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Edexcel

Examiners' Report
Principal Examiner Feedback

November 2021

Pearson Edexcel GCE
In Economics A (9EC0)
Paper 2: The National and Global Economy

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Introduction

This exam series was designed as an opportunity for candidates to take A Level exams after the Summer 2021 exam series was cancelled and replaced with a system of Centre Assessed Grades. As such there was a very small number of candidates and the quality of candidates' answers may well have been affected by the disruption, they are likely to have experienced to their learning.

Section A:

In this section, a significant majority of candidates were able to answer the multiple-choice questions correctly. In question 1b candidates were required to use the multiplier formula, and this was generally answered correctly- where candidates were unable to answer this question, it seemed to be usually caused by a lack of knowledge of the formula. Question 1c caused issues for some candidates who didn't read the question properly- they were expected to explain the link between the fiscal deficit and national debt, i.e. that fiscal deficits mean the national debt will keep growing- some answers didn't focus clearly on this.

Question 2b was well-answered by candidates who knew what a classical long-run aggregate supply curve should look like, and many made good use of their ability to draw an AD/AS diagram to answer this question- although it could also be answered in words. Candidates who discussed the wealth effect in question 2c tended to achieve the full 2 marks, the problem for several candidates was that they discussed the impact on the housing market, rather than on aggregate demand.

Question 3b required candidates to explain the link between exchange rates and the current account. There were many good answers here that explained this link clearly, such as the example below. Some good answers lacked application, missing out on 1 of the marks.

6
The value of the pound fell from £1.35 to 1.25. As a result of the weaker currency, imports become more expensive and exports become cheaper. ~~the~~ Therefore, more exports are being bought. The Balance of Payments records international transactions of the UK with the other country and is composed of (exports - imports). As a result of ~~the~~ more exports being bought, the balance of payments improves.

Question 4a focuses on the impact on aggregate supply of the High Speed 2 rail link, and most candidates could explain that aggregate supply would increase and offer some explanation as to why. However, candidates often struggled to achieve full marks as they couldn't explain clearly the link in terms of productivity/efficiency and how this would increase the aggregate supply. The answer below did a good job of this and was awarded full marks.

This with project will improve the infrastructure of the UK and will lead to lower ~~fast~~ journey times. This should lower costs of transportation and this would lead to an increase in aggregate supply in the UK. This would increase the speed at which goods are transported and make business with the north easier. This would increase aggregate supply in the long run. This would ~~increase~~ increase output and economic growth.

In question 5b most candidates could correctly calculate percentage change, but in 5c many candidates struggled to explain why Purchasing Power Parities are used, with many not understanding what the term means and some attempting a partial but vague explanation. The answer below demonstrates how to achieve full marks on this question.

Purchasing power parities are used because they are useful when comparing the purchasing power of two countries, taking into account the value of their currency. They can be used to compare prices of baskets of goods at different exchange rates allowing people to calculate the stronger currency with more purchasing power.

Section B:

Question 6a asked candidates to calculate the change in the level of total aid funding using the data provided. There are a number of steps required to work out the answer, and it is always advisable that candidates write out their working to help them avoid making mistakes. The main problem that a number of candidates ran into with this question was not reading the question properly- it asks to calculate the change in the level of total aid funding, but a significant number of candidates decided to calculate the percentage change between the two figures, even though this wasn't mentioned anywhere in the question.

In question 6b candidates are asked **for 'two likely benefits'**. As with all 8-mark questions, there are 2 marks for each of the four assessment objectives- knowledge, application, analysis, and evaluation. It is important that candidates remember this when answering 8-mark questions such as this- often very good answers don't achieve full marks because they don't include any application or evaluation.

