile's workforce will rise. ~~More~~ Higher skilled staff are likely to be more productive and possibly innovate, this may create new

manufacturing techniques' which will raise productivity further. Firms will therefore experience reductions in unit costs, enabling them to set lower prices and increase their competitiveness. Lower production costs for firms ~~and~~ ^{and lower} ~~create~~ prices will also increase international competitiveness which can ~~create~~ create a current account surplus.

However, government spending may not be suitable for Chile due to the government's current fiscal deficit of 3% of GDP, further spending would lead to greater government debt.

Demand side policies such as ~~lower~~ tax rates ~~and~~ changes and manipulating ~~the~~ interest rates could also be used. Lowering interest rates could be used to boost economic



growth. Lower interest rates would reduce the incentive to save money, particularly if set below inflation, this would result in a fall in the

marginal propensity to save. An increase in AD to AD' would be the primary effect with RGDP rising from Y to Y', thus increasing economic

growth.

Businesses will also benefit from this policy as loan repayments will become cheaper, creating more of an incentive to borrow money. This money may be used for investment into research and development which may result in new products which will create higher profits for these firms. Lower interest rates may also reduce loan repayment costs on existing variable rate loans which will reduce Average costs.

Demand side policies have limitations, such as

the risk of ^{demand-pull} inflation ~~as~~ as the price level rises from p to p' , this is almost inevitable in Chile due to its low levels of spare capacity. Inflation therefore will rise further above the 2-4% target range.

Demand side policies may also fail to improve inequality as only those in high positions in firms may benefit.

These policies should stimulate growth and development in Chile, however, they each have limitations. When used in conjunction, Chile's economy should prosper

Without witnessing high inflation due to the increased spare capacity created by supply side policies. Government revenue should also rise from taxation which should help finance the fiscal spending.



ResultsPlus

Examiner Comments

L4 (growth and dev), L3+ (generic), L4 (micro macro) so 15/16

EV L3 (9)

E3-, E2, E3- informed judgement so mid level 3 8/9 eval

23/25

KAA L (15)



ResultsPlus

Examiner Tip

Use the context data provided as the springboard for your answer. The passages were full of fiscal, monetary and supply side policies. The evaluation was also strongly indicated in the passages.

Question 1 (e)

1(e) was not as popular as 1(d). The better candidates were able to demonstrate their understanding of the micro and macro impacts of change in the level of investment in Chile using some degree of analysis from the models they had learned, and kept their response in context employing evidence to support their argument and evaluation. There was effective use of diagrammatic analysis and attempts at judgements, although clearly the skills here were more practised on the macro side.

In this question, it was important to focus on "changes in investment", not simply high or low investment. Better candidates were then able to explain the potential multiplier effects of changes in investment for Chile and the likely impacts on both short run and long run growth.

It is important to make the links in the chains of reasoning clear in the arguments. In this answer there are gaps in the chains.

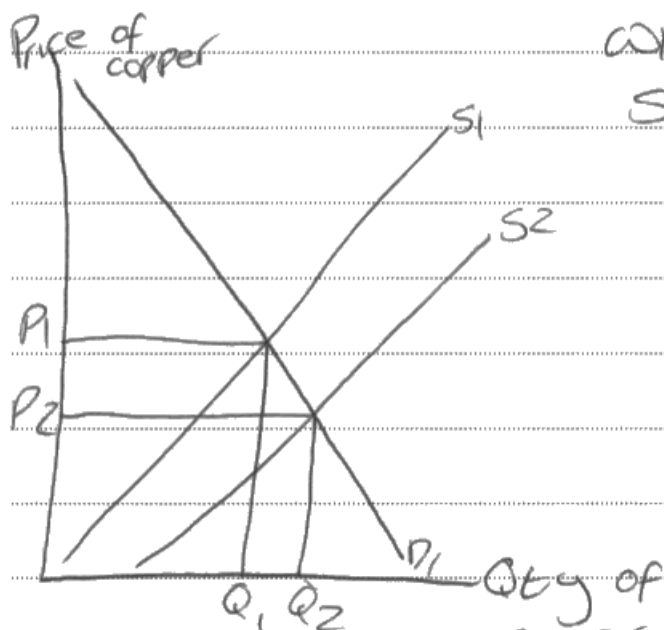
Indicate which question you are answering by marking a cross . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: **Question 1(d)** **Question 1(e)**

Write your answer here:

Investment is when a firm or government puts money into another firm something to increase output/GDP.

The microeconomic impacts of changes in the level of investment in Chile are if the level of investment is high this



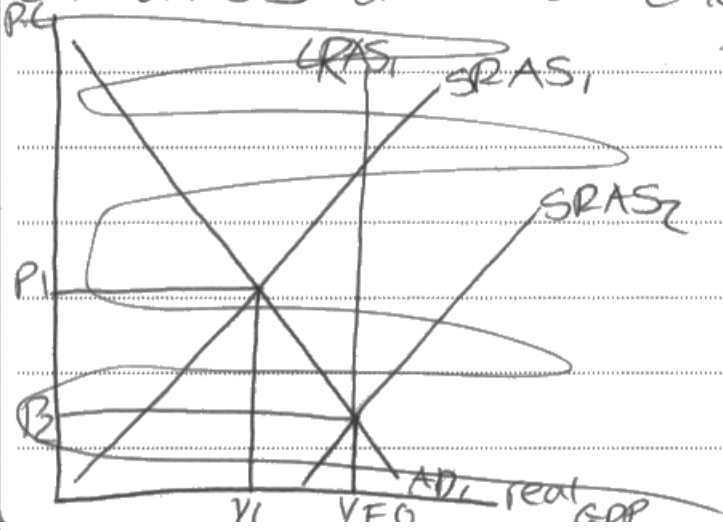
will increase supply as shown in the diagram from S_1 to S_2 this will bring down prices from P_1 to P_2 and increase Chile's output of copper from Q_1 to Q_2 . This is

w_1, w_2

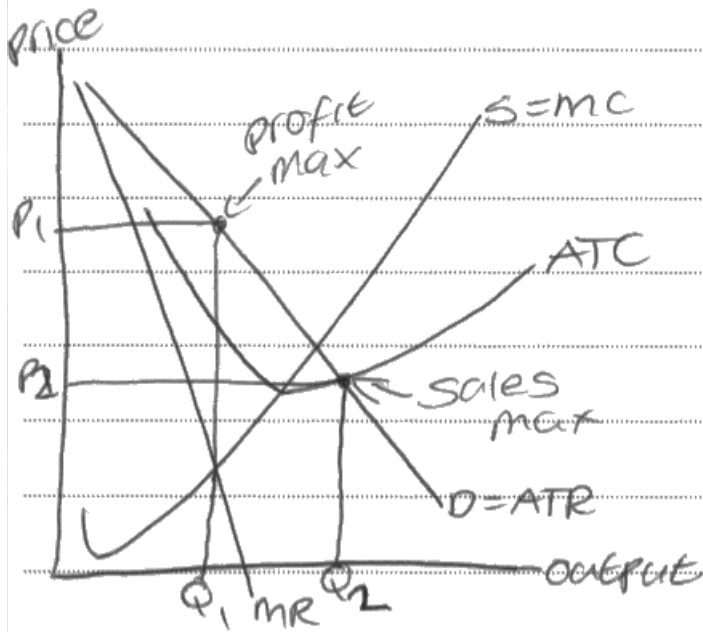
copper

good for

consumers due to cheaper prices and



This could also lower a firm's increasing a firm's profit.



