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Examiners' Report
Principal Examiner Feedback

November 2021

Pearson Edexcel GCE
In Economics A (9EC0)
Paper 3: Microeconomics and Macroeconomics

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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. 9EC0 03 was seen by many to be an interesting and informative exam paper, which tested a wide range of concepts, including some areas which had not been examined before and some 'old favourites' in a new context.

The paper was to be fairly accessible, and most questions were answered with cogent economics and helpful diagrams. The data was readily usable, and the best answers made use of it in every question, as indeed is expected on data response papers.

The area causing the most concern was 2b, given that the effect of the unemployment had to be shown to be on **firms**.

There was a tendency of candidates to write far too much for the 5- and 8-mark questions, running out of time at the end. Candidates should be reminded that full marks can be earned in a fraction of the space available on the exam paper itself, and there is an especially large amount of space given when diagrams or calculations are required, to allow for crossings out.

From what was seen by examiners, candidates could have perhaps benefitted further practice with examination papers and polishing those skills. There was also a general inability to work through unseen data and relate this to the models and theories that had been taught or self-taught.

Section A Hand car washes

1a	<p>The market structure that was expected for this question was monopolistic competition, although the characteristics are so close to perfect competition that this model was fully acceptable. Many however wrote 'monopolistic' without the noun 'competition' and although it may seem generous, this was accepted if it was clear that the model being described was not in fact monopoly.</p> <ul style="list-style-type: none">- Allow perfect competition/highly competitive as the ID mark (Knowledge)- with follow on explanation to match- 'Monopolistic' is allowed this year for first time as shorthand for monopolistic competition <i>but monopoly/oligopoly is not allowed</i>- Allow <i>low</i> or <i>no</i> barriers to entry- 1 mark for the ID of model, 2 characteristics of model, 2 applications- Diagrams can be used as the analysis marks (up to 2 marks e.g. - price setting power and SNP/normal profit) <p>Below is an exceptional answer worth full marks;</p>
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(a) Using the information provided, explain the market structure that best describes the hand car wash (HCW) industry in the UK.

(5)

Perfect competition in theory is when industries are highly competitive. The HCW industry is suggested to be perfect competition in extract A, says 'extremely price competitive'. The number of firms in the market is also very large, '10000 to 20000'. This perfect competition may be due to low entry costs, allowing firms to open with limited investments.

This is not:

The HCW industry is large in the UK and has grown throughout the years. It is an oligopoly as factors like quality and customer service has a large impact on the industry. Due to some lower barriers to entry it is easier for people to enter the market as stated ^{for} many migrants car washing is their job.

1b

The reason for increased use of hand car washes during a period of lower income was best answered by using the data and the concept of elasticity. Falling income and rising demand is associated with inferior goods, but as with items such as chocolate, the luxury of a car wash might be just the thing to increase standards of living at a low expense. The other common argument used was that the HCW is cheaper than an automated service so this is an inferior good. Many commented on the low price (£5) to explain high demand, but it was important to explain why demand was rising rather than just not responding.

- 2 K, 2 Ap, 2 An, 2 Ev
- Allow diagrams as An: 2 An or 1Ap + 1 An
- Many are confused with PED and YED - be careful when awarding
- High utility is an acceptable reason
- Reference to aspects of car washing is enough for data marks, e.g. the hoses/chemicals
- Be careful for candidates losing track of the question - needs to link to incomes changing

This only scored half marks;

(b) Examine **two** reasons why the demand for HCWs increases during a period when consumer 'incomes fail to keep up with inflation' (Extract A line 8).

(8)

Demand for HCWs may increase during periods of real incomes falling if being regarded as an inferior service; therefore as incomes fall due to consumer failure of adaptation, as consumers are unable to and I.E.O becomes negative, consumers demand more inferior goods and services such as HCWs. Falling real incomes are also linked with recession, and recession brings about irrational behaviour on the part of consumers as they may spend more money on goods and services that may make them feel better; such as clothing which during the covid-19 pandemic allowed for Bernard Arnault to become the world's richest man for a short while.

This was better; good reasons but no evaluation

One reason that the demand for Honda car leases increases when consumer income fails to keep up with inflation is that the HCV industry focuses on inferior goods, meaning that as incomes decrease or prices rise due to inflation the demand for HCVs increases as it is a cheaper option than a premium car lease. This is because larger companies who are more likely to charge a higher price. The individual HCV is similar.