From question 6c onwards, all the questions are marked using the **levels mark schemes**, so examiners are focusing on the quality of the argument as a whole and not looking for specific bits of knowledge, application, etc. In this question in particular, candidates were asked about the likely **impact** on the Rwandan economy of the cut in aid funding. Candidates took this question in many different ways, depending on if they discussed aid funding that went directly to people, businesses, or the government, but all were relevant, and led to some very interesting answers. The answer below scored highly on this question, discussing clearly some impacts and offering some evaluation of them

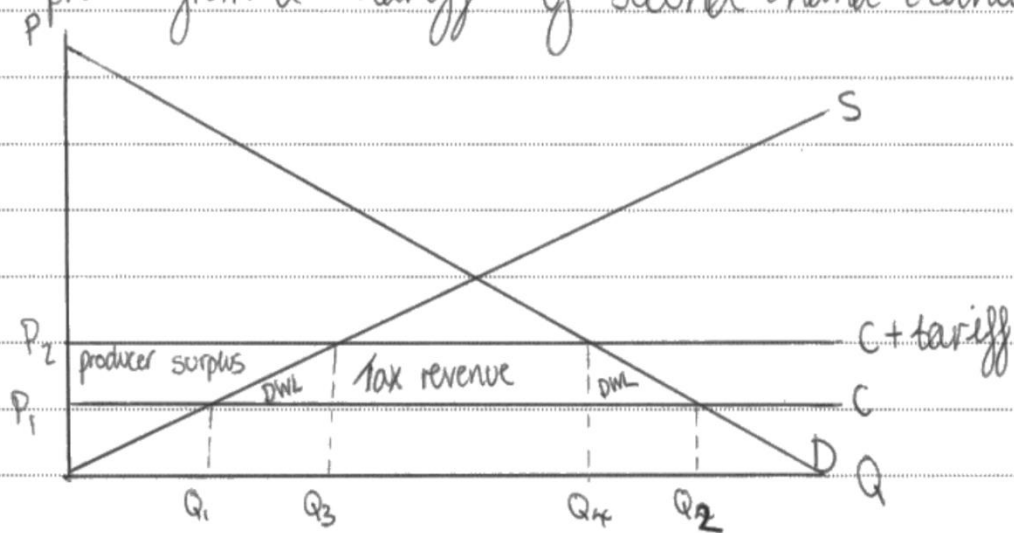
A decrease in aid Between 2017 and 2018 - from a approximately 103 US dollars per capita to 91 US dollars per capita, respectively - can have a knock on effect on absolute poverty. Rwanda is a country that depends heavily on aid so this cut in aid may drive poverty rates up causing living standards in Rwanda to fall. Many people will have insufficient funds to money to fund for basic needs such as clothing, clean water and healthcare. This would cause Rwanda's economy to shrink.

Although, a decrease in aid may benefit Rwanda if it pushes them to ~~beco~~ the economy to become more efficient. Aid creates a dependency culture whereby an economy/government makes no effort to stimulate independent growth and development. Therefore, it may force the Rwandan government to achieve macroeconomic objectives, for example greater economic growth, low unemployment and a balanced government budget.

Another likely impact is a fall in economic growth. Aid helps to fill the savings gap. Savings provide the funds for economic growth and development which Rwanda may struggle find independently. With a reduction in aid this may lead to a fall in spending on infrastructure projects that aim to improve ~~economic~~ international competitiveness, causing regressive effects on the economy. However it may be argued that this fall in aid will have ~~little~~ a limited impact as aid may already be lost due to corruption of the government.

Question 6d is focused on tariffs and asks candidates to draw an appropriate diagram. It was pleasing to see that the majority of candidates were able to correctly draw a diagram and use it to assist their argument explaining what the impact of the increase in tariffs would be. Where a significant number of candidates struggled was in not reading the question carefully or perhaps not fully understanding the extract. It is important to distinguish between second-hand clothes that are being imported and new clothing being produced by domestic factories. It did get a bit confusing sometimes reading about factories in Rwanda producing second-hand clothes. The answer below has done a very good job of answering this question and scored full marks.

Rwandan consumers are likely to see an increase in price from a tariff of second hand clothes



Consumers will see a increase in price from P_1 to P_2 . The affect of this tariff on consumers ~~will be~~ on consumers will lead to decrease in demand for imported second hand goods - clothes. The unseen externalities of this tariff may be a shadow market forming to ensure the demand is met. The impact of the shadow market will be a decrease in tax revenue and uncertainty on the quality of products. The Consumers will also have to dead-weight welfare loss, which is the consumer loss when a market is not producing at equilibrium. This is shown as the area of $\triangle B1$ DWL in the graph.

