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Examiners' Report

Principal Examiner Feedback

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In Economics (4EC0) Paper 01R

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General comments

This paper proved to be accessible for the majority of students and produced a wide range of answers. Some responses were very good indeed, showing high levels of economic understanding and analysis.

Unfortunately, some candidates made careless mistakes which cost them marks. Some candidates did not have enough knowledge and either wrote answers of little merit or left the page blank. The numerical calculations caused problems for some candidates.

Particular areas of the specification which appeared to cause the most serious problems for students included:

- External costs
- Fiscal policy and economic growth
- FDI and globalisation
- Exchange rates

On the other hand these areas of the specification were generally answered well:

- Demand and supply
- Economies of scale
- Private vs public sector
- Oligopolies

Question 1

1a (i) and (ii) Most candidates were able to complete the diagram correctly.

1a (iii) Most candidates offered two correct factors here but not all developed them to gain full marks. Some offered factors that affected demand.

1b (i) Mostly correctly answered.

1b (ii) Most candidates completed the calculations successfully and were able to make the connection between a price decrease and the proportionately greater increase in TR.

1c (i) The majority of candidates understood the difference between the private and public sectors and in 1c (ii) could identify both advantages and disadvantages of relying on the private sector and so found it relatively easy to pick up three or four marks. However, many stopped there rather than offer some kind of evaluation or judgement. Those that did, developed the idea that efficient government regulation could do much to remove or minimise some of the problems of the private sector.

1d (i) Successful candidates were able to identify factors such as the school leaving age and retirement age, level of immigration or the increasing numbers of women joining the labour force. Many incorrect responses looked at factors affecting the demand for labour instead.

1d (ii) Not as well answered as expected. While many candidates could identify possible benefits such as income and employment and understood the problems arising from negative externalities. Few seemed able to make a reasoned judgment or conclusion.

An example of a response which scored 5 marks is given below.

Spain is said to be the world's largest strawberry exporter, this means that jobs and incomes are created. Exports to other countries are likely to improve the balance of payments of Spain. The profits earned by firms are taxed by the government increasing government revenue. The revenue can be spent on the country's infrastructure which is likely to improve people's living standards. Moreover, an increase in national income will contribute to economic growth.

However, the firms dispose waste into the precious water of nearby parks, this will threaten the wildlife and will pollute the environment. As a result, the number of people visiting the park will be reduced. Moreover, the use of pesticides protects the strawberry crop but it is also harmful for other living things.

It depends on how much pesticide is used, the amount of externalities and whether there are means to reduce or eliminate them.

Question 2

2a (i) Not a problem for the majority of candidates.

2a (iv) Most candidates could identify at least one way in which labour productivity could be increased but having done that many failed to explain why or how it might bring it about.

2b (i) and 2b (ii) A surprisingly large number of candidates struggled here because of elementary mistakes, many missed out FC. Those that knew their calculations scored well here.

2b (iii) and (iv) Most responses were correct.

2b (iv) A generally well answered question with most candidates able to explain why economies of scale gave large firms an advantage. Less well done was the counter argument and evaluation. Some candidates just listed various economies of scale without any real analysis as to why they might be advantageous. Others attempted a counter argument of diseconomies of scale which was not a valid approach.

An example of a response which scored 4 marks is given below. The candidate demonstrates understanding of the argument and counter-argument but does not go on to develop any evaluation or judgement.

Large firms are able to buy raw materials in bulk for a cheaper price. Next, large firms are able to borrow from banks on lower interest rates as they are trusted firms. These are economies of scale and can reduce average costs, this means the large firm can lower prices and gain an advantage.

On the other hand, small firms aren't always at a disadvantage, for example they are able to adapt to changes in the economy quicker than large firms. Also owners in a small firm are able to communicate with workers easily than compared to large firms, this keeps workers motivated.

2c (i) Subsidies and regulation were the most commonly offered responses but once again many candidates just identified the method without going on to explain how it could promote competition. The mark scheme for this type of question allows one mark for identification of factor/method/way and one mark for development.

2c (ii) This was perhaps one of the better answered 6 mark questions with many candidates appreciating that oligopolies had the potential to be both good and bad from the consumer's point of view and offering some kind of judgement.

Question 3

3a (i) Many candidates described the variations in the growth rate and used figures from the extract to justify this.

3a (ii) Mostly well answered with increased living standards and reduced unemployment as the most common responses.

3a (iii) Although most candidates could explain how changes in fiscal policy could increase economic growth, counter-arguments were not as good and once again, few could develop valid evaluation.

An example of a response which scored all 6 marks is given below.

Expansionary fiscal policy means reducing taxes and increasing government expenditure. People will have more income to spend. As a result aggregate demand will rise. To meet the large amount of aggregate demand firms have to produce more. This will need more labour and so unemployment will be reduced.

On the other hand, too much demand will increase the prices sharply and inflation might take place, demand pull inflation. To control this, contractionary fiscal policy or tight monetary policy might be used which would reduce demand and possibly increase unemployment.

Fiscal policy will only work if the economy can grow without causing inflation. Also, it depends on what causes the unemployment, supply side policies might be better.

3b (i) A mix of accurate and partial definitions.

3b (ii) Most candidates attempted to explain the correlation between Unemployment and the negative growth rate although many failed to use the evidence from figure 3b to reinforce their argument. A small number misinterpreted the growth rate as a positive figure.

3b (iii) This was a generally well answered question with candidates generally offering explanations on both the effectiveness of supply side policies and their potential drawbacks. but again only a few went on to achieve five or six marks with a considered judgement. This is perhaps something centres need to work on.

3c Generally well answered although many candidates made little or no attempt to assess the effectiveness of their chosen policy.

Question 4

4a (i) Many gave a generic response on emergency aid or tied aid, rather than addressing the context of the question and failed to gain all the marks available.

4a (ii) Mostly well answered with spreading risk and rising incomes offering a chance for greater sales being the most common.

4a (iii) Generally not well answered. Although FDI was widely understood, many students struggled to link it to globalisation, let alone provide a valid counter argument or further evaluation. Few responses got beyond 4 marks.

An example of a response which scored 5 marks is given below.

Foreign direct investment is the investment done by other countries or firms into a country. This causes globalisation as it is the growing integration of the world's economies. It includes multi-national companies that have firms running in other countries. It is one of the most important causes of globalisation.

However, it is not the only cause of globalisation. Free trade agreements between countries is also a cause. It allows firms to expand, invest and compete with firms of other countries without any barrier. The WTO has also played a significant role by improving ties between countries and encouraging them to trade.

Although FDI is important it cannot take place unless trade barriers have been broken down by growing free trade.

4b (i) Mostly well answered with an advantage and disadvantage being identified and developed.

4b (ii) As is often the case with exchange rate questions, it caused difficulty for some candidates.

4b (iii) Again, for some candidates exchange rates pose problems. Good candidates scored well here but others got tangled up with errors and sometimes the second factor contradicted the first one.

4c (i) Mostly correct.

4c (ii) For many candidates this response was similar to previous 6 mark questions. A clear awareness was present of the benefits of increased free trade and the potential downside but evaluation marks were often missed. Those responses that did provide a judgement were often perceptive and thoughtful.

Conclusion

Based on observations from this exam series, candidates are advised to:

- Learn definitions
- Use the appropriate economic terminology
- Read the questions carefully
- Take care when interpreting diagrams, graphs and tables
- Look for the command words
- On the 6 mark questions make a reasoned judgement or conclusion