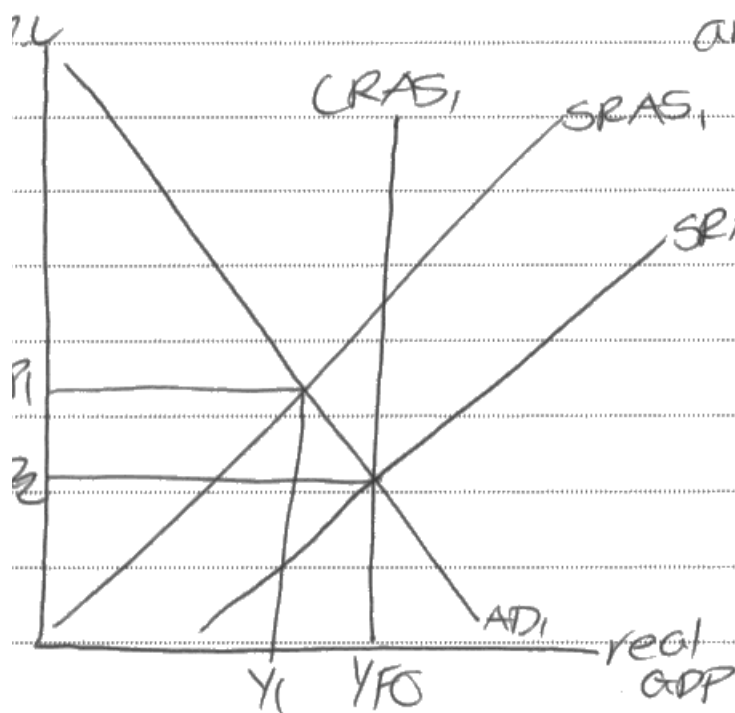
increased investment could lead to firms wanting to achieve profit max from P₁ to Q₁ to sales max from P₂ to Q₂. This is due to a firm receiving more money so

can therefore lower prices. This will make them more competitive as other firms might not be able to compete on price therefore pushing them out of the market structure and raising their barriers to entry. which could also raise workers productivity especially if the firm decides to rise

workers wages due to lower costs.

However this could be bad as it is now increasing the firms sunk costs ~~as~~ because if demand for copper falls firms still have to pay wages. Another drawback is if prices start to fall too much firms might not make super normal profit and might only make normal or sub normal.

The macroeconomic effects of investment are high investment will cause real GDP to increase due to



an increase in

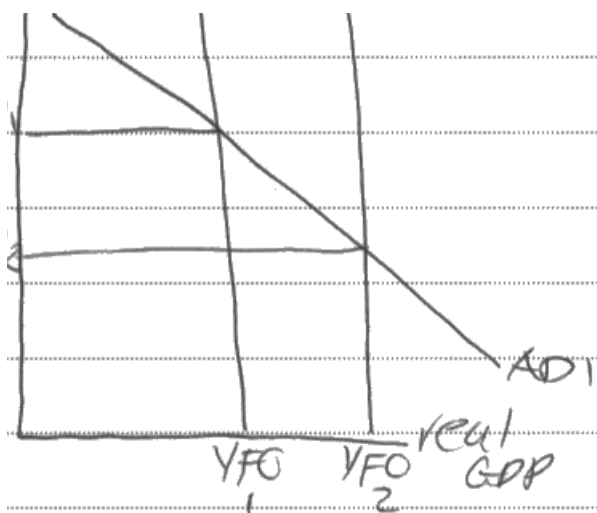
Short-run

aggregate supply as shown in the diagram opposite.

An increase in SRAS will lower the negative out-

put gap in an economy meaning all resources are being used to their full capacity at Y_{FO} . It could also lead to

potential economic



growth as investment could allow firms to grow by either increasing capital or labour.

This could therefore lower the

rate of Chile's inflation as shown from P_1 to P_2 . This will also boost

trade as ~~exports~~ their copper exports will now be cheaper ~~and~~ so ~~Chile can now buy more exports~~ foreign direct investment will increase ~~due to their firms~~

Extract A states "investment in education is the key to unlocking Chile's growth potential" if investment in education grows this will increase skills so people are suited to a varied jobs which will increase productivity and efficiency, meaning the government will be receiving more tax and spending less so could lower the budget deficit. Therefore increasing Chile's development as the government can now afford to invest more into other factors of their economy that aren't being efficient

However this depends on if the government has the money to invest into education in the first place and this will also ~~take~~ be a long-run investment so might cost more in the short run.



ResultsPlus

Examiner Comments

KAA L2 (9)

L2 (lack of COR), L2 (isolated knowledge), L2 (SRAS not LRAS), L3- (LRAS), L3 (applied education); hit L3 twice but on low end

EV L1 (3) E1, E1; sustained L2 12/25



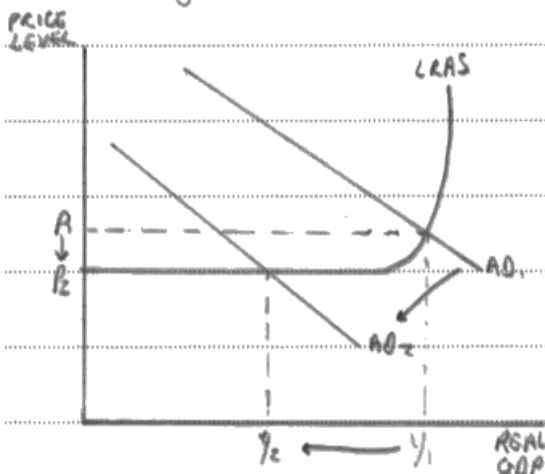
ResultsPlus

Examiner Tip

Make your answers contextual, and extend your chains of reasoning.