However, consumers may benefit through increased levels of public expenditure. The tax revenue, as misstated in the diagram, will hopefully be re-invested by the government in public goods like healthcare and transport. This will increase production levels in an economy, increasing real income levels.

The producers may have increased demand for their product domestically. As the price of imported demand for imported goods fall from $Q_1 - Q_2$ to $Q_3 - Q_4$, domestic producers will aim to fill the new consumer surplus of $Q_1 - Q_3$, and $Q_4 - Q_2$. Therefore the producers are likely to see an increase in demand, leading to increased levels of supernormal profit. However, as shown in figure Extract A, 'threatened suspension of tariff free access' and retaliation policies may be implemented. A trade war may lead to an increase in the cost of production for producers, as raw materials are taxed more heavily. This suggests an increase in price, leading to decreased levels of quantity demanded.

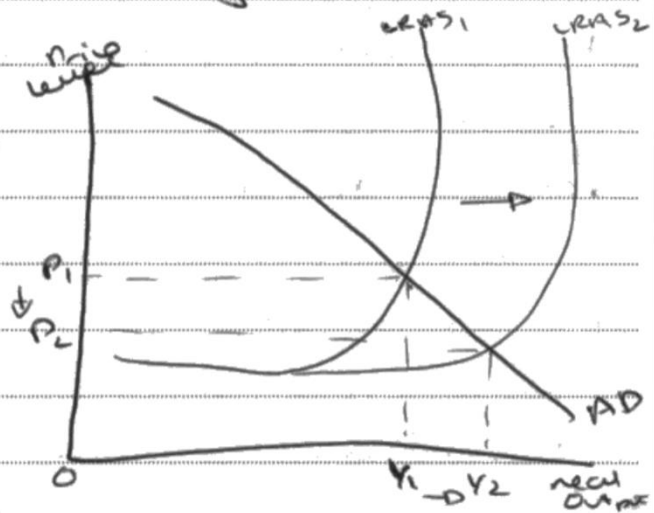
Question 6e was a broad, open question that gave candidates the chance to discuss any relevant policies that the Rwandan government could use, and led to many different ideas being discussed- such as improving infrastructure to make it easier to export, improved education to provide a more skilled workforce, or subsidies to support manufacturing firms. Candidates needed to ensure they explained their chosen policies well with good use of step-by-step chains of argument to access the higher levels, along with well-argued evaluation that clearly criticises their chosen policies. Better answers also ensured that the points were in context and focused on Rwanda's manufacturing industries. The answer below scored highly on this question, with good KAA and EV.

~~Another~~ Policy that the Government could use is to subsidize exporting firms. This will help reduce their costs and perhaps allow them to reduce their prices to become more competitive. This would ~~not~~ increase the revenue they receive which as mentioned before, should ~~be~~ lead to higher profits as they are able to respond quickly due to the spare capacity. The firms could also invest some of these profits into the development of new products making them even more internationally competitive.

Subsidies however, do have their downsides. Some of these manufacturing firms may become reliant on these subsidies and may not invest their profits into developing more efficient production methods. If the subsidy

was removed, the firm's costs would rise again forcing them to increase their prices and become uncompetitive again. Another downside to subsidies is the huge opportunity cost for the government. Subsidies can become very expensive and therefore raises questions about how the money could have been used more effectively elsewhere.

Another policy that government could use is the supply side policy of investment in infrastructure. By developing roads and airports etc, the transport costs on time for



all businesses would fall. This would in turn lead to an increase in the productive potential of the economy shown by the shift in LRAS. As these manufacturing companies become more producing, they would benefit

from increasing profits which could be reinvested into the business. Furthermore, the increase in real output (y_1 to y_2) may also help increase consumer confidence and purchasing power in Rwanda which could further increase the revenues that these firms receive.

