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# Examiners' Report

## June 2017

GCE Economics A 8EC0 02

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## Introduction

This is the second of the Economics A AS papers (8EC0 02) in the new AS Specification 2015. Candidates' answers to the questions on this paper have generally been of an expected standard. All questions were accessible to the candidates, although inevitably candidates were scoring more highly on some than others.

Section A highlights the need for candidates to be accurate and clear in their definitions and calculations. Many candidates are losing marks because they cannot clearly define key economic concepts such as real GDP and direct taxes. Quantitative skills are also a vital skill in the new exams and, whilst there does seem to have been some improvement in this area compared to last year's paper, there is still room for improvement here. It is vital that candidates can calculate key quantitative measures such as percentage change as well as being able to correctly interpret data presented in a variety of forms.

In section B it is important that candidates read the question carefully and ensure they are answering the precise question set. For example, with 6(b) making sure they are explaining causes of the trade deficit. With 6(c) explaining only one influence, and with 6(d) explaining two. It is also important to maximise their efficiency in terms of time management. For example in 6(d) the question asks for reasons, it does not ask for an explanation of what GDP per capita at PPP is.

For the final questions where candidates had a choice, 6(f) was significantly more popular than 6(g). In 6(f) many candidates failed to focus on the 'number of concerns' referred to in the question and as such lacked the context required for the top level. This was an issue in general, with candidates writing answers that were too generic or where they clearly had not fully read and understood the data and articles they had been provided with. In 6(g) candidates who focused their answer clearly and convincingly on the UK were again likely to achieve more highly as it offered a clear context to their answer. The other key thing to remember in both 6(f) and 6(g) is, to quote the Level 4 Knowledge, Application and Analysis criteria, there needs to be 'logical and coherent chains of reasoning'. This contrasts to the level 2 criteria which describes a 'two-stage chain of reasoning only'.

## Question 1 (a)

This is a straightforward percentage change calculation that candidates should be able to answer relatively easily, and the majority were able to do this. It is vital that time is spent practicing calculations such as this. Candidates also need to be careful to read the question and the data carefully, as a number of candidates lost marks because they selected the wrong two pieces of data.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

### 1 UK Consumer Prices Index (the base year 2005=100)

September 2013	126.8
September 2014	128.4
September 2015	128.2

(Source: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-323657>)

- (a) Calculate the percentage change in the UK Consumer Prices Index from September 2014 to September 2015. You are advised to show your working.

(2)

$$\frac{128.2 - 128.4}{128.4} = \frac{-0.2}{128.4} \times 100 = -0.16\%$$



#### ResultsPlus Examiner Comments

This candidate achieves 2/2 marks. They have correctly calculated an answer of -0.16%.



#### ResultsPlus Examiner Tip

Always show your working out in calculation questions.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

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- (a) Calculate the percentage change in the UK Consumer Prices Index from September 2014 to September 2015. You are advised to show your working.

$$\frac{\text{new - old}}{\text{old}} \times 100 = \frac{128.2 - 128.4}{128.4} \times 100 = -0.16 \quad (2)$$



**ResultsPlus**  
Examiner Comments

This candidate also correctly calculates the right answer and as such achieves full marks.

## Question 1 (b)

This question requires a short but precise definition of deflation. It is important that candidates are clear in their answers.

(b) Define the term 'deflation'.

(1)

The ~~rate~~ sustained fall in ~~the~~ general price level ~~at~~ over a given period of time.



**ResultsPlus**  
Examiner Comments

This candidate has an accurate definition of deflation and as such achieves the 1 mark available.

(b) Define the term 'deflation'.

(1)

Deflation is when the inflation rate becomes negative, causing a fall in average price levels



**ResultsPlus**  
Examiner Comments

This answer also includes a correct definition of deflation and as such scores full marks.

## Question 2 (a)

In this question the marks are split as 1 for knowledge, 1 for application, and 1 for analysis. The knowledge comes from explaining what under-employment is, the application for discussing the numbers, and analysis for some development building on the knowledge.

- 2 Between 2008 and 2014 the number of people in the UK looking to work longer hours and therefore receive more total pay increased from 76482 to 142788. Over the same period the unemployment rate fell to 5.7%.

(Sources: <https://www.gov.uk/government/statistics/numbers-of-part-timers-seeking-full-time-employment> and <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Unemployment+Rates#tab-data-tables>)

(a) With reference to the statement above, explain the term 'under-employment'.

(3)

• Under employment are those who are employed and are active in the labour force however they want to work longer hours.

• Between 2008 and 2014 the amount of people looking to work longer hours and receive higher pay increased

by  $\left( \frac{142788 - 76482}{76482} \times 100 \right) = 86.7\%$

86.7%.



**ResultsPlus**  
Examiner Comments

This answer scores 2/3 marks. There is a correct definition of under-employment and also application that it has increased by 86.7%. There is no analysis of their answer.

- 2 Between 2008 and 2014 the number of people in the UK looking to work longer hours and therefore receive more total pay increased from 76 482 to 142 788.  
Over the same period the unemployment rate fell to 5.7%.

(Sources: <https://www.gov.uk/government/statistics/numbers-of-part-timers-seeking-full-time-employment> and <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Unemployment+Rates#tab-data-tables>)

(a) With reference to the statement above, explain the term 'under-employment'.

(3)

Underemployment is where a worker is currently employed and wants to work more hours or is overqualified for their job. You can see an increase in underemployment as the number of people in the UK looking to work longer hours went from 76 482 to 142 788. And because unemployment rate fell ~~from~~ to 5.7%. This may be because of companies employing more people on 0 hours contracts.



**ResultsPlus**  
Examiner Comments

This candidate scores full marks. They have explained what under-employment is, applied it to the information provided, and also analysed this in terms of falling unemployment and zero hours contracts.

### Question 3 (b)

This question is asking for a definition of real GDP. With 2 knowledge marks available there are two specific things candidates need to include. They need to define the 'real' part and the 'GDP' part.

(b) Define the term 'real GDP':

(2)

Real GDP is the total value of all goods and services produced in an economy over a period of time (a year), adjusted for the effects of inflation; that is, in 'real' terms.



**ResultsPlus**  
Examiner Comments

This answer scores the full 2 marks. They have explained what GDP is first of all and then the 'real' aspect.

(b) Define the term 'real GDP':

(2)

Real GDP is the total gross domestic product value produced within a country which has been price adjusted for inflation against a base year to show real GDP growth as opposed to nominal GDP.



**ResultsPlus**  
Examiner Comments

This answer explains the 'real' aspect of the definition but not the GDP part and as such gets 1/2 marks.



**ResultsPlus**  
Examiner Tip

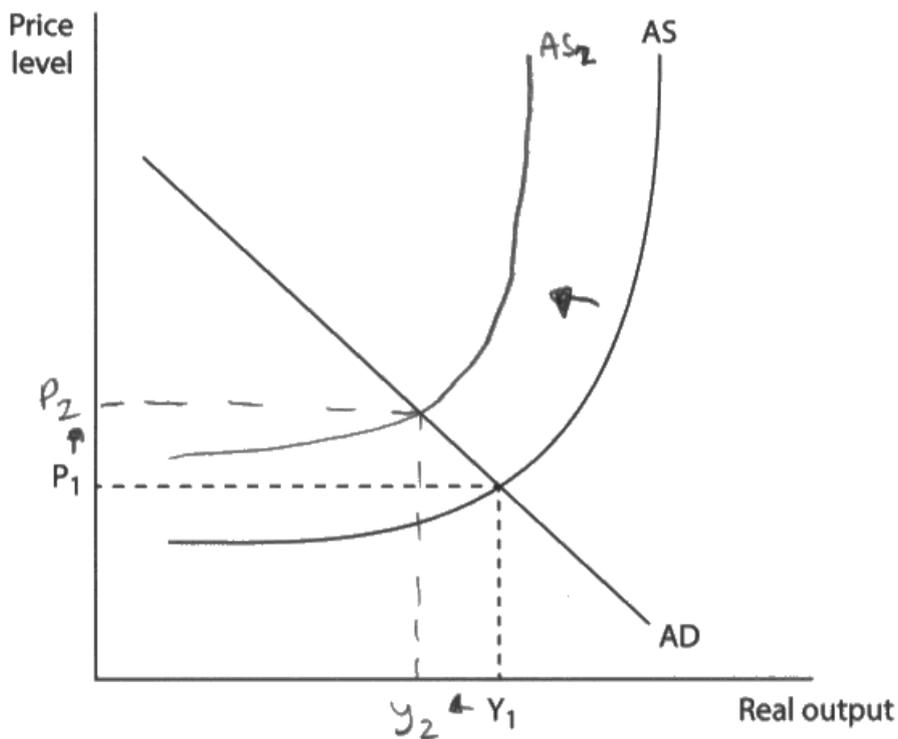
GDP is an acronym of gross domestic product, for a definition of GDP you need to explain what it means, not simply spell out the words.