This is a good answer because it is based firmly in the context provided, that of falling levels of investment in Chile.

As extract A makes clear investment in Chile is falling due to 'uncertainty' over the Prime Ministers reforms.



A fall in the level of investment in Chile will lower aggregate demand (AD) in the economy. This is shown in the diagram with the shift from AD_1 to AD_2 . This is damaging to the Chilean economy as real

GDP falls from Y_1 to Y_2 . This may also cause a negative multiplier effect as a weakened economy might mean lower consumer spending, further lowering AD.

However, as shown on the diagram the fall in AD has lowered Chile's price level from P_1 to P_2 . This would make Chile's goods and services more internationally competitive, leading to a rise in the value of exports. This increase net exports, increasing AD and therefore, potentially, offsetting the fall in investment in the long run.

Another problem with a lack of investment per individual firms is the inability to benefit from economies of scale and more efficient production methods. By not investing in their firms,

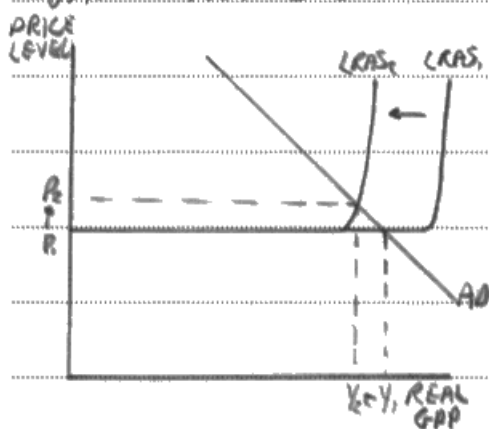
Chile could fall behind other countries in terms of efficiency. This could lower the market share of Chilean firms, lowering profits as demand shifts to cheaper alternatives.

However, it depends on the length of time they companies hold off on investment. If it is only a short break from investing, as it becomes apparent the Prime Ministers reforms aren't too damaging, this could prevent the loss of market share and demand.

Another microeconomic effect of low levels of investment could be an increase in dividends to share holders in Chile. As firms aren't spending as much investing in firms more money may be paid to share holders. This could lead to an increase

in disposable incomes for Chilean citizens, and overall a higher standard of living.

However, the likelihood is that in a country such as Chile inequality will be high, meaning only the wealthiest will own shares. This increase in dividends could increase income and wealth inequality because rather than investment boosting wages and employment, it simply goes to the ~~the~~ already wealthy share holders.



Low investment in an economy could lead to a fall in Chile's productive capacity. This fall ~~could cause cost push~~ from LRAS, to LRAS₂, could cause cost push inflation, from P₁

to P₂ on the price level. It may also cause a fall in real GDP from Y₁ to Y₂. Overall this is damaging to ~~the~~ Chilean's economy, *

In conclusion a fall in the level of investment is bad for Chile's economy. It may cause a fall in Real GDP due to the lower aggregate demand. ~~and~~ Furthermore, the long term negatives, with the economy losing capacity and firms losing efficiency, are even worse. Chile's government should make ~~efforts~~ to increase investment and protect the economy.



ResultsPlus

Examiner Comments

KAA L2 (9)

L2 (lack of COR), L2 (isolated knowledge), L2 (SRAS not LRAS), L3- (LRAS), L3 (applied education); hit L3 twice but on low end

EV L1 (3)

E1, E1; sustained L2

12/25



ResultsPlus

Examiner Tip

Use the context. Increases in investment are just not relevant in the context and therefore it is very hard to pick up the application marks without reading the data first.

Investment can include FDI.

Remember that the multiplier in reverse is larger if the leakages are small.

Question 2 (a)

Candidates that gave a clear diagram showing an output gap and referred to the situation evident in the UK as shown by Extract D scored well on this question. An extraordinarily large number drew the output gap incorrectly as a triangle bounded by the LRAS, SRAS and AD, or just drew a shift in AD or a static AD/AS without showing full or potential output.

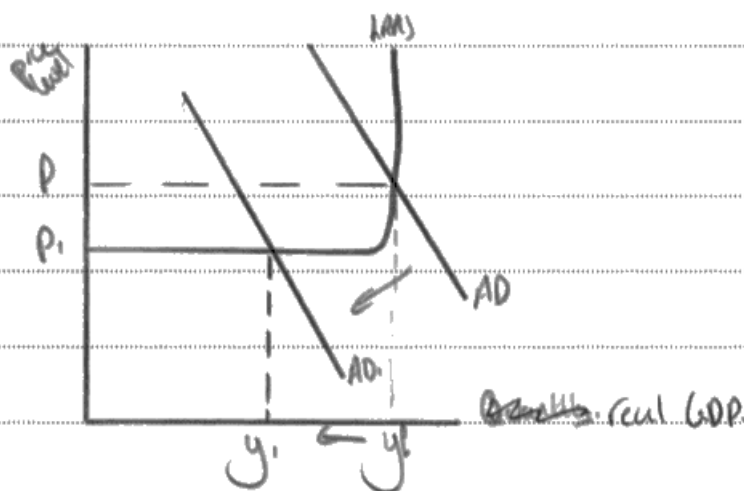
If candidates understood an output gap, most were able to define and show such a gap on an AD/AS diagram successfully. Many candidates failed to use the data at all and did not focus on the evidenced *negative* output gap.

This was a surprisingly common answer, providing theory only and no use of the data provided.

- (a) With reference to Extract D (line 18), explain the meaning of the term 'output gap'.
Use an aggregate demand and aggregate supply diagram in your answer.

(5)

An output gap can be both positive in the short run and negative in both the short and long run. It refers to when a country is working below full capacity or its 'productive potential'.



On the diagram above there is a negative output gap between y_1 and y_2 , possibly due to falls in AD (shown on the diagram for AD_1) due to falls in consumption or investment.



ResultsPlus
Examiner Comments

4/5 marks awarded. There is no sense of full capacity (AS) or reduced demand (AD) as evidenced in the passage.