Another reason why demand for HCVs increase when incomes fail to keep up with inflation is that consumers make more rational decisions when they have less disposable income so are more likely to choose the cheaper option of a 55 HCV when inflation is high and it is a cheaper option compared to the larger sums who are charging more money for what is a very similar product.

1c

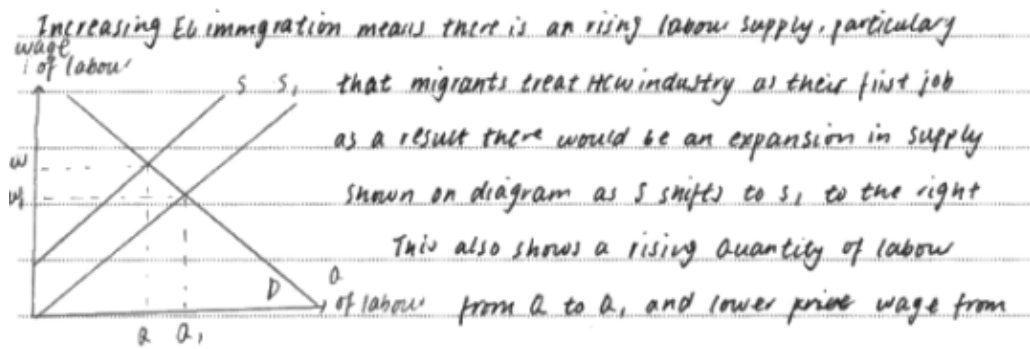
- Answer needs to be about increased migration to UK (opposite in context of leaving the EU/shortage of staff as a result of the global health crisis was seen as EV, a good way to evaluate using the current economic context)
- Any industry with large use of migrant workers is accepted as application e.g. - hospitality, nursing, construction
- Higher demand for labour and MRP arguments are allowed if correctly explained, although MRP not required
- Must have a valid diagram and reference to an industry for L3
- Some segments may not suit low skilled migrant workers e.g. - valeting and paint touch up
- Accept variations on the axis if the explanation is correct e.g. - £ not wages
- Do not need more than one point as long as 'effects' are considered within it.
- A Level 3 diagram should be linked to the effect on wages (not confused with price of the product)
- The question is the impact on the firm (not wider effects e.g.

- government budgets)
- Application can be shown on the diagram or reference to 'low skilled jobs'

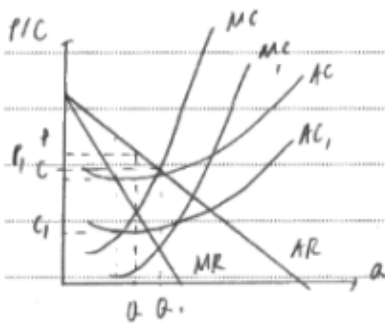
This clearly starts well with a labour market diagram and a fairly good approach using a cost and revenue diagram:

(c) Discuss the likely effects of changes in the level of migration on firms such as HCWs in the UK. Use a labour market diagram and the information provided to support your answer.

(12)



This means a lower cost of production for firms as they would spend less on wages but hiring same quantity of labour therefore this can lead to a rise in supernormal profit shown on the diagram, a bigger area bounded.



However, because HCW industry is a monopolistic competitive, so this

1d

- 1d was much less popular. Causes questions are more difficult to access than effects questions on this paper.
- L4 response must have reference to an industry
- Must link to the number of firms in the market

This was a good attempt at a difficult question

EITHER

(d) Evaluate the microeconomic and macroeconomic factors which determine the number of firms in an industry. Refer to HCWs or another industry of your choice. (25)

OR

(e) Evaluate the microeconomic and macroeconomic effects of increased government intervention in an industry. Refer to HCWs or another industry of your choice. (25)

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

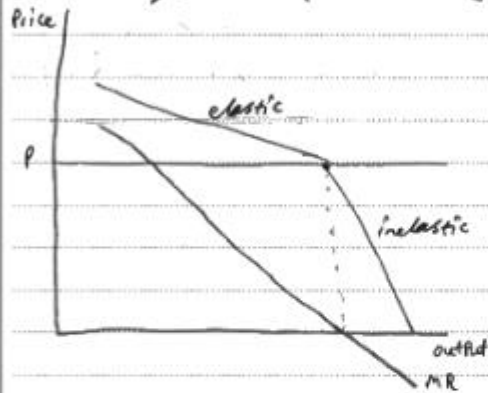
Chosen question number: Question 1(d) Question 1(e)

Write your answer here:

The microeconomic and macroeconomic factors which determine the number of firms in an industry include some will depend on the balance of collusion, competition and government intervention. In the UK, the economy is a mixed economy, hence it has government intervention in these markets, enforced by the competition and markets authority.