### Question 3 (c)

There is 1 mark available for this question, for showing an output gap on the diagram. Whilst a lot of candidates did get this correct there was also a significant number who clearly didn't know what to do to answer this question.

(c) Illustrate a negative output gap on the diagram below.

(1)

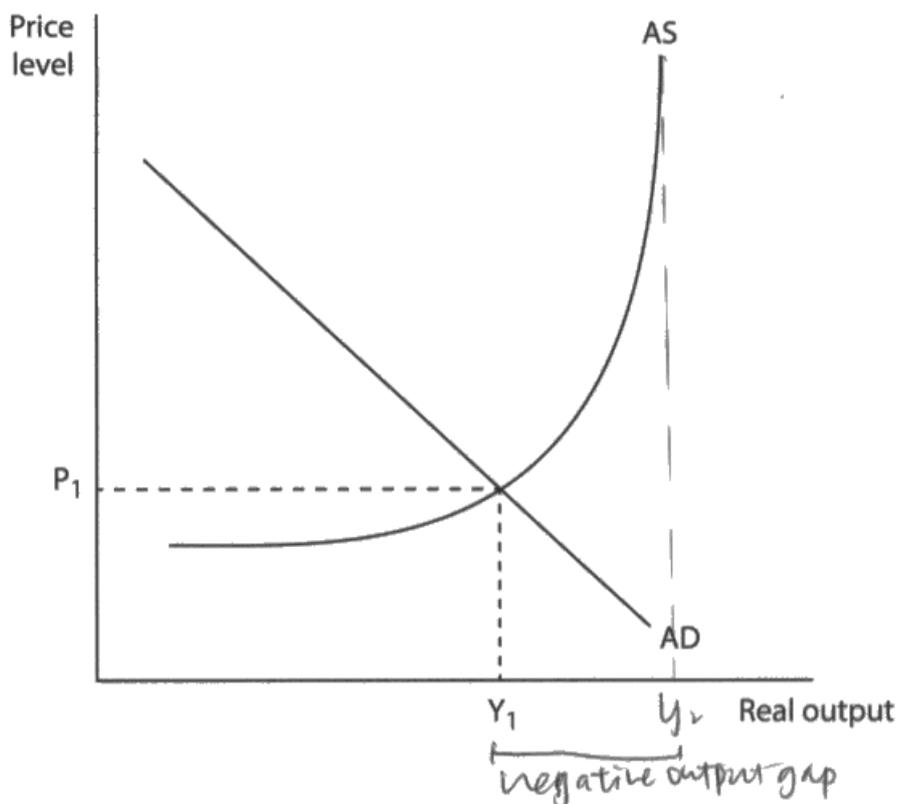


**ResultsPlus**  
Examiner Comments

This answer does not illustrate an output gap and so therefore scores no marks.

(c) Illustrate a negative output gap on the diagram below.

(1)



**ResultsPlus**  
Examiner Comments

This candidate has correctly identified an output gap as the difference between full employment and the current level of output, and thus achieves the 1 mark available.

### Question 4 (a)

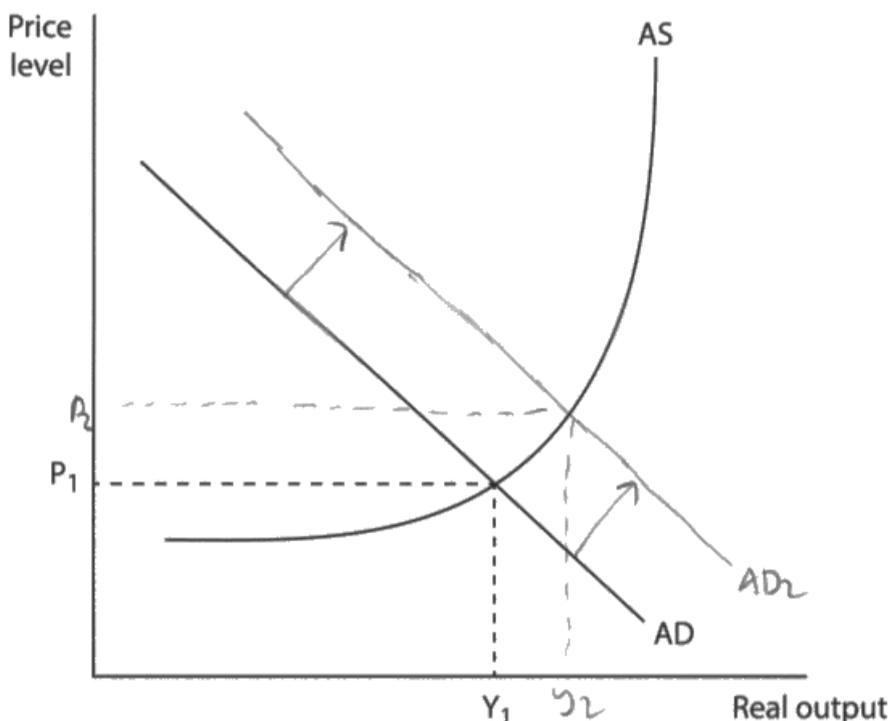
This question requires candidates to draw the effect of the increase in the personal allowance in terms of an AD/AS diagram. Marks were awarded as 1 mark for the rightward shift in AD and 1 mark for a new equilibrium showing higher price level and real output. Most candidates achieved the 2 marks on this question.

- 4 The Chancellor announced in the 2015 Budget that the personal allowance (the annual income that can be earned before starting to pay income tax) would increase from £10 600 to £11 000 in April 2016. This means most consumers will pay less income tax.

(Source: adapted from <http://www.telegraph.co.uk/finance/personalfinance/how-budget-affect-me/11721785/Budget-2015-what-to-expect-for-income-tax-and-the-personal-allowance.html>)

- (a) Annotate the aggregate demand and aggregate supply diagram below to show the likely impact of the increase in the personal allowance on the UK's price level and real output.

(2)



**ResultsPlus**  
Examiner Comments

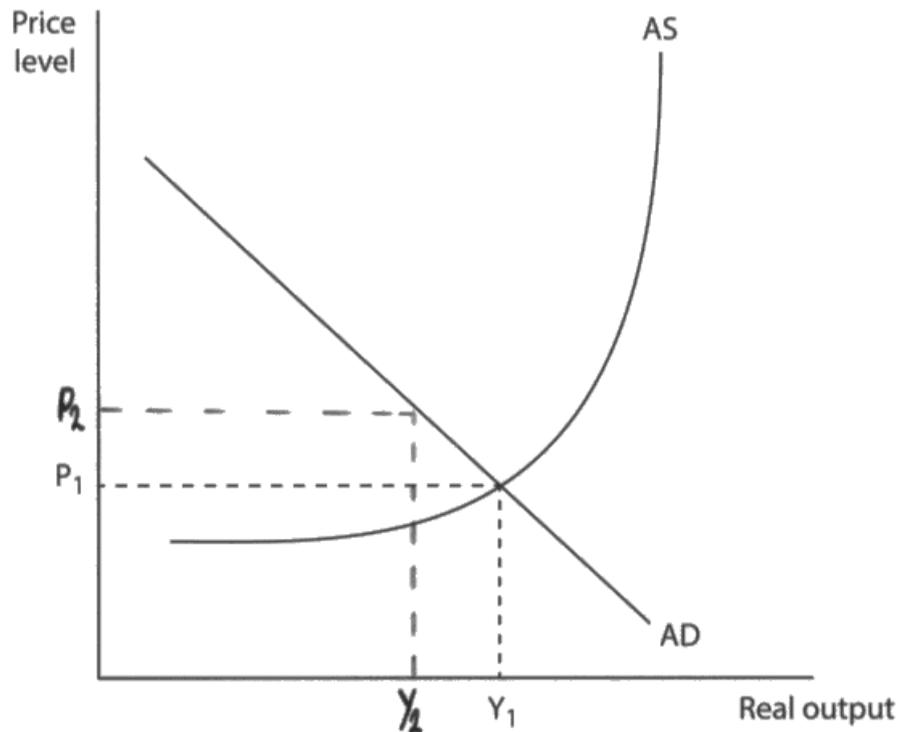
This answer achieves the full 2 marks – the shift in AD is correct and they have illustrated the new equilibrium and the change in price level and real output with the dotted lines.