ResultsPlus

Examiner Tip

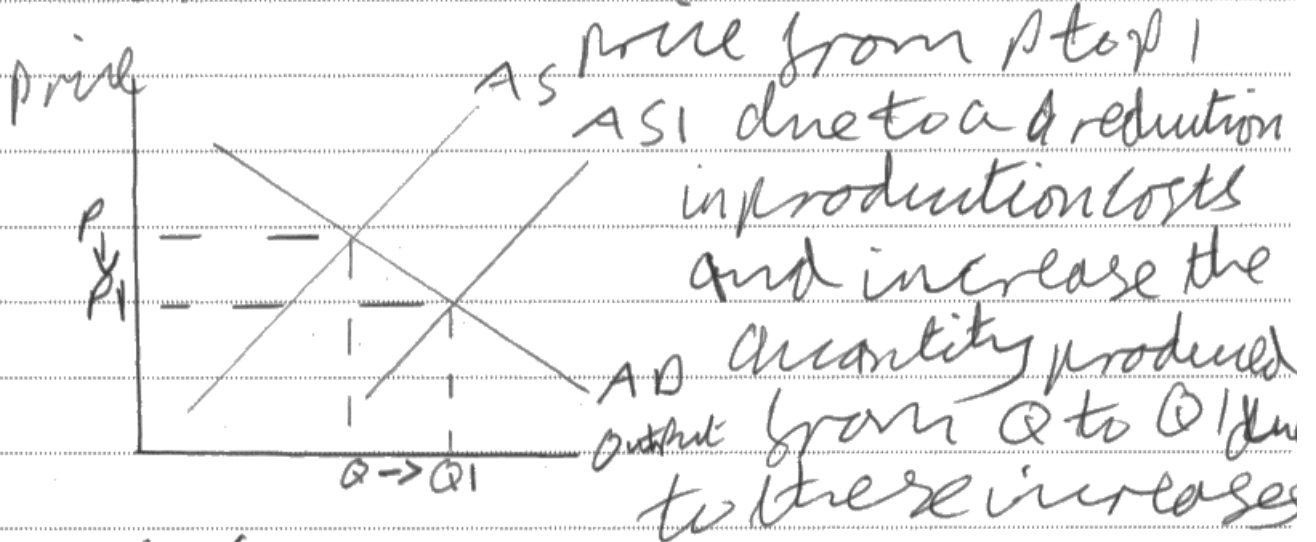
Use the data, especially in this question where the Extract and line are clearly indicated.

Another very common approach.

- (a) With reference to Extract D (line 18), explain the meaning of the term 'output gap'.
Use an aggregate demand and aggregate supply diagram in your answer.

(5)

but Output gap is the level of output produced using the factors of production, the output gap will be higher unless the factors of production are less more efficient and so this would increase the AS from AS to AS1. This would also reduce



in efficiency.



ResultsPlus

Examiner Comments

Zero marks are awarded here.



ResultsPlus

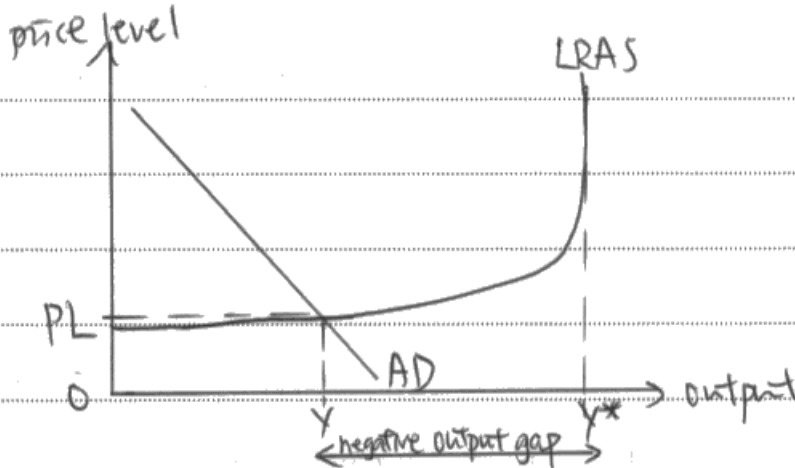
Examiner Tip

Show the output gap on the horizontal axis as the difference between potential and actual output (or similar).

This is a good example of how to earn full marks.

- (a) With reference to Extract D (line 18), explain the meaning of the term 'output gap'. Use an aggregate demand and aggregate supply diagram in your answer.

(5)



During recession since the onset of 07-08 financial crisis, there are reduced investment in both physical and intangible capital. This causes a fall in AD as I is one of the components. Also, immobility of labour and under-employment of skilled workers mean that AD is weak. The economy is operating below the potential capacity. There is a negative output gap.



ResultsPlus

Examiner Comments

2K: 2 clear explanation

1AN + 1AP: clear diagram showing the gap on the horizontal axis meeting the full employment level

1 AP: clear use of data - immobility of labour

5/5 marks



ResultsPlus

Examiner Tip

Short answers can be very effective. There is no need to fill all the space.

Question 2 (b)

This was the weakest exam question in the whole exam and one that candidates struggled with the most. Firstly, most candidates could not give an accurate definition of national debt as a percentage of GDP. Often candidates got confused with the relationship between national debt and fiscal deficit. Moreover, many candidates got confused with the current account and this appeared in a large number of responses. Those candidates who were able to interpret the data and relate it to their understanding of the government's budgetary issues were able to score highly.

A higher scoring answer has some sense of the link between the stock and flow concepts of debt and deficit, and a sense of the relationship between annual figures and cumulative figures. Those answers continuing to explain how deficits and debts are related as well as how the relationship may be less clearly dependent on the changes in GDP were likely to gain both marks for evaluation, although there were many ways to achieve these evaluation marks.

Many candidates identified an understanding of the fiscal deficit and the national debt as a proportion of GDP and used the figures to demonstrate this, and this would tend to earn 4/8 marks. Few candidates made the link clear, and most were confused by the observation that at times there was a direct relationship and at other times an indirect one, as indicated by the data.

This was a fairly typical answer, scoring 4/8. The first line is incorrect but there is enough later in the answer BOD to secure the knowledge marks.

(b) With reference to Figures 4 and 5 and your own knowledge, examine the relationship between the national debt as a proportion of GDP and the fiscal deficit.

(8)

A fiscal deficit is where the government's total expenditure is less than what it receives. National debt is ~~as~~ all previous fiscal deficits added up and is often a much larger figure because of that.

As figure 4 and 5 show the two have a direct relationship. One example of this is how from 2007 to 2009 the fiscal deficit sharply rose from -40 billion to nearly -160 billion national debt also increased sharply around 38% of GDP to over 60% of GDP. This kind of pattern is clear throughout the two figures showing the clear relationship between the two.

However one reason why you could say they may not be 100% related could be due to the interest earned on national debt. This interest increases the debt as a % of percentage of GDP but has nothing to do with the fiscal deficit.



ResultsPlus

Examiner Comments

K National debt (implicit definition) K - AN Some understanding of relationship between interest and debt (BOD) AN -AP Direct relationship
AP Data reference EVEV

4/6 + 0/2 (4): incorrect deficit definition and weak understanding of relationship (i.e. ½ for AN)



ResultsPlus

Examiner Tip

Read the data and observe the trends for an easy 2 application marks.