However, the major downside to investment in infrastructure is that it is extremely expensive and time consuming. It may take several years for good quality roads to be developed and the huge cost may have to be financed by higher taxes which would of course be worse for manufacturing companies as their profits would fall. Furthermore, Government spending is often seen as inefficient, especially investment in infrastructure. The Government therefore may be spending a lot more on these development ~~projects~~ projects than they have to

which further increases the opportunity cost.

Section C:

The number of candidates choosing each question was split almost completely evenly, and the mean mark was slightly higher on question 7.

For both questions, examiners are looking for well-argued KAA and EV points- as mentioned earlier, the quality of candidates' chains of argument and explaining in a detailed step-by-step way is crucial to reaching the higher levels.

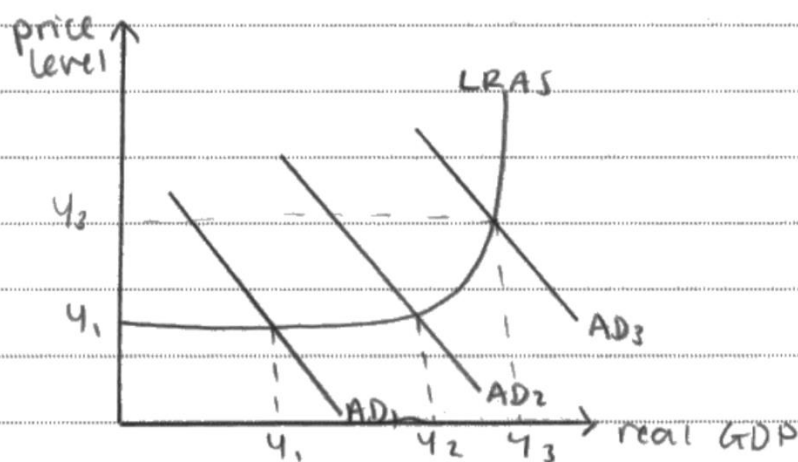
Focusing on question 7, good answers could clearly explain what quantitative easing is and how it works, whilst weaker ones tended to have some grasp of the concept and how it would affect aggregate demand, but couldn't fully develop their arguments. The excerpt from a candidate's answer below illustrates how to do this well.

Quantitative easing is an expansionary monetary policy. This is when central banks create new money electronically to buy financial assets from high street banks. This increases the money supply of high street banks, so that

they can lend more to consumers and firms.

A recession occurs when an economy has had two or more consecutive quarters of negative economic growth. This means governments and central banks will ~~implement~~ ^{implement} ~~poor~~ fiscal and monetary policies to boost increase aggregate demand, and boost economic growth.

One reason quantitative easing is effective during a recession is ~~that~~ ^{it} because it increases the money supply of high street banks. This allows them to lend more to consumers and firms. This will mean consumers will have more disposable income and firms will have more money to invest. Therefore, consumption and investment will rise, causing an increase in aggregate demand as demonstrated in the following diagram.



Candidates perhaps found question 8 slightly harder because a number of answers failed to focus on the **trade-offs** between environmental protection and other macroeconomic objectives. Some answers instead of focusing on this discussed the importance of protecting the environment and how it could help the economy, rather than on the trade-offs that may be experienced. The answer below demonstrates how to clearly focus on trade-offs, with high quality KAA and EV on this topic. This is not a perfect answer but it is of a very good standard with a clear structure.

An increase in economic growth usually has negative impacts on the environment. As production increases and global trade picks up in speed this will drive pollution and carbon emission rates higher. Most countries, especially

developing and emerging countries were able to develop through the manufacturing sector which poses risks to the environment. ~~one~~ ^{one} big examples ~~is~~ ^{is} China who had have had enormous export led growth enabled through globalisation, however this has always meant their pollution levels have risen to one of the highest in the world. This has led to contributed to global warming a driving factor of climate change. Therefore, it is argued that ~~this~~ global warming is an ~~an~~ inevitable impact of economic growth.