- 4 The Chancellor announced in the 2015 Budget that the personal allowance (the annual income that can be earned before starting to pay income tax) would increase from £10 600 to £11 000 in April 2016. This means most consumers will pay less income tax.

(Source: adapted from <http://www.telegraph.co.uk/finance/personalfinance/how-budget-affect-me/11721785/Budget-2015-what-to-expect-for-income-tax-and-the-personal-allowance.html>)

- (a) Annotate the aggregate demand and aggregate supply diagram below to show the likely impact of the increase in the personal allowance on the UK's price level and real output.

(2)



**ResultsPlus**  
Examiner Comments

This answer achieves 0 marks – there is no shift in aggregate demand and also therefore no appropriate new equilibrium and impact on price level and real output.

### Question 4 (b)

With these questions it is important that candidates do not waste time. The question has asked only for a definition of a direct tax, so that is all the candidates should write. In terms of what constitutes a correct definition, it is a tax on income or profits (or similar words).

(b) Define the term 'direct tax'.

(1)

It is a tax on the income of a person or firm



**ResultsPlus**

**Examiner Comments**

This answer scores full marks – a short but accurate definition of a direct tax.

(b) Define the term 'direct tax'.

(1)

direct tax is the tax paid directly to the government



**ResultsPlus**

**Examiner Comments**

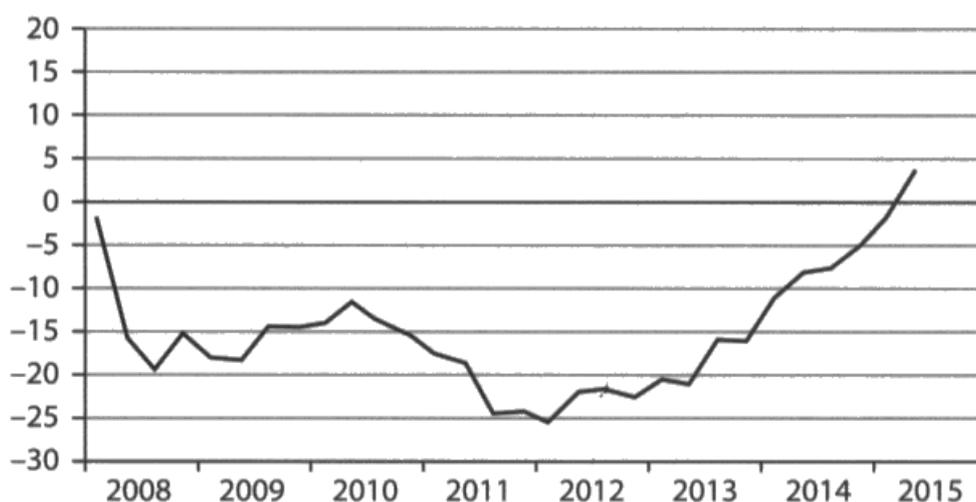
This answer is too vague, not specifically defining a direct tax, and so scores 0 marks.

### Question 5 (a)

In this question the 3 marks are divided between knowledge, application, and analysis. Knowledge comes from identifying a likely reason. Application comes from studying the chart and seeing that between 2012 and 2015 consumer confidence has increased. Analysis comes from explaining the reason. One mistake that candidates made was not reading the question carefully – it refers specifically to the time period 2012 to 2015, when consumer confidence had improved, as you can see on the chart. As such answers discussing a reason for confidence falling (as it did in earlier years) are unlikely to receive many marks.

- 5 The chart below shows the results from a survey of UK consumers' confidence in their financial situation. A negative balance means that, on average, consumers reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change. This is recorded on a scale from -100 to +100.

#### UK consumer confidence



(Source: [http://www.ons.gov.uk/ons/dcp171778\\_418064.pdf](http://www.ons.gov.uk/ons/dcp171778_418064.pdf))

- (a) Explain **one** likely reason for the change in consumer confidence between 2012 and 2015.

(3)

Consumer confidence is how confident consumers feel in the economy and how confident they are to consume goods and services. A reason for this

Consumer confidence increased by around

18% from 2012 to 2015. A reason for this

could be job as a result of a fall in unemployment.

They would feel more confident in their job

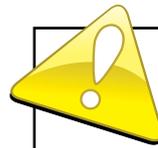
and therefore feel more secure and be more

confident to consume goods & services



### ResultsPlus Examiner Comments

This answer scores the full 3 marks. They have correctly interpreted the graph to see the consumer confidence has risen. They have identified falling unemployment as a reason, and have then gone on to explain this.

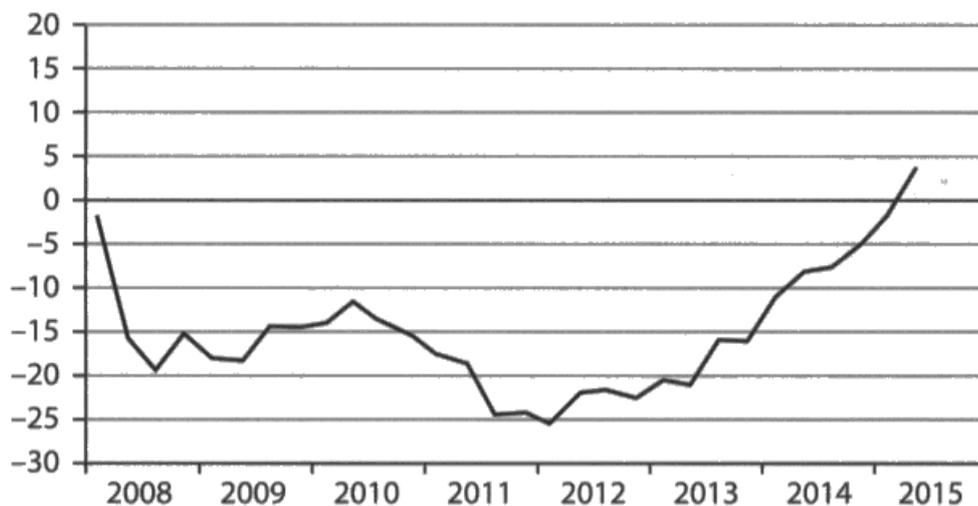


### ResultsPlus Examiner Tip

It is important that candidates can quickly and easily interpret charts such as this. It is therefore worth practicing this as part of exam preparation.

- 5 The chart below shows the results from a survey of UK consumers' confidence in their financial situation. A negative balance means that, on average, consumers reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change. This is recorded on a scale from -100 to +100.

#### UK consumer confidence



(Source: [http://www.ons.gov.uk/ons/dcp171778\\_418064.pdf](http://www.ons.gov.uk/ons/dcp171778_418064.pdf))

- (a) Explain **one** likely reason for the change in consumer confidence between 2012 and 2015.

(3)

As in 2012 the UK economy was out of the recession and therefore consumer confidence increased began to slowly rise as consumers began to consume more the economy <sup>had</sup> ~~was~~ at stable economic growth.



**ResultsPlus**  
**Examiner Comments**

In this answer the candidate scores 2/3 marks. They receive the application mark for consumer confidence is rising and they have identified that coming out of recession is a likely reason. However, there is no analysis of why this would cause consumer confidence to rise.