Use this response as a guide.

(b) With reference to Figures 4 and 5 and your own knowledge, examine the relationship between the national debt as a proportion of GDP and the fiscal deficit.

(8)

National debt as a proportion of GDP is the accumulation of all previous fiscal deficits that have occurred over the years within a country. The fiscal deficit meanwhile is the amount government spending exceeds government tax revenue within a year.

There is arguably a direct relationship between the fiscal deficit and national debt as national debt is

made up of cumulative fiscal deficits. When a country is running ~~is~~ a fiscal deficit, the national debt will likely increase. When the country alternatively is running a fiscal surplus, the national debt should fall. This is shown by the fact that in the years the UK government did run a surplus, 1997 to 2001, the size of the national debt decreased as a percentage of GDP from 40% to nearly 30%.

However, it cannot be argued the fiscal deficit is the only contributor to national debt as a proportion of GDP, the size of economic growth also matters. For example if the government ran a fiscal deficit one year but economic growth was very high, it ~~may~~ would cause national debt as a proportion of GDP to fall from the previous year.



ResultsPlus

Examiner Comments

K Define deficit
K Implicit debt definition
AN Deficit/surplus to debt
AN Gains two marks on mark scheme
AP Relationship (surplus and debt)
AP Data reference
EV Depends on growth (strong ev)
EV Development
6/6 + 2/2 (8)



ResultsPlus

Examiner Tip

National debt is nothing to do with the household or external debt of a country. It is a governmental issue.

Question 2 (c)

Many candidates recognised that the National Living Wage would increase firms' costs and lead to a rise in average and marginal costs. A good and challenging question which candidates attempted well. Most were able to give a correct diagram. Diagrams then showed a reduction in profits for the firm, but finding the new profit area lined up with the new MC=MR point was challenging for many candidates (although much easier for those who had reasoned that the change in costs was a fixed factor and therefore no change in MC).

This was often evaluated by arguing that any fall in profits may be offset by gains in productivity because of increased wages. Other excellent evaluation included the evidence that the wage increase was estimated to have a 0.3% impact on overall costs, does not affect the under-25s, depends on whether firms can pass on cost increases (often with consideration of the market power of firms and their profit levels), and effects on productivity also suggested in the data.

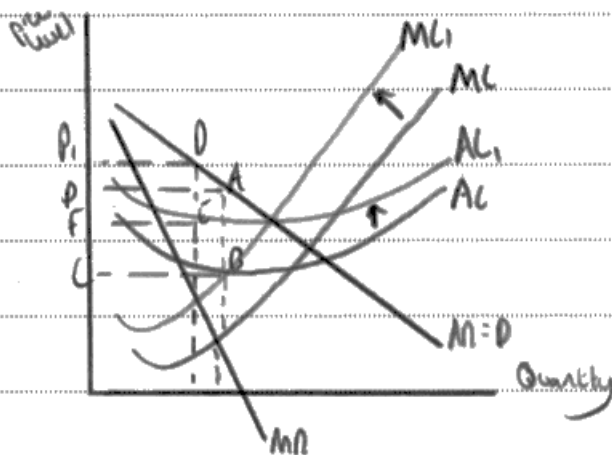
This was the question where candidates gave a large amount of evaluation to a very good standard. Candidates were able to respond well to this question perhaps as it resembled the previous syllabus Unit 3 questions. There was a tendency for the candidates to provide very long multiple evaluative points (a legacy from the 16 mark questions in 6EC03) and so perhaps spent too much time on this question.

Some candidates confused the concept of a mandatory NLW with the optional Living Wage proposed but not mandatory in some areas of the country. The passages made it clear that the NLW was a change in mandatory pay for the 25+ age group with a premium for the 25+ age group.

This diagram was one of very few that was drawn fully accurately.

- (c) Discuss the likely impact of the National Living Wage on the profitability of firms.
Use a cost and revenue diagram in your answer.

(12)



A national living wage for all employees 2) and over could lead to a rise in unit labour costs causing a rise in variable costs and consequently a rise

in both average cost curve from $AC-AC$ and marginal cost curve from $MC-MC$. This could cause a fall in the Supernormal profits made by bus companies as seen on the diagram from $MBC - P, DEF$.

However in the long run firms could use the remaining supernormal profits to become dynamically efficient leading to a rise in innovation and spending on research and development leading to a fall in production costs in the long run and therefore firms allowing them to see increases in demand could potentially return to past levels of Supernormal profits.

If firms are operating in perfectly competitive markets a rise in both MC and AC with a fall in income in labour costs will lead to both firms making a loss in the short run and if they aren't contributing to the average total costs then they may choose to shut down.

However if a firm is a capital intensive means of production then the introduction of a rational minimum wage may have a relatively low impact on AC and MC and therefore they will still be able to see normal profits in the short run.



ResultsPlus

Examiner Comments

KAA L3 (8):

strong KAA and diagram; no need for second KAA as diagram required

EV L2 (4):

sustained L2 ev



ResultsPlus

Examiner Tip

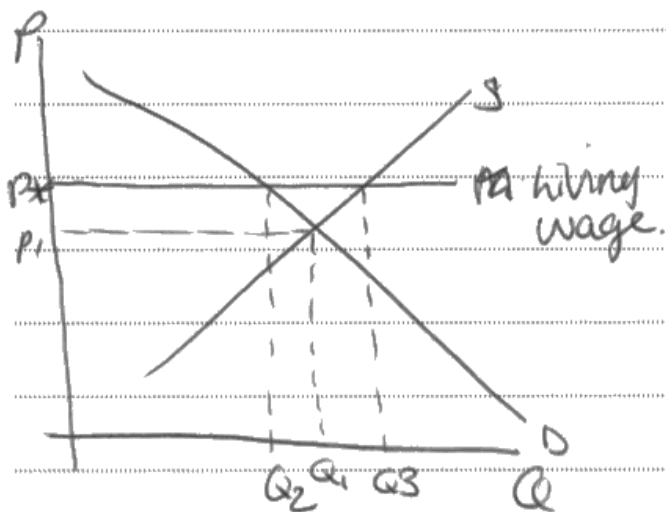
The handwriting on this script was illegible and it took some deciphering. Examiners must be able to read responses.

A common mistake for many candidates was to use a diagram showing the NLW on the labour market without any use of a cost and revenue diagram.

(c) Discuss the likely impact of the National Living Wage on the profitability of firms.
Use a cost and revenue diagram in your answer.