Firstly, the factors determining the number of firms in an industry will depend on the type of market. HCW is in monopolistic competition, which has high competition. This occurs due to the industry having a high contestability due to ~~its~~ free entry and exit of firms, seen as it has 10-20 thousand businesses. In an oligopoly, barriers to entry and exit are much more likely to exist such as predatory pricing which will reduce the number of firms in the market. For example patents on products to stop other firms being contestable.

or predatory pricing (setting such a low price that firms are forced to leave the industry) are much more common. This reduces the number of firms in the industry. Furthermore, in oligopolies collusion is much more common. This reduces the number of firms in the market as it maintains a price that if it can't be matched goes on the firm will be forced out the market.



If a firm tries to produce below the set price they will be forgotten by other firms and forced out the market, reducing the number of firms in the market. Producing above P will be inelastic as a rise in price will lead to a less than proportionate rise in demand.

On the other hand, setting a price and maintaining it ensures a few firms dominate a market. This is more ^{than} can be said for a monopoly (25% or more share in the market) where one firm dominates. Monopolies behaviour will use non-price and price

This was more typical:

EITHER

(d) Evaluate the microeconomic and macroeconomic factors which determine the number of firms in an industry. Refer to HCWs or another industry of your choice. (25)

OR

(e) Evaluate the microeconomic and macroeconomic effects of increased government intervention in an industry. Refer to HCWs or another industry of your choice. (25)

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

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

Write your answer here:

The number of firms in an industry may depend on how much a country may have opened itself up to globalisation. If a country is within a trading bloc, the oligopolistic market structure that arises when it may engage in trade policies, or may be operating at pure levels of other kind firms may not be able to start up as due to the high barriers to entry.

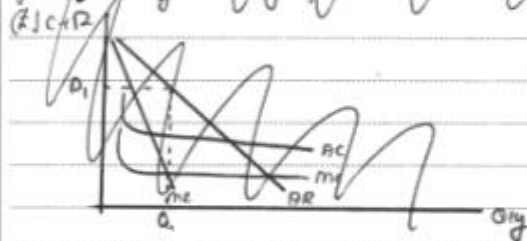
The number of firms in an industry may depend on the level of regulation within an industry as a heavily regulated industry may discourage firms as the price mechanism is distorted and firms may be unviable.

The number of firms in an industry may depend on how much a country may have opened itself up to globalisation. Globalisation may allow for a country to be part of a trading bloc, which may operate according to the ^{theory} of comparative advantage, where countries produce and then specialise in areas where they have a relative comparative advantage compared to other countries. This allows for industries within countries to form and produce in those sectors where the comparative advantage may be present, and thus increase output and competition domestically.

However, a trade bloc may cause trade diversion, and thus in the long term

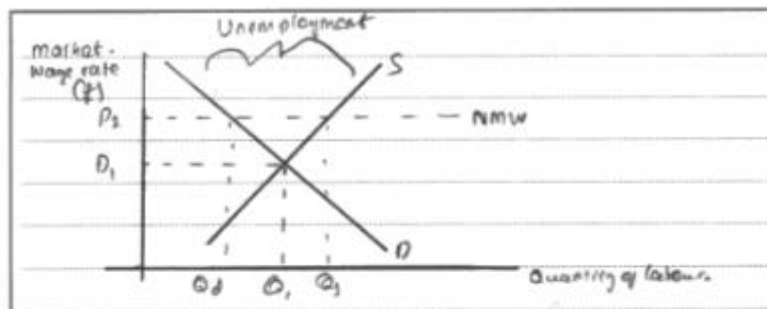
cause the formation of inefficient oligopolistic market structures within the bloc, and thus reduce the number of firms in an industry as these firms may engage in limit pricing or predatory pricing through tacit collusion to maximise their joint profits at the expense of consumers within the trading bloc.*

Another factor that may determine the number of firms in an industry may be the amount of economies of scale in that industry, as if there are substantial economies of scale in an industry, a natural monopoly may form ensuring that only 1 firm exists in that market.