**ResultsPlus**  
**Examiner Tip**

To get full marks you need to remember to explain your points, not just state them.

## Question 6 (a)

The marks for this question are split in half between knowledge and application. Candidates achieved 2 marks for an accurate definition and 2 marks for some relevant application from the information. Where most candidates lost a mark was in not stating that net trade is the value of exports minus value of imports rather than simply exports minus imports.

6 (a) With reference to Figure 1, explain the term 'net trade'.

Net trade can be defined as (exports - imports) <sup>(4)</sup> in the UK the net trade was "-2%" This suggests the UK is in a trade deficit because there is more imports than exports as a result this leads to a fall in the balance of payments. However on the other hand Germany had a positive net trade of "6%" This suggests they had more exports than imports which means they have a positive balance of payments; and they are in a trade surplus.



### ResultsPlus Examiner Comments

This candidate achieves 3/4 marks. They have both of the application marks - discussing both the UK's and Germany's figures. They also earned 1 knowledge mark for exports minus imports. There is no reference to value and hence they did not receive the final knowledge mark.

6 (a) With reference to Figure 1, explain the term 'net trade'

(4)

Net trade refers to  $X - M$ , so the value of exports ( $X$ ) minus the value of imports ( $M$ ). This means that if exports are greater than imports, the net trade is positive, resulting in then a trade balance of trade surplus. The UK is currently operating at negative net-trade (and so a balance of trade deficit) at  $-2\%$ . This may be due to the greater marginal propensity to import of UK consumers due to greater demand for foreign goods. This could be down to countries that are more service based and less manufacture based (primary economy rather than <sup>tertiary</sup> ~~primary~~) may demand more raw materials and goods such as coal so so they have to import. Countries with geographical advantages, like China, may export more (so on  $3\%$  net trade (BOT surplus) as they can export more due to more natural resources and more manufacturing



**ResultsPlus**  
Examiner Comments

This answer scores the full 4 marks available. They explain what net trade is and have two relevant pieces of application.



**ResultsPlus**  
Examiner Tip

Always be clear and precise in definitions of key terms such as net trade.

## Question 6 (b)

This question builds on the previous question, considering reasons why the UK might have a current account deficit. In these longer questions the focus for a candidate needs to be on the quality of their answer, bearing in mind the levels mark scheme. They should ensure they are clearly giving step-by-step explanations their reasons. This would then cover the exam skills of knowledge, application, and analysis. There are also 4 marks available here for evaluation – presenting the counter-argument and considering why these reasons may not be valid explanations. Popular comments revolved around the exchange rate and real incomes, coupled with the UK's high marginal propensity to import.

(b) With reference to the information provided and your own knowledge, assess the likely causes of the UK's trade deficit.

less exports,

deficit  $\uparrow$  exports than imports (10)  
SP

A trade deficit is when the amount of exported goods and services ~~are~~ is less than the ~~map~~ amount of imported goods and services. This is known as a current account deficit. The current account deficit reached 6% due to ~~less~~ low export growth.

The cause of less exports can be due to the exchange rate. The value of the pound may be strong, making exports more expensive for foreign countries. The high prices due to this strong pound causes the UK's goods to not be competitive, overseas people who would import foreign goods may be put off by these high prices. However, this depends on the good or service the UK is providing, high prices may not necessarily drive down demand. ~~Case~~ If the good or service is price inelastic, changes in the price level will not reduce the quantity demanded for the good. Also if the goods or services the UK is exporting is of high quality, the consumers abroad may not be put off by higher prices.

If exports may also be low due to high interest rates in

The economy which are likely to put off firms in the UK from investing and expanding their firm to produce more goods and services by investing in capital. Thus the annual growth rate of the UK had only reached 2.7% below the target of 8%. ~~High interest rates~~ Lack of investment causes firms to not increase the amount of exports hence the low annual rate of exports. However some argue of the interest elasticity of investment. Some believe high interest rates don't reduce the amount of investment a firm will do.

High interest rates are also likely to drive up the exchange rate creating a ~~stronger~~ stronger pound. This further puts ~~to~~ abroad buyers from buying from the UK as it is more expensive.

~~Lack~~ Lack of investment causes firms to become less efficient as they don't invest in new machinery low productivity can cause these prices to rise which may lower their competitiveness to overseas markets.

There may be a lack of exports due to there being high Aggregate demand within the local economy (UK) causing firms to sell their goods and services in local economy rather than exporting as high profits may be obtained. However in the short run firms may see. However in the long run Aggregate demand in the economy may be a sign that ~~that~~ inflation will rise and governments may tighten interest rates so they may be put off from investing in the local economy.



**ResultsPlus**  
Examiner Comments

This is a more able response, scoring the full 10 marks. It clearly and logically explains different reasons for why the UK has a current account deficit and also offers relevant evaluation of these points along the lines of elasticity, which where relevant is often a good topic to use for evaluation.



**ResultsPlus**  
Examiner Tip

Keep the levels in mind – in this case you are aiming for KAA Level 3 and Evaluation Level 2.

(b) With reference to the information provided and your own knowledge, assess the likely causes of the UK's trade deficit.

(10)

A trade deficit is where the value of imports is greater than the value of exports.

One reason that the UK could have a trade deficit could be because of exchange rates.

When the value of the pound is high, exports become more expensive and imports become cheaper. This means that imports will increase and exports will decrease, causing a trade deficit.

Another main reason that the UK has a trade deficit is because the UK relies heavily on consumption (66% of aggregate demand), and is therefore focusing on consumer driven growth instead of export-led growth. This also isn't helped by the UK's low productivity which means that it won't have much advantage when trading with other countries. Investment also ~~isn't~~ doesn't make up enough of aggregate demand (14%) which ~~isn't~~ again doesn't help productivity.

Overall, the UK is too heavily dependent on consumption and doesn't focus enough on exporting goods, leading to a trade deficit.



**ResultsPlus**  
Examiner Comments

This answer scores 4 marks in total. There is no evaluation and so the highest mark possible is 6/10 marks. In terms of KAA relevant points have been identified but the explanation of them fits with the criteria for Level 2. There is room for a clearer explanation of the points beyond stating them and offering a bit of reasoning.

## Question 6 (c)

This question asked candidates for one specific reason, so it is important for candidates to make the most of their time in the exam and not explain two reasons. A number of possibilities could be explained here, such as interest rates and business confidence. Popular application included the 5% growth in UK investment and unemployment falling. Candidates should remember that in these shorter questions examiners are looking for specific pieces of application.

(c) With reference to Extract A, paragraph 2, explain **one** likely influence on UK investment.

(5)

Business investment grew by 5% - a sizeable margin that could have been stimulated by the low interest rates in the UK. Low interest rates reduce the cost of borrowing for firms, and make saving less attractive, which leads to the firms taking out more loans and using them for investment purposes in an economy that has seen a sustained recovery and 'lower unemployment'.



### ResultsPlus Examiner Comments

This brief answer provides exactly what the examiner is looking for. A relevant point in the form of interest rates which is clearly analysed along with application from the extract.



### ResultsPlus Examiner Tip

Be concise and stick to the point in these shorter questions.

(c) With reference to Extract A, paragraph 2, explain one likely influence on UK investment.

(5)

Investment means the ~~capital goods' investments~~ contribution (in terms of money) on capital goods.

In extract A, paragraph 2, the UK business investment grew by 5%. There is an increase in investment.

Here ~~the~~ is one of the possible cause on UK investment = economic growth. As mentioned, GDP growth has remained strong, with output rising in the highest rate in the G7 group of 7 major industrialized countries'. (line 4-5, extract A). The positive economic growth certainly increases the business confidence of investors, which will likely attract more business investments, leading to an increase of investments.



**ResultsPlus**  
Examiner Comments

This answer achieves a score of 4/5 marks. It has identified a relevant point and has application also. However, the analysis is somewhat limited. A more detailed explanation is needed of the link between economic growth and investment.

### Question 6 (d)

This question asks candidates for 'two likely reasons...'. It is important that candidates focus specifically on their reasons, as too much time was wasted on explaining what nominal GDP per capita at PPPs was. Each reason needed to be identified and analysed and there are also marks for application.