(12)

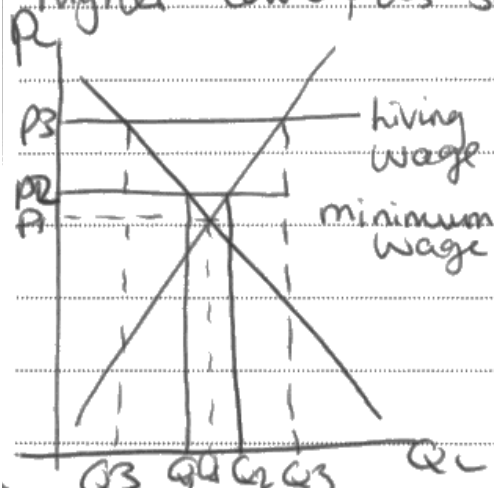
The likely impact of the NLW is that firms will experience a fall in profits. As shown in



the diagram, the NLW is set above the equilibrium point meaning, market forces cannot decide wage rates meaning firms are likely paying more than they want to for labour, which

results in an excess supply of labour.

This may make firms go elsewhere for labour such as those who are willing to work cash-in-hand. This may mean firms aren't accessing the skilled workers they once were employing. It could also mean, firms switch to those who are only subjective to the NLW, as their wage is ~~higher~~ lower, as shown on the diagram, NLW at



$P3Q3 \leftarrow$ NLW at $P2Q2$. This is stated in extract C, that demand will shift in favour of the under 25s. However this all depends on how big the NLW will be

If the change is not significant enough, for example it does not exceed the equilibrium point, then firms could benefit from this by lowering wages to the NLW. Or it could result in no effect or impact what so ever

Then again with the NLW comes an expected increase in productivity of +0.03% according to extract e. which could in the long run lead to higher profits due to increased output without employing extra resources.

However this is assuming ceteris paribus meaning that we assume no other variable changes. However, this is unlikely the case meaning it is possible for inflation to rise & then real incomes would not have changed & firms revenue may not change as they are able to charge more due to the higher average price levels.



ResultsPlus

Examiner Comments

KAA L2 (5):

effective KAA but no cost revenue diagram (CAP L2)

EV L2 (4): strong ev, sustained 9/12



ResultsPlus

Examiner Tip

Remember to be explicit about whether fixed or variable costs change, and apply this to firms not labour markets when requested.

Question 2 (d)

An effective question in terms of discrimination, on which well-prepared candidates scored well, responding to the single request rather than having to look at more than one variable as in 2(e). Candidates gave a good amount of evaluation with this question.

This was a question about the factors *affecting* competitiveness, not about the *effects* of improved competitiveness. However, the advantage of this was that it made it into a question based on Year 13 work, much more in line with 2(e) in terms of difficulty, and one in which the data on productivity and the Living Wage in the passage could be used to great effect. Many answers focused on the Brexit issue, which was clearly on the minds of many candidates, but many failed to realise that at the time of the exam the UK had not actually left the EU and therefore is unable to alter independently its level of protectionism. There were some stronger answers using the prospect of Brexit, and in particular, the effect of exchange rate changes since June 2016, but it should be advised that the data provided is the best place to start in choosing points to make. Better candidates recognised this and were able to discuss both price and non-price factors that impact on competitiveness and particularly refer to the "productivity puzzle" concerning the UK.

There was a tendency to provide far too many influences at not sufficient detail but generally there were good responses with evidence based analysis and evaluation of both micro and macro. However, as with the other essays, far too many candidates offer separate influences rather than observing how a micro influence is also linked to a macro influence making their essays longer and time consuming. These responses rarely achieve higher than L3 and are often confused, fragmented and with very limited chains of reasoning. Another frequent problem was misunderstanding of the data on productivity in Figure 6, and answers and evaluation which strayed into the effects rather than the causes of competitiveness. A frequent discussion was the effects of a low exchange rate, for example, with the Marshall-Lerner condition, but it was difficult to see how this related to the question.

This answer refers to effects rather than causes in paragraph 3 of the first page, but the benefit of doubt was given as the answer does return to causes several times. There is significant misunderstanding of the data in Figure 6 (very common) and the links made are not extended.

International competitiveness measures how the UK's products compare to other countries and who's are produced cheapest and best.

One factor that influences international competitiveness is labour productivity. As figure 6 shows the UK's productivity compared to Spain and France has fallen since the 2008 recession with us now being the least productive of all 3 nations. This lack of

Productivity ~~means~~ ~~with~~ ~~has~~ means firms in the UK ~~now~~ now will face higher production costs than other countries. This is because ~~each~~ they will have to employ more workers to produce the same amount of a product increasing their average cost. This microeconomic effect will have led to a reduction in international competitiveness as we now will need to charge higher prices than firms in other countries to make normal profits. This therefore makes our goods less appealing and less competitive.

One possible macro-economic effect on ~~our~~ the ~~UK's~~ UK's international competitiveness could be crowding out. This is where the more efficient private sector struggles due to a large public sector. This is the case in the UK as since the 2008 recession the government has tried to help boost the economy through large levels of public sector spending. This may result in resource crowding out as the private sector is unable to hire skilled workers due to them working in the public sector. For example ~~and~~ there is a shortage of skilled doctors in the private sector as many of them work for the NHS. This crowding out therefore means the private sector struggles to be as efficient as other countries leading to higher costs and less international competitiveness in the UK.

Overall I feel both these things have a large effect on our

international competitiveness so to try to counteract these issues the government should try to improve education and training in the UK. I think this would help because it would increase the skill set of workers in the country increasing the productivity levels but hopefully ~~it~~ also increase the volume of skilled workers in the country. An increase in the volume of skilled workers would mean both the private and public sector could thrive also increasing our international competitiveness.



ResultsPlus

Examiner Comments

KAA L2 (10):

L3 (weak data, some errors), L3 - (OMS)

EV L2 (3):

E2; not sustained

13/25



ResultsPlus

Examiner Tip

Read data based on an index very carefully. If countries are at 100 it does not mean they are all the same.

This starts as a narrow and repetitive response, but develops into strong L4 on the penultimate page, with some judgement at Level 3 on the final page.

A micro economic influence of on the UK's international competitiveness is the low labour productivity growth in the UK compared to many other countries. The UK has almost 15% lower labour productivity per head than

Spain. This low labour productivity growth has been put down to many factors combined including reduced investment in training of human capital and lack of research and development into better production methods, immobility of labour and too much bureaucracy in the employment of new ~~workers~~ workers.

Low labour productivity means that ^{there is} ~~there is~~ less output per worker per hour compared to that of their counterparts abroad.

This increases cost of production and means that UK goods cost more to produce so the prices will be higher meaning they are less internationally competitive than many other countries.

Lack of training and investment means that the workers aren't developing new skills and new technology to improve productivity of the workforce.