* For example, the UK steel industry was forced to close down due to it being so inefficient compared to the Chinese steel industry. This has led to the EU placing tariffs on Chinese steel to prevent any further dumping.

Another factor that may determine the number of firms in an industry may be the amount of regulation. The introduction of ^{the} operational minimum wage and lack of financial economies of scale firms have initially prevents many new firms from entering, thereby ~~ensuring~~ ^{ensuring} ~~surviving~~ ^{surviving} and thriving in an industry. ~~Firms~~ ^{New firms} are ~~subjected~~ ^{subjected} to government regulation as well as the ^{economies of scale} pricing strategies, and benefits incumbent firms already possess in the



As seen in British steel, due to the Chinese market having a much larger comparative advantage in natural resources and cheap labour, they were able to output and sell a lot more, i.e. dump more, which drove out the British steel ~~and~~ industry, who paid their workers more, and had less access to natural resources, thus limiting the number of steel firms globally.

Overall, the number of firms in an industry depend on the competition other firms of that industry engage in, as well as the regulation and stance of government.

This scored quite poorly. It is imperative that the candidate focuses on the requisites of the question.

1e

- Must be reference to a specific industry
- Any forms of government intervention are allowed

(e) Evaluate the microeconomic and macroeconomic effects of increased government intervention in an industry. Refer to HCWs or another industry of your choice.

(25)

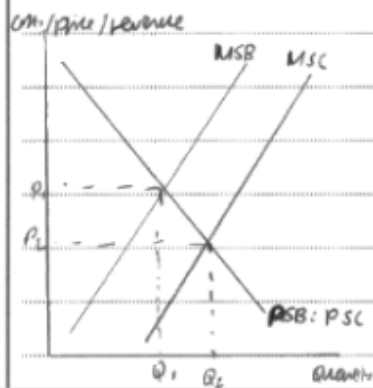
Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

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

Write your answer here:

~~There are many microeconomic factors which determine the number of firms in the ~~hand car washing~~ industry. This is because there are high barriers ~~to entry~~.~~

There are many microeconomic ~~and macroeconomic~~ ^{effects} of increased government intervention in an industry, such as HCWs. This is because through government intervention in the HCW industry, there is a positive externality in production being created, which there could be planning ~~regulate~~



regulations to prevent the use of tarmac rather than concrete on pavements. Through the use of tarmac, it would allow waste water and chemicals to seep into the sub soil, rather than chemical being passed through and affecting plants and animals. This ~~too~~ would cause a shift in MSC for

When the cars are being washed through the use of the intervention of the government, plants are able to grow without any problems and ~~animals~~, such as insects and animal death, such as insects, ~~are~~ that are affected by these chemicals would decrease.

However, although the government plans to put interventions in place, it is not ~~completely confirmed~~ that ^{the new industries would follow these regulations} ~~these industries will place~~ and there are other ways the chemicals could come in contact with insects and could still cause ~~deaths~~ deaths and ~~affected~~ affect the growing of plants.

There are many macroeconomic effects of increased government intervention in the hand car washing industry. By involving drivers in the car issue and making them demand for car washes creates an incentive for good businesses to improve practices and come forward to get a WashMark certificate. This could lead to an increase in the number of hand car washes, meaning that more people are spending money, allowing them to hire and expand economic activity, boosting the ~~the~~ ~~economy~~ US economy.

However, ~~also~~ this intervention does not directly involve the government and problems could arise as drivers would demand for much cheaper prices, which would be harder for the hand car washing industry to keep up with.

This scored 11/25 but this was more typical:

(e) Evaluate the microeconomic and macroeconomic effects of increased government intervention in an industry. Refer to HCWs or another industry of your choice.

(25)

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

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

Write your answer here:

Microeconomics studies individual businesses in an economy whereas macroeconomic studies the whole economy.

There are three main areas of government intervention which could refer to HCWs.

Firstly, there will be an issue of tax, second, there is the health and safety issue for workers and third, a planning issue which focuses on the impact of on the environment, for example, the disposal and recycling of waste water and chemicals. There could be planning regulations to prevent use of harmful rather than concrete on forecourts.

This short answer was running out of time. There was an opportunity cost in the introduction here, and although it starts well with a valid idea and some application, this was all that was written, so it scored Level 1 3/25.

Section B Germany and fiscal issues

2a

This question was poorly understood, and the common confusion between deficits and debts was in evidence.