(d) With reference to Figure 2 and Extract A, explain **two** likely reasons why the growth of the UK's nominal GDP per capita at PPPs was slower than that of Germany after 2010.

(6)

One possible reason why the UK's growth was slower than that of Germany after 2010 could be due to the fact that the UK's current account deficit (CAD) a record high of 6% of GDP in the third quarter of 2016. Due to this it is likely that the UK was paying back other countries due to their 'current deficit' as they most likely took out loans to cover this. This means that there was a large proportion of GDP being withdrawn from the UK economy so the rate at which the UK's nominal GDP per capita at PPPs is going to be slower. It would be harder to experience growth when money is being withdrawn.

Another possible reason for this slower growth is that 'data showed output in the UK's construction and manufacturing industries falling'. This could result in slower growth due to there being less money made in the UK economy than what is being made in Germany due to the output of two major manufacturing industries falling. With falling output the UK's GDP is going to be reduced due to less goods and services being made so the overall

Amount of money after it has been split per capita is likely to be lower and therefore we are likely to experience lower levels of growth.



### ResultsPlus

#### Examiner Comments

In the first part of the answer, the candidate correctly identifies the UK's current account deficit as a likely reason and they have some application. However, their analysis is confused and they appear to have drifted into talking about a budget deficit. Their second point is better and includes all three exam skills of knowledge, application, and analysis. Overall therefore this answer achieves 5/6 marks.



### ResultsPlus

#### Examiner Tip

Make sure you know the difference between a current account deficit and a budget deficit.

(d) With reference to Figure 2 and Extract A, explain **two** likely reasons why the growth of the UK's nominal GDP per capita at PPPs was slower than that of Germany after 2010.

(6)

PPP is a theory that says how much a currency needs adjusting to purchase the same basket of goods as another currency. The currencies are usually converted to \$USD to allow for comparisons to be made about the strength of each currency. ~~Following~~ ~~2010~~ growth the Nominal GDP is the value of goods and services produced by an economy that has not been adjusted for inflation. ~~that~~ ~~is~~ ~~not~~ ~~to~~ ~~be~~ ~~adjusted~~ ~~for~~ ~~inflation~~. ~~After~~ ~~2010~~ the Germany

value of nominal GDP <sup>per capita</sup> had rose by 9, whereas the UK ~~£~~ value had only rose by 7. An explanation why could be that inflation had distorted the ~~£~~ GDP per capita. If inflation was higher in Germany then that may be a reason as to why Germany's growth was higher than the UK's. However, equally it could just be the case that the UK experienced less GDP growth during that ~~period~~ period than Germany, hence why their GDP per capita is lower.



**ResultsPlus**

**Examiner Comments**

In this answer the first nine lines achieve no marks because they are not answering the question. When they do start to answer the question they get 1 application mark for the UK data reference, not the German one as that is incorrect. They also achieve a knowledge mark for their point about inflation. This gives them a total of 2/6 marks.

## Question 6 (e)

This should be a straightforward question, with candidates simply needing to explain supply-side policies to improve productivity. Again candidates needed to ensure they answered the question being asked, as there are quite a few answers where the focus was on 'policies'. Candidates hadn't stopped to consider what types of policies would be suitable as a means to improve productivity. The other key issue with any question about productivity is that candidates too often confuse it with production – the aim here isn't to specifically produce more, it is to produce more efficiently.

Discuss

(e) Evaluate policies the government could use to increase the UK's productivity.

(15)

Productivity is a measure of output per unit of input.

~~One policy is deregulation to promote efficiency~~

Productivity can be improved by  
in the free market. Deregulation is a form of supply

side policy. Supply side policies are policies with the

aim to increase the productive potential of the UK

economy by increasing or improving the quantity or

quality of the factors of production.

One example of ~~policy~~ a supply side

policy is via education in the manufacturing

sector to improve the skills of labour. Apprenticeship

reforms will train workers in the skills that ~~they~~

need firms need i.e. in construction manufacturing.

As labour becomes more specialised, the

productivity in the workforce increases. This causes

a fall in due to a higher skilled labour force.

However the manufacturing sector only consists of

14% of the UK GDP. Thus the apprenticeship

will not have a significant impact on the

whole productivity of the labour market. There are

also problems in the long term. Over specialisation in this sector will lead to occupational immobilities in this sector. This structural unemployment ~~may be~~ will be an issue in the future.

Deregulation is another supply side policy. A policy is relaxing the planning system in order to promote new house building. This will reduce the cost of production for firms and due to a profit incentive they are encouraged to produce more at a lower ~~cost~~ cost per unit. In this will increase productivity within firms. This is also lead to firm benefiting from economies of scale which in the long run will fall the cost per unit.

However there may cause a fall in the quality of the housing market. The regulations may have been implemented in place for a reason. For example to protect the rights of workers to dangerous equipment. Hence a 'loosening' of the rules may disempower workers who will stop. This will cause a fall in productivity at a higher cost per unit.

One example is changing the tax brackets. Recently the 'no tax bracket' was increased from £11,000 to £11,500.

This will act as an incentive for low income earners to work harder as they can keep more of their income. This will cause an increase in

productivity. However it is unlikely that workers will be able to respond and work for longer hours given inflexible working hours & holidays



### ResultsPlus Examiner Comments

This is a high quality answer. The candidate discusses education, but thinks about the context here by specifically referring to the manufacturing industry. They also have some well-considered evaluation of this point and analyse and evaluate deregulation as a measure to increase productivity. There is also some discussion of changing income tax bands to improve incentives for workers. With highly developed points that are clearly focused on productivity as well as evaluation that clearly critiques these analysis points this answer is worthy of the top Level 3 for both KAA and evaluation.



### ResultsPlus Examiner Tip

Ensure you understand key economic concepts such as productivity.

(e) Evaluate policies the government could use to increase the UK's productivity.

(15)

Productivity is how well the UK uses its resources in comparison to other trading partners.

Supply-side policies should be used in this case to increase the productivity of the UK.

One policy that could be used is ~~the~~ the improvement of education and training. ~~An~~ An improvement in education will mean that the

employability will increase and more people will have the skills to be employed in different job roles. More labour will increase the capacity that the UK has and will increase its productivity in comparison to its trading partners.

However, ~~too~~ too much education and training might cause white collar ~~un~~ unemployment which could leave basic jobs empty with no one up for doing them. Once office jobs and higher roles will all be occupied, unemployment will start to increase. As factory workers or lower paid workers are essential for production, the productivity of the UK could decrease.

Another policy that could be used is deregulation. This policy will enable more firms to open up and less rules put on production which will encourage business to produce as they are allowed to do it their own way.

However, deregulation can

cause corruption and exploitation of labour, increasing the people that are leaving their jobs and possibly increasing the number of people migrating to other countries.

In conclusion, supply-side policies should be used, but should be used with some demand side policies in order to have a bigger impact in shorter time.



**ResultsPlus**

**Examiner Comments**

This answer focuses on the same topics as the previous example, education and regulation. However, the analysis is much briefer and lacking fully coherent chains of reasoning. The points are correctly identified and there is an attempt to explain their link to productivity but it isn't developed sufficiently. The evaluation of education is also confused. Overall this is a low Level 2 for KAA and a Level 1 for evaluation.



**ResultsPlus**

**Examiner Tip**

There is no need for a conclusion in this question, remember to focus your time only on what is going to get you marks.

## Question 6 (f)

This should be a straightforward question, with candidates simply needing to explain supply-side policies to improve productivity. Again candidates needed to ensure they answered the question being asked, as there are quite a few answers where the focus was on 'policies'. Candidates hadn't stopped to consider what types of policies would be suitable as a means to improve productivity. The other key issue with any question about productivity is that candidates too often confuse it with production – the aim here isn't to specifically produce more, it is to produce more efficiently.

### EITHER

(f) Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7).

(20)

### OR

(g) Evaluate the view that another recession is 'inevitable' in the UK (Extract A, line 24).