There is also lack of research and development ~~in~~ into new capital intensive methods that in the long run could ~~not~~ improve productivity.

and lower costs meaning the UK could become more internationally competitive.

There is also immobility of labour due to high levels of bureaucracy when employing new workers and also when firing employees. This means firms often hold onto low productivity workers instead of getting new, better employees. Because the cost of replacing employees is ~~too~~ too much and too time consuming. This means cost of production is high because the current workers are inefficient, so prices are higher and less internationally competitive. However

the availability of more efficient employees may be low if there is low unemployment and the economy is reaching full employment in which case there aren't really any options but to retain the less efficient workers. Furthermore there may have recently been huge amounts of spending on investment in education

and training but there are long time lags on the effects of it.

A macroeconomic influence on the UK's international competitiveness is the exchange rate and strength of the ~~£ relative to~~ pound relative to other currencies, especially with the UK's main trading partners.

If there is a strong pound then UK's exports are relatively more expensive ~~to~~ compared to other countries goods as the other countries ~~have~~ to have to give up more of their currency to pay for UK exports. This makes

the UK internationally uncompetitive. However following the decision to leave the EU in 2016 the value of the pound dropped significantly, and following its slight recovery it dropped again following the June 2017 general election. This meant a weaker pound and therefore ~~at~~ UK goods and exports became internationally more competitive ~~to~~ relative to other

country's exports. This is because the country's buying UK exports ~~are~~ don't have to give up as much of their currency to ~~buy the~~ buy UK exports.

The extent ~~that~~ to which this will improve UK's international competitiveness depends on whether the other countries that trade a lot with the UK then proceed to devalue their currency if they are operating under a fixed exchange rate to keep their ~~to go~~ exports ~~more~~ competitiveness or whether their currency depreciates due to shocks in their economy at the same time as in the UK.

Overall, the UK's international competitiveness ~~deper~~ is influenced by many factors. The influence of exchange rates and protectionism are predominantly ~~on~~ influences on the finished exports, whereas labour productivity is influences on the manufacturing of the

goods so a combination of increased investment in labour productivity and a relatively weak exchange rate will keep the ~~productivity~~ ~~of competitiveness~~ of the UK internationally competitive relative to other countries.

★ International competitiveness is the ability to compete on globally on price and non-price factors in ~~markets~~ global markets



ResultsPlus

Examiner Comments

KAA L4 (14):

L4-, repeat, L3 (too similar), L4

EV L3 (7): E2, E3-, E3- 21/25



ResultsPlus

Examiner Tip

Definitions are not required (unless specifically requested in a question) but they are a useful way to keep the answer focused on the question. This candidate left the definition until the end of the final page, but the understanding was clearly there throughout the whole answer.

Question 2 (e)

Candidates that recognised this as a question not about austerity but about the policy choice of cutting public expenditure rather than raising taxes scored well. They identified the pros and cons of cuts in public spending using theories such as crowding out and Lorenz curves and then went on to discuss the pros and cons of raising taxes using incentive and investment arguments.

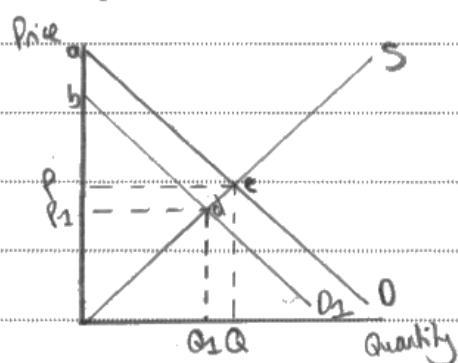
The question was quite complex and therefore many responses were shoehorned into a set number of points, and some responses had a fragmented but complex structure. Many responses could not stretch beyond L3, and that was with a generous interpretation of L3. Better responses clearly identified the policy instrument of reduced G and considered the effect of that policy instrument on an economic factor or macroeconomic objective. There was a lack of context in most responses. The best answers disaggregated tax changes, for example those with progressive and those with regressive effects, and discussed the relative size of the multiplier when taxes or spending is changed. Other exceptionally good answers looked at types of government spending and compared the micro or macro impact rather than the effects in general.

Weaker answers focused either solely on tax, on more commonly only on the adverse effects of cutting public expenditure, limiting the ability to earn Level 4. Many candidates assumed AD would fall without any rationale for reasons why cutting G would have a larger impact on AD than a rise in T. Many answers took up issues about underfunding of the NHS, the police and social housing, but the main cuts discussed were those in education. Examiners were looking for economic analysis rather than political ones.

Some answers confused public expenditure with consumption by the public.

The Fiscal policy is when the Government spending and taxes are considered when wanting to either boost or reduce economic growth.

One ^{microeconomic} ~~micro~~ effect of cutting public expenditure rather than raising taxes is that there will be ~~an increase in production~~ ~~and~~ reduction in consumer surplus. This is because there will be less incentive to buy goods and services due to them rising in price. Therefore consumer surplus will reduce from



from p_{ae} to p_{1bd} , reducing price from p to p_1 and reducing quantity from q to Q_1 .

If the government would have raised taxes, then this could have caused

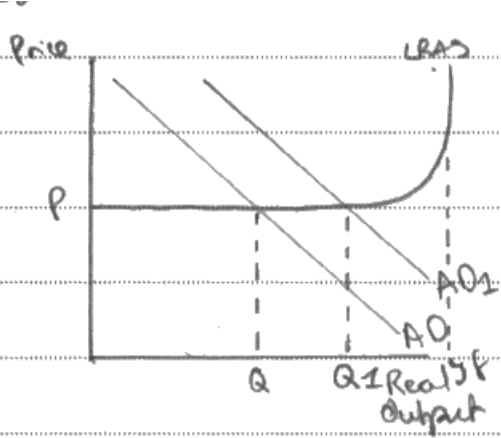
a large decrease in demand as regressive taxes would be a large percentage of disposable income for low-income earners. This could have caused an increase in tax avoidance, which would decrease

the government's tax revenue, meaning they have less finance available ~~and so~~ to use to invest with. However, one factor that this depends on is the availability of substitute goods.

As the government may reduce spending on education or

healthcare, there are very few substitutes available for ~~consumer~~ education, such as home tuition. This can be more costly for consumers, meaning they may have a lower quality of education.

One macroeconomic effect of cutting public expenditure rather than raising taxes is that there would be an increase in economic growth. As the government would reduce public expenditure, this would improve the macroeconomic objective of having a balanced government budget. Furthermore, they would have more money for investment in things such as improving infrastructure or providing subsidies to firms in order for them to lower their production costs. This would mean that they would have an incentive to spend more, meaning there would be an increase in government spending. As this is a component of aggregate demand, this would boost aggregate demand and shift AD to the right, with price remaining



The same but ~~greater~~ real output, increasing from Q to Q_1 . This would cause the economy to get closer to full employment and a reduction in spare capacity.