However, economic growth has some benefits. For example, ~~the~~ as incomes rise people and firms are able to contribute more into income tax and corporation tax, meaning more tax revenue for the government. As the ~~budget~~ revenues rise these can be invested back into the economy and into more environmentally friendly projects, such as the encouragement of renewable ~~eng~~ energy in the production process (greener technology). Therefore economic growth could ~~increase~~ decrease environmental effects within the economy.

If ~~the~~ a government aims to pursue low unemployment ~~there~~ this could also have trade offs ~~between~~ for environmental objectives. As more people are employed this tends to mean more people have incomes to spend, so consumption increases. This encourages firm production within ~~the economy creating undesirable consequences~~ ~~of~~ environmental consequences. An increase in consumption translates to an increase in aggregate demand levels. This increased demand encourages production within the economy, creating undesirable environmental consequences (negative externalities).

However, with technological advancements within firms this means that production can be done more environmentally friendly. Also ~~the~~ one consequence of increased employment is congestion which can drive pollution up but with the implementation of new releases such as ~~electric~~ ^{electric} cars, these levels can be significantly reduced over time, causing minimised effects on the environment.

Overall the effect on the economy depends

on the long term trend. ~~For~~ Developing countries tend to grow from ~~an~~ agricultural sectors to manufacturing and then into services. This shift in manufacturing may be a factor driving global warming rates, but might only be short term until the economy expands into the services sector. However, ~~for~~ some countries like India, were able to move straight from agricultural to services. However, if in the long term a country fails to minimize the impacts on the environment through redistributing funds into environmental projects then the effects may be greater. Also, it is more likely that with new technology the effects of low unemployment and economic growth on the environment would be kept to a minimum, increasing the confidence that GDP can ~~still~~ continue to grow without any harmful effects on the environment.

Paper Summary

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

Ensure you manage your time effectively: it does say in the exam paper to spend 30 minutes on Section A, 1 hour on Section B, and 30 minutes on Section C. If candidates spend too long on Section A they are in danger of running out of time for the 15 and 25-mark questions at the end of the exam paper.

Bearing this in mind, candidates can answer the paper in whichever order they see fit – some candidates may find it helpful in terms of time management to start with Section B or C instead of A.

A multiple-choice question is worth one mark whereas questions 7 and 8 are worth 25 marks. Bear this in mind in terms of how long you are spending on individual questions – especially those in Section A.

Maximise your efficiency by ensuring you only answer the precise question set – for example in question 1c just explaining the link between the fiscal deficit and the national debt, or in question 2b just focusing on what will happen to real output.

There are no marks for evaluation in Section A, so don't spend time doing this.

Ensure you can complete key calculations such as percentage change and use important formulas such as the multiplier.

When drawing diagrams remember to ensure that they are clear and have correct labels on both axes and lines.

Ensure you carefully study and understand the figures and extracts provided in Section B. These form the context for the questions, and answers should be related to this context and not be entirely theoretical. For example, understanding the problem Rwanda's textile manufacturers are facing is specifically because they can't compete with prices of imported **second-hand clothes**.

Remember to keep your answers within the space provided. If you run out of space you should ask for additional paper and clearly indicate which question you are writing about.

It is indicated on the front of the exam paper that 'there may be more space than you need'. Do not feel obliged to fill up all the space just because it is there.

There is no need to repeat the question back to the examiner – save yourself some time and get straight on with answering the question.

There is no need to define every word in the question, particularly on the longer questions. Examiners are looking for you to demonstrate your economic understanding by answering the question set, not your ability to memorise definitions.

Remember that in Section B the five and eight mark questions use a points-based mark scheme whereas the other questions use the levels mark scheme.

Ensure you answer the precise question you have been set, for example in question 8 the focus is on **trade-offs** and not just on environmental protection as a government objective.

To get top marks on levels-marked questions you need to ensure you fulfil all the criteria for the top level (e.g. KAA Level 4 on essays). If you do not have good knowledge, analysis, and application then you can't access those top marks. In particular, examiners will be looking for you to demonstrate 'logical and coherent chains of reasoning' for KAA level 4.