(20)

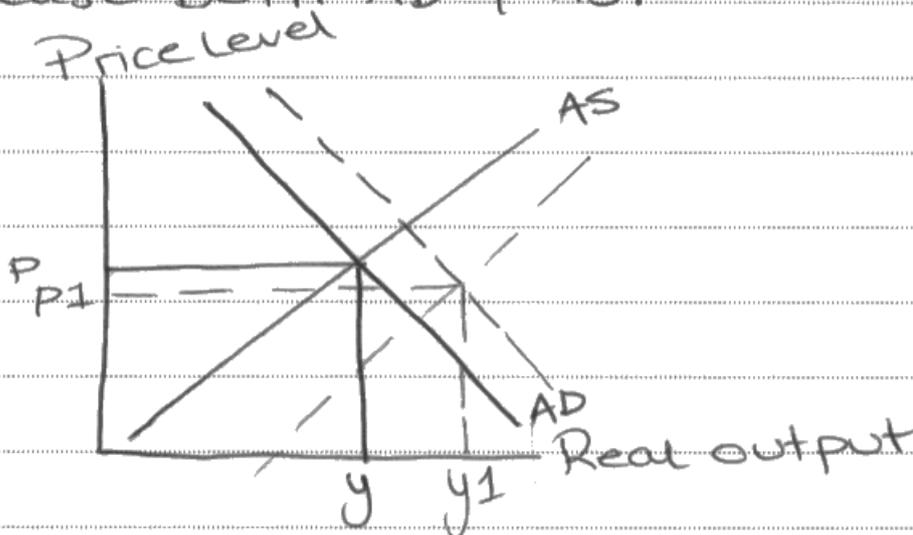
Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box  and then indicate your new question with a cross .

Chosen question number:      Question 6(f)       Question 6(g)

Write your answer here:

Economic growth is the increase in real GDP of an economy.

In most cases, economic growth is positive to an economy, as it is likely to increase both AD & AS.



One benefit of economic growth is employment. If AD increases due to a higher confidence level and higher consumer spending, labour will be in derived demand and the level of unemployment is likely to decrease which might eliminate the concerns that are still standing regarding the UK economy.

However, this could lead to inflation. If more people are employed and consumption continues to rise, the economy will eventually reach its full capacity, meaning that demand will have to be managed which will most likely be done through an increase in price levels.

Another benefit of growth is a decrease in general price level. As shown in the diagram, if AD and AS both shift to the right, output increases and general price level to decrease. This would mean that the value of our currency increases and ~~the~~ consumers will be more able and confident to spend their money.

However, ~~this is not~~ a decrease in price level could cause demand to go too high, which could in the long run affect the value and the power that our currency has in our own country as well as in relation to other currencies.

Another benefit that growth could bring is a decrease in the trade deficit. If the UK's economy is growing ~~press~~ consumers from abroad will have more incentives to spend as a high growth can be followed by a decrease in price level. A decrease in price level will make the UK more internationally competitive and could help it into decreasing its deficit in trade.

However, growth causes consumers to have a positive wealth effect, encouraging them to demand more, possibly from other countries. If the value of imports grows more than the value of exports, the trade deficit could actually increase.

In conclusion, growth has

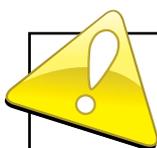
its benefits and disadvantages. The UK should have a stable growth to avoid unexpected ~~inflation~~ changes in various rates such as inflation ~~of~~



**ResultsPlus**

**Examiner Comments**

This answer starts by briefly explaining how unemployment will grow because of economic growth but there is definitely room for a more detailed explanation of this as a benefit of economic growth. The candidate then goes on to suggest that inflation is a downside of this. And here the answer gets a little confusing as they now immediately follow this up by talking about how economic growth will lead to less inflation and all the benefits of this. They are referring to economic growth in the form of increasing aggregate supply, but this is not very clear from what they have written. This is developed further with a link to less inflation making the UK more competitive. Overall there is some good economics in this answer which is accurate and does address the broad elements of the question. However, it is somewhat confusing to understand and there is significant room for more detailed explanation of the points being made. This is therefore KAA Level 3 and evaluation Level 2.



**ResultsPlus**

**Examiner Tip**

Try to make sure you don't contradict yourself between different points without a clear justification of the point you are making.

EITHER

(f) Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7).

(20)

- Recession  
- Unemployment  
- CAD - slowed economic growth

OR

(g) Evaluate the view that another recession is 'inevitable' in the UK (Extract A, line 24).

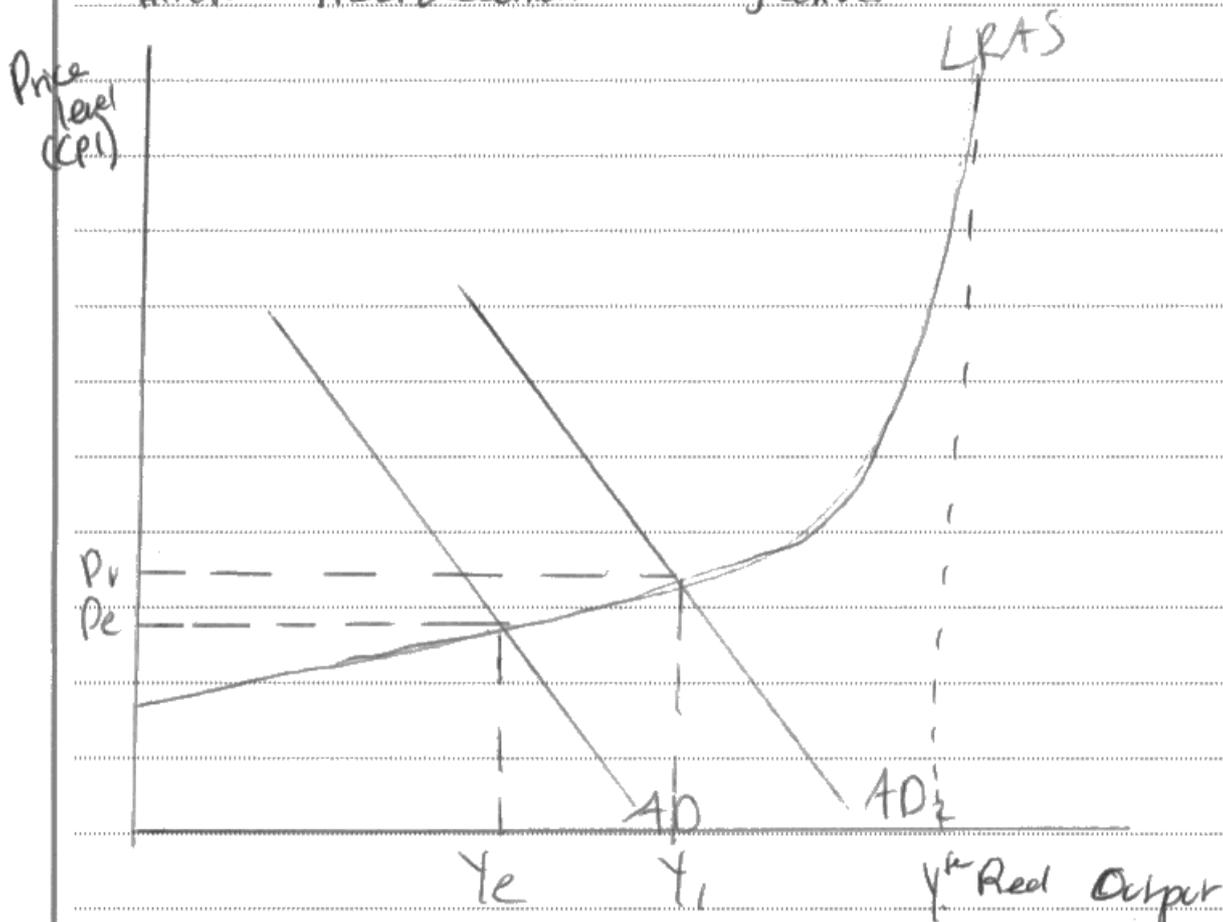
(20)

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 6(f)  Question 6(g)

Write your answer here:

Economic growth is the increase in real output  
One benefit to economic growth is to the  
a low unemployment. The UK unemployment rate is  
currently 4.5%. ~~the~~ Low unemployment is an  
macroeconomic objective.