- The candidates do not have to just use Figure 2 - anything from the extract is fine (all figures) but because it is mentioned in the question this must be a very good place to start
- 1 implicit mark for national debt understanding - accumulation over time
- 1 mark if able to identify a valid reason
- Up to 2 for development of reason
- 1 application mark for trend and 1 for data reference
- Examples of the opportunity costs as analysis e.g. debt servicing

Common confusion between debt and deficits:

(a) Explain **one** reason why a country such as Germany wants to avoid an increase in the national debt relative to GDP (Figure 2).

(5)

Germany may want to avoid an increase in the national debt ~~over~~ relative of GDP due to its objective of maintaining ~~a fiscal~~ a fiscal deficit lower than 0.35% of GDP. As this is written in its constitution, ~~failure~~ failing to do so would lead to this being broken.

The above failed to score, as the data use was also linked to debt not deficits.

This scored full marks:

(a) Explain **one** reason why a country such as Germany wants to avoid an increase in the national debt relative to GDP (Figure 2).

(5)

~~One reason is that as National debt is the ~~debt~~ money a country owes for use in public spending.~~

One reason Germany may want to avoid an increase is because it will be charged interest. This means there is an opportunity cost between the interest on the borrowed money and ~~the~~ providing public services. As such, it has reduced its debt from ~~82.5%~~ of GDP to 65% between 2010 and 2019, a change of 17.5%. It also may lead to inflation as it may need to ~~buy assets~~ undergo quantitative easing to generate the money necessary to spend.

2b

- Must be the impact on firms e.g. - costs, revenue, profit, motivation of workers
- Do not award macroeconomic effects - consumption and AD

A very common problem was to read the increase in unemployment from 5 to 6.1% as a 1.1% increase. It is strongly advised that the term 'percentage points' is used. This scored just one data mark (for the trend) but no marks for the use of 1.1%:

(b) Examine **two** likely effects of the forecast change in the rate of unemployment between 2019 to 2020, on firms in Germany. Refer to Figure 4 in your answer.

(8)

In figure 4 the unemployment rate between 2019 to 2020 increased by 1.1%.

An effect of the forecast change in the rate of this unemployment could ~~mean~~ be due to the fact that certain industries are not as ~~productive~~ productive, for example tourism, people travelling to Germany for holidays may have been decreased due to weather conditions meaning workers in holiday resorts have to be let go due to decreased amount of consumer therefore increasing unemployment within tourism sector.

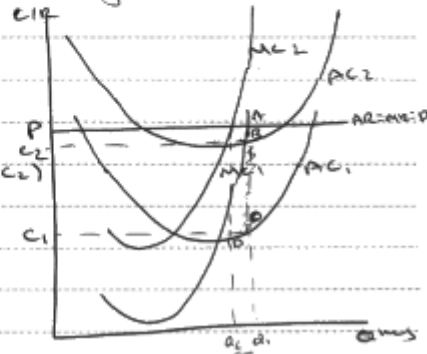
Another impact could be on agricultural sectors as due to forecast change crops may not be able to grow meaning people in agriculture sector will lose their jobs and increased uncertainty of when they would be able to work.

The main problem however was not explaining the effect of increased unemployment on **firms**. Most gave solely macro diagrams and there were no links to the micro, so some impressive chains of reasoning involving AD shifts and multipliers did not unfortunately make a link to the question in many cases. This however scored nearly full marks (needed more evaluation):

(b) Examine **two** likely effects of the forecast change in the rate of unemployment between 2019 to 2020, on firms in Germany. Refer to Figure 4 in your answer. (8)

The unemployment rate is forecasted to increase from 5% in 2019 to 6.1% in 2020. This may be a signal for firms that the economy is shrinking or that growth is slowing. Firms may therefore predict revenues to fall and this would decrease overall business confidence. As confidence falls, the level of investment also falls as firms now decide to save any profits that they make. These firms will therefore become less dynamically efficient and ~~investing~~ the lack of investment may lead to

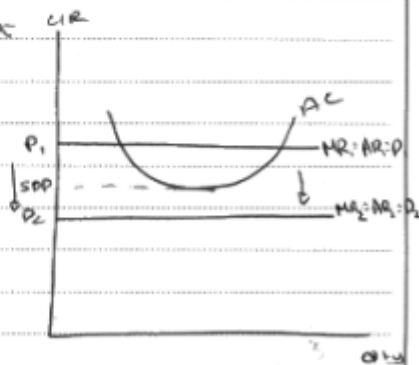
higher costs. As shown in the diagram, the higher costs will also lead to lower profits \checkmark for German firms which further reduces their ability to invest and make



Then even more dynamically inefficient.