However, one factor that this depends on is the current level of economic growth. ~~If there is~~ As the government is aiming to reduce the fiscal deficit, which is currently at around -£20 billion, then they will need to increase economic growth in order for this to improve, and for their national debt to reduce as a percentage of GDP.

Overall, cutting public expenditure would be a more beneficial method to reduce the fiscal deficit ~~that~~ than to raise taxes. This is because labour productivity would improve due to firms becoming more efficient and increasing their ~~output~~ as they are spread across their fixed costs.



ResultsPlus
Examiner Comments

KAA L1 (4):
Focus on consumer spending, L2 (tax), contradictory argument, L1,
EV L2 (2): E1, E16/25



ResultsPlus
Examiner Tip

Ensure that arguments are not contradictory. The examiner is looking for extended chains of logic in your answer.

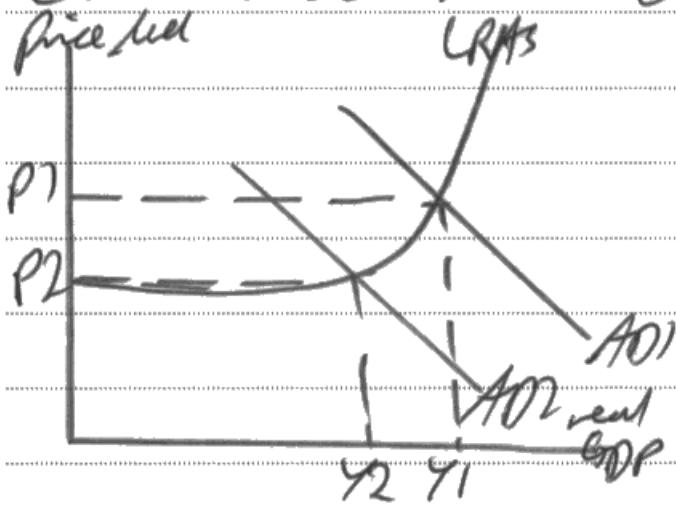
This response does actually answer the question, comparing cuts with government spending with the raising of taxes, but there are many questions left in the analysis.

Instead of increasing tax rates, reducing public expenditure may be better for the economy as it doesn't reduce incentive to work for workers, which ~~would be~~ would be caused by an increase in income tax. Therefore

it will be better as we will ~~be~~ have more incentive to work, and the work harder.

A decrease in public expenditure can mean a decrease in spending on welfare, public schools, public hospitals etc. This would really impact the poor as compared to the rich as they will be affected as they go to private schools. This will increase inequality in the UK economy and ~~can~~ will increase relative poverty.

A decrease in public expenditure
could decrease aggregate demand.



This causes deflation
from $P1$ to $P2$ and
negative actual
economic
growth.

Furthermore, this could lead to
a negative multiplier effect if there
are cuts to the NHS, as there are likely to
be redundancies, reducing incomes and
therefore reducing consumer spending which

will further reduce aggregate demand.

Also, not raising taxes ~~could~~ wouldn't
cause a fall in foreign direct investment,
although evidence of reduced government
spending may deter possible investors from
our country to another. This could reduce
the possibility of jobs being created.

OB

~~Reducing public expenditure will directly reduce the level of debt, as shown in figures 4 and 5, although there was a reduction in the level of government spending (1997-2000), there was~~

Public expenditure can directly reduce the fiscal deficit, ~~but~~ where taxation is not always direct as some people ~~can~~ avoid tax, it can be seen as a safer way of reducing the deficit.

Overall, I would say that reducing the ~~def~~ fiscal deficit through reducing public expenditure is probably the best way to reduce the deficit, ~~with~~ without many micro or macroeconomic problems.

It doesn't affect the incentive of workers like taxes can do. I do think that it would be more beneficial if the cuts to spending weren't on public services such as the NHS or education, it would possibly be best to cut spending on tourism, at least in the short term anyway.



ResultsPlus

Examiner Comments

KAA L3 (11):

L3, L3 (both focused on Q), L3 (developed but only G), L3 (tax); no data

EV L2 (6)

E2, E3; some judgement but not sustained E3 so top E2

17/25



ResultsPlus

Examiner Tip

Use the data. Give extended chains of reasoning. Fewer strongly argued points score better than lists of undeveloped factors.

Section A

Some candidates did not indicate whether they were answering question (d) or (e), which meant that they were diverted to a pool and marked in the usual way. The candidates were only jeopardised for failing to indicate which question was chosen when the answer bore no relation to either question. Most of the answers were clearly responding to the chosen question, but a fair number were left totally blank.

Section B

Some candidates did not indicate whether they were answering question (d) or (e), which meant that they were diverted to a pool and marked in the usual way. The candidates were only jeopardised for failing to indicate which question was chosen when the answer bore no relation to either question. Most of the answers were clearly responding to the chosen question, but a fair number were left totally blank.

Paper Summary

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

- There were some very weak responses, in particular a 'saw-tooth' effect was observed, reflecting a very low performance as candidates mis-timed their exams. There were several cases, on this and on Papers 1 and 2, where the final 25-mark essay was not attempted.
- The fact that 6 of the questions were compulsory caused problems – some candidates had not learned the concept of the output gap, and a significant minority could not distinguish a deficit from a debt, and made the incorrect induction that the debt must be external debt.
- Similarly, evaluation was usually once step beyond generic with very few examples of evidence-based evaluation or discussion of the probability of outcomes. Concepts were often poorly understood with few responses demonstrating an ability to apply those concepts outside of a narrow range of circumstances.
- Many candidates appeared to have attained a broad level of knowledge but only achieved a shallow level of understanding.
- The data provided could have been employed efficaciously, despite the volume and complexity in some cases.
- While there were comments that there was not enough time to read all the data, it was not a problem for all candidates, and those who had practised using the two sample papers had benefited from this.
- Many candidates used the 'one minute one mark' rule, which does seem to be effective, allowing the candidates ten minutes to read and think carefully about each Section of the paper before attempting to answer the questions.
- The main weakness is that candidates write too much on the 5 and 8 mark questions. In an attempt to reduce this tendency to spend too long on the lower-mark questions, the number of lines to write was limited, although on the 8 mark questions (in particular 1(b) where a diagram could have been used) this meant that many candidates went onto extra paper.

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>

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL.

Ofqual
.....



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