Unemployment falls due to an increase in AD. Firms employ more factors of production i.e. labour in order to respond to the higher levels of demand in the economy as AD shifts from  $AD_1$  to  $AD_2$ . This causes an increase in real output from  $Y_e$  to  $Y_1$ . This is actual economic growth.

The low unemployment means there are higher wages which people will accept & better paid ones. This means consumers can afford more hence their standards of living increasing.

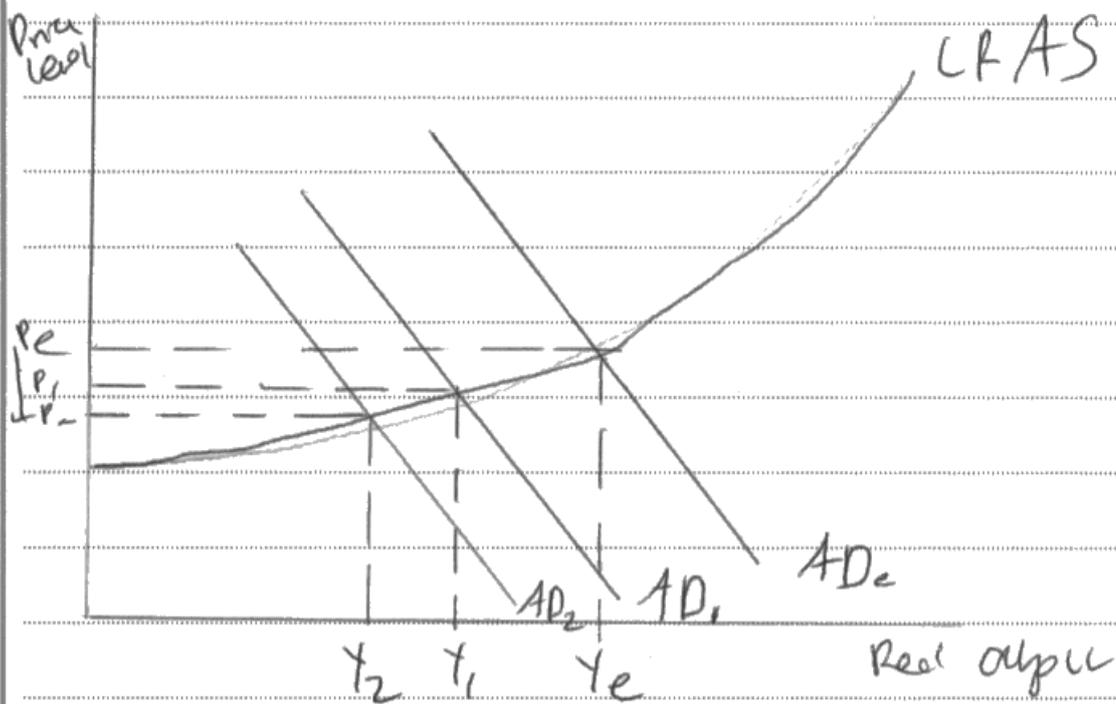
However this leads to demand side inflationary pressures in the economy as the general price level increases from  $P_e$  to  $P_1$ . Inflation erodes the purchasing power of money which will have a negative impact on consumers. Especially for low income earners. This may also lead to inflation ~~in~~ being above the target of  $2\% \pm 1\%$  (CPI) set by the Monetary Policy Committee (MPC). This leads to conflict with the macroeconomic objectives. As consumers become richer they can afford to buy more goods & services. The marginal propensity to import will also increase, leading to a deterioration in the current account. Currently the UK has a persistent current account deficit (CAD) of  $-2.3\%$  of the GDP. This means the value

of imports is greater than the exports. The low & stable balance of payments is another macro-economic objective. If there is a CAD then there has to be a financial account surplus in order to make up the difference by foreign direct investment. This makes the UK economy very vulnerable to foreign recessions as the UK is dependent on FDI to make up the difference. In a recession confidence falls hence foreign investors will pull out or their investment in the UK.

Greek imports is also a withdrawal of demand in the UK circle flow of income. Imports will lead to a negative multiplier effect due to a leak of multiple rounds of spending in the economy. This will lead to slowed economic growth in the long run as  $M$  is a component of  $AD$  where  $AD = C + I + G + (X - M)$ . Thus this will cause an inward shift of the <sup>demand</sup> supply curve from  $AD_1$  to  $AD_2$ . The extent to which an initial ~~total~~ withdrawal is multiplied to cause a greater reduction in real output is known as the multiplier ratio.

In the UK it is approximately calculated to be about 1.4. This will cause an

Economic growth also has positive impacts on the government's Budget on economic



economic contraction from  $Y_e$  to  $Y_1$  to  $Y_2$   
 This will also cause deflation as the price level falls from  $P_0$  to  $P_1$  to  $P_2$

Economic growth will also have a positive impact on the government's Budget or economic boom, as the government budget goes from a fiscal surplus where  $GT$  is less than the tax receipts  $T$  decreases due to less claimants & the  $JdI$  due to less welfare spending through less claimants & the Job

Seekers Allowance and other low income benefits. The tax receipts have also increased due to increased tax revenue from higher corporation tax & income tax. This is due to higher wages & high revenues for firms. This means increased spending in the public sector in the NHS to improve services in transport etc. However as a result of the high incomes there will be a demand for more goods i.e. alcohol. This increases the health cost of the NHS and means more spending for the government. Increased government expenditure on economic growth also leads to more negative externalities which the government has to clean up i.e. pollution of air & CO<sub>2</sub> emissions.



### ResultsPlus Examiners' Comments

This is a more able response which clearly fits the criteria for the top levels of both KAA and evaluation. There is a thorough explanation of how lower unemployment occurs as a result of rising GDP, along with an AD/AS diagram to illustrate the point. There is also a clear explanation of why this is a benefit with reference to rising living standards. This is followed by a well-developed evaluative argument about the problem of rising inflation and the resultant impact on the current account deficit. Their second point is similarly well-argued and evaluated, focusing this time on the government's finances and whether they will improve or not.



### ResultsPlus Examiner Tip

Make sure your answers are fully related back to the question – in this case make sure you explain why/how it's a benefit/downside of economic growth, don't just state that it is.

## Question 6 (g)

This question was significantly less popular than 6(f). Despite that the candidates who did answer it were perfectly capable of producing high quality answers. Candidates who achieved highly on this question developed their answers clearly and with high quality chains of reasoning in both their KAA and evaluation. The very best answers included a 'substantiated judgement'. Many good answers also integrated AD/AS diagrams into their arguments to further illustrate and explain the point they were making. As a broad question there are a wide variety of arguments that can be made on both sides of the question.

**EITHER**



Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7).

(20)

**OR**



Evaluate the view that another recession is 'inevitable' in the UK (Extract A, line 24).

(20)

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:

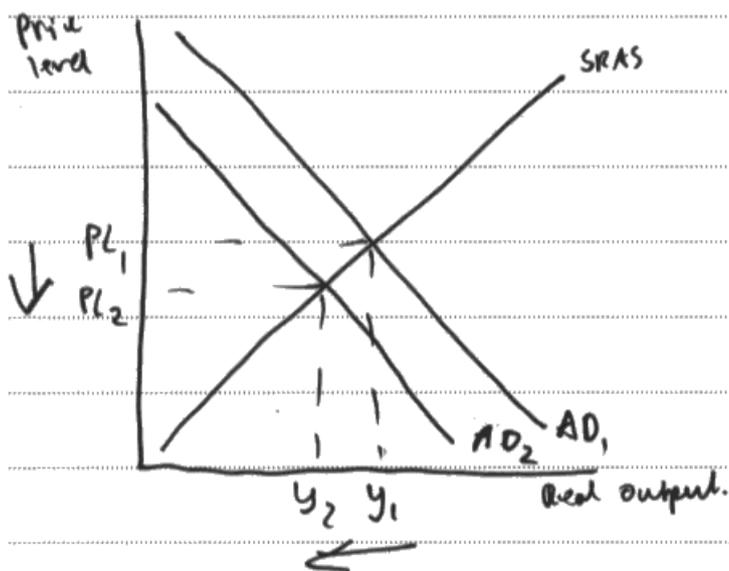
Question 6(f)

Question 6(g)

6g

Write your answer here:

Another recession may be inevitable for the UK due to its "record high current account deficit". Net trade is a component of aggregate demand therefore if there is a deficit aggregate demand will decrease. In this case the current account deficit is at "6% of GDP". This would lead to a fall in aggregate demand as shown below.