Another effect of the forecasted increase in unemployment could be that workers and consumers are expecting potential job losses or wage cuts. This could lower consumer confidence and would mean that firms would be less spending. This therefore means that the average revenues firms receive may also fall. This further reduces levels of supernormal profit and may actually cause firms to shut

down. As shown in the diagram, this occurs when the fall in the price level causes the price to be lower than the short down price.



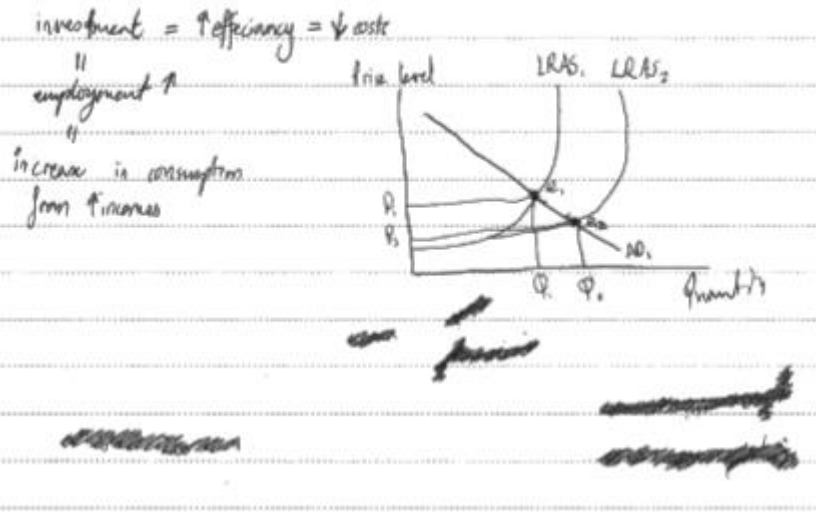
However, in the short-run, investment in new technology would ~~to~~ increase costs. Innovation and research are expensive, thus it would increase costs, reducing supernormal profit. Furthermore, investment in new technology could fail. New technology might not work, thus, costs would not decrease in the long run, reducing profitability of firms.

Investment in new technology could potentially increase profitability of firms, if it makes products more unique. "Major motor manufacturers are ... willing to invest in new technology." If the firms are able to create unique products with new technologies, price elasticity of demand will be more inelastic. ~~Thus, for~~ This is due to the low substitutes and uniqueness of product. Thus, firms could increase prices, and increase their revenue. Overall, this would increase supernormal profit.

However, price elasticity of demand might not be inelastic if the price of product makes up a huge proportion of disposable income. ~~Motor~~ Motors are generally expensive.

Thus, even with new technology, if price is too expensive, consumers will still be reluctant to buy. This means that their profit will not increase by much.

Other diagrams were often used, but they are not advised. This scored 2/12 from the chain of reasoning, not the diagram (this was the total response, so clearly a time issue here too):



2d

- 2d was much less popular. It was apparent that causes questions were more difficult for candidates to access than effects questions on this paper.
- Can talk about actual or potential
- Often hard to find micro factors
- General lack of diagrams in the answers
- EV - needs to be a criticism of their point (not just the opposite)
- Needs to be in reference to the German economy in context for L4
-

(d) Evaluate the microeconomic and macroeconomic factors which are likely to determine the level of economic growth in Germany relative to other developed economies.

(25)

OR

(e) Evaluate the microeconomic and macroeconomic impacts of 'a much more expansionary fiscal policy' (Extract C line 23) on the German economy.

(25)

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

Chosen question number: Question 2(d) Question 2(e)

Write your answer here:

plan 3 paragraphs introduction

1) macro: real GDP

2) macro: inflation and unemployment

Economic growth is the increase in real GDP and the productive potential in the long run. Economic growth can be achieved through maintaining the five key objectives: balanced budget, inflation, unemployment, inequality and the standard of living.

One factor that is likely to determine the level of economic growth in Germany is the level of current balance of payments. Germany's current account & balance of payments is the comparison of the net inflows and outflows of the economy. For example, net inflows into the country is FDI and hot money whereas some net outflows are government spending on Brazil's job seekers allowance etc.

This answer clearly was going to be fully macro based, and the plan made it clear that the candidate was not confident in applying micro concepts in areas taught within the macro part of the specification.

2e

- Needs to be in reference to German fiscal policy for L4
- Many did not successfully find a micro link to fiscal policy, but the most effect answers showed the effects on firms' cost curves or the positive externalities in consumption of many public sector goods.

This answer was clearly a L4 and L3 evaluation, right from the outset:

(e) Evaluate the microeconomic and macroeconomic impacts of 'a much more expansionary fiscal policy' (Extract C line 23) on the German economy.

(25)

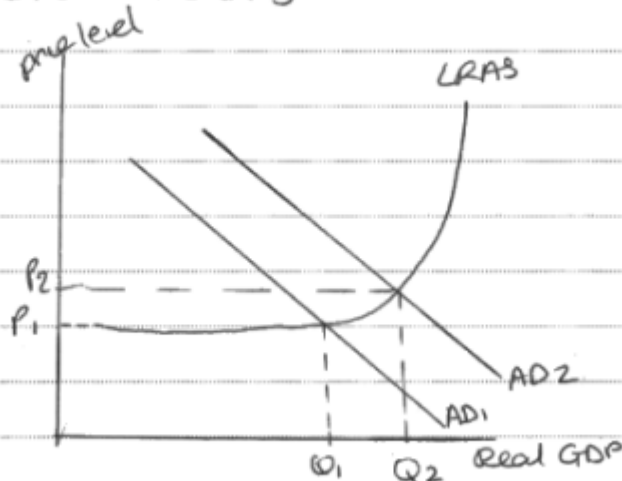
Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 2(d) Question 2(e)

Write your answer here:

Expansionary fiscal policy is a form of the manipulation from ~~the~~ of taxation and spending from the government with the aim of influencing aggregate demand AD, in the form of lower taxes and higher government spending.

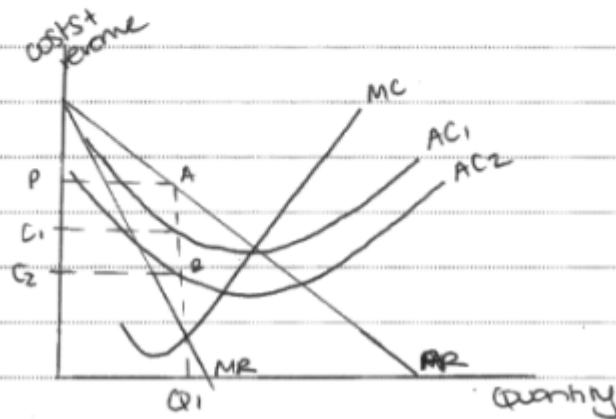
One macroeconomic impact of expansionary fiscal policy is an increase in ~~the~~ AD.



It then goes onto a micro point, and although this isn't perfectly drawn (MC does not go through the lowest part of AC2) there is every sense of the change costs but it does not give a verbal explanation of why there is only a change in **fixed costs**

incurs more interest debt repayments which is an opportunity cost for the ~~Germany~~ German government.

One microeconomic impact of expansionary fiscal policy is a reduction in firms costs. An lower taxes means firms ~~more~~ less experience a fall in production costs.



The answer as a whole (not fully shown here) did secure nearly full marks but would need a clear link as to why it is fixed and not variable costs changing to secure the higher level micro marks.

In future the candidates taking this exam should address the following issues:

Use the data in every question. This is a data response paper.

Use a diagram in the longer questions if you can, even if it is not requested. For example, the essay question on government spending on public goods, or the essay question on electric cars, could have positive externalities in consumption, even if not required.

Timing. Generally, allow a minute per mark, and this gives 20 minutes reading or correction time. You can achieve all the marks in this time, and you do not need to fill all the space available.

Question spotting does not help. Candidates who think they know how to answer a certain type of question tend to give generic responses and do not read the data available.

Explain every step in your chain of reasoning, and have multiple steps.

Stick to **either** micro or macro in the non-25-mark questions. The questions are based on the separate four themes and you do not need to mix up your answers. Of course, synoptic answers are valid, but the safest and most reliable option is to 'keep it simple'.

Structure your answers around the material provided, rather than trying to pin the data onto a pre-learned theoretical answer.

In your 25-mark essays, write an informed, critical conclusion weighing up your argument, **not** a summary. Return to the question, and answer it - avoiding the personal pronoun is preferred - in an informed and reasoned framework.