As we can see demand shifts right leading to a lower price,  $PL_1$  to  $PL_2$ , and lower real output,  $y_1$  to  $y_2$ . As real output

has decreased this suggests that unemployment may ~~also~~ rise.

This is because labour is derived demand. As demand in the economy has decreased firms no longer produce as much therefore make cuts to their workforce, leading to many people being left redundant. As a consequence the government will have to spend more of their tax revenue on unemployment benefits as more people will be out of work. Extract A states that the 'manufacturing sector remained 6.3% below its pre-recession peak'. This is an example of a sector that would have made job cuts.

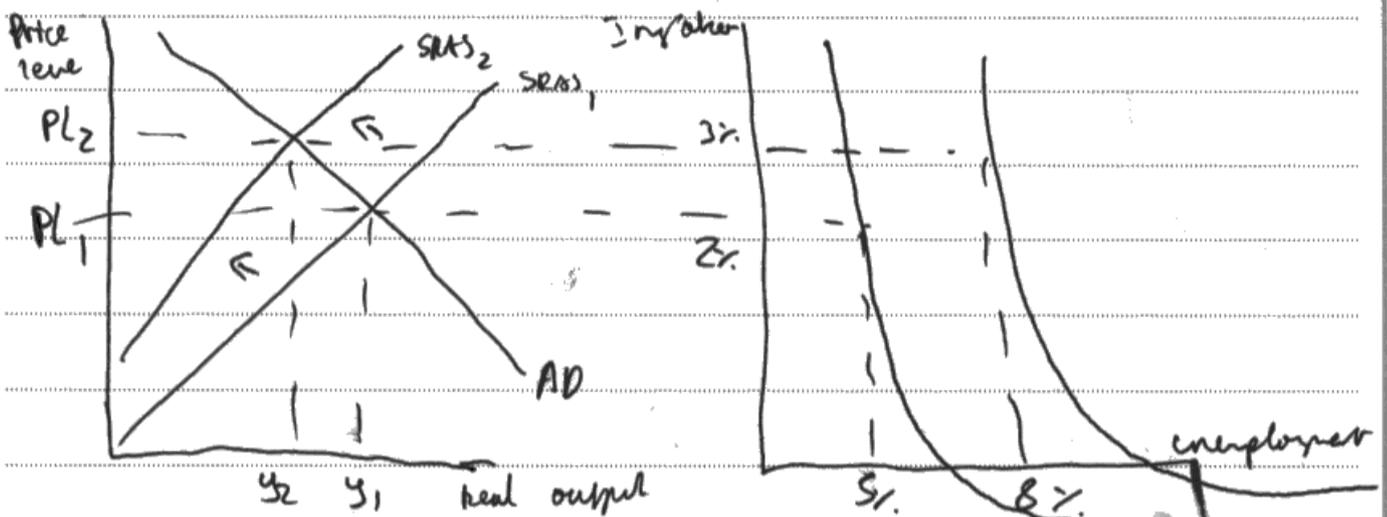
However, a recession may not be inevitable. Extract A states that "GDP growth has remained strong" and "output is rising at the highest rate". Consumption is a greater component of

aggregate demand making up almost 60%. Therefore even though there is a current account deficit is ~~consumption~~ consumption increases it could cancel out the decrease in net trade and even lead to aggregate demand shifting right. ~~The~~ Consumption could increase due to the fact that 'GDP has returned (long)'. This would give consumer confidence to spend as the ~~economy is~~ economic situation is improving. The ~~high~~ fact output is rising would also give firms increased confidence to invest. Investment is also a component of aggregate demand. Therefore an increase in AD would lead to increased real output suggesting the opposite of a recession; a boom would occur.

A recession may be unavoidable due to the ~~'the low productivity'~~ households becoming "more indebted over the coming years". As a consequence the Marginal propensity to consume of household will decrease as their disposable income is lower. This decrease in consumption will lead to a shift in AD to the ~~right~~ left. Extrad states that "the economy did not appear to be

rebalancing. In this situation some income households would be hit hardest as their disposable income would decrease to a point where it may be difficult to purchase essentials. ~~If this~~ This may attract some workers to quit work and claim ~~not cost~~ unemployment benefits ~~or~~ JSA as this may be almost the same as their wage. This would lead to increased government spending and an opportunity cost would arise. Money that could be spent on ~~against~~ the NHS

for example, wait be.



As we can see from the diagrams stagflation may also occur. This ~~happens~~ could happen when there is cost push inflation in the economy. ~~or~~ A cause of this may be that workers demand higher wages

as benefits may seem more appealing. ~~The curve~~  
Thus therefore decreases SRAS as ~~cost~~ from  
costs have increased. This shift in SRAS  
leads to an increase in inflation from 7%  
to 3% as seen on the short run  
Phillips curve. At the same time unemployment  
has also increased from 5% to 8%.  
This is stagflation. If this occurs a  
recession may be 'inevitable' as unemployment  
is high; people do not have the disposable  
income to ~~pay~~ cover for the  
increased price level.

However this may not be the case  
as SRAS may not shift upwards causing  
cost push inflation.

Whether another recession occurs  
depends upon what policies the  
government introduces and if they are  
able to improve "technology and  
manufacturing" or invest in infrastructure.



## ResultsPlus

### Examiner Comments

This is a more able response which achieves top levels for both KAA and evaluation (Levels 4 and 3 respectively). The candidate starts off with a very long and detailed explanation of why a further recession is inevitable, encompassing net trade, unemployment, and the government's finances. This is further enhanced by an AD/AS diagram. This argument is clearly and convincingly countered in the following evaluation point. Both of these points have good context to back them up. The next KAA point is not so good and does have a few issues, but the broad thrust of the argument is very sound. This means in terms of an overall mark we would be looking at the lower half of the Level 4 marks. It is also clearly evaluated.



## ResultsPlus

### Examiner Tip

Where relevant, always try to include diagrams to aid the argument you are making. Make sure you refer to these as part of your written answer.

**EITHER**

(f) Evaluate the benefits of economic growth to the UK given that 'a number of concerns remain' in the UK economy (Extract A, line 7). (20)

**OR**

(g) Evaluate the view that another recession is 'inevitable' in the UK (Extract A, line 24). (20)

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 6(f)**       **Question 6(g)**

Write your answer here:

A recession, is ~~how~~ when economic growth comes to fall, GDP will also fall and interest rates will increase substantially. The other main reasons as to why a recession will occur

One reason that another recession in the UK is inevitable, is because the rate of exports isn't increasing, instead it is decreasing. The rate of imports is also increasing, which means that the UK is importing more goods than exporting, which will result in a <sup>increase</sup> ~~decrease~~ in the current deficit. As imports are increasing and exports are decreasing, it means that the UK is spending more money outside of the country, than it is bringing in, which will leave the UK

In a deficit. This will then lead to firms not producing as much, as the possibility of making a profit is low. Therefore if firms cut production, the exports will continue to decrease, which will lead to a recession.

However this may not happen, as the exports could possibly increase, if the government intervened. If the government introduced and increased subsidies, firms will then be more productive and produce more. This will then result in a increase of exports, so the amount of money coming into the country will start to increase, which could possibly prevent a recession.

Another reason for why a recession is inevitable, could be because household gross debt is increasing. As shown in the data the household debt will rise by 26% points from 2015 to 2020. Therefore as the debt increases, they will have to start to borrow more, which will put a lot of families in deficit debt. The firms that also give the money, will have to borrow money from elsewhere, and

as everyone is borrowing, it could lead to high inflation, which could be a side cause for a recession.

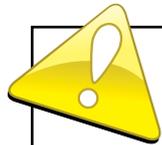
However this may not occur, as it is a prediction for the household debt and may not happen. During the period of time, the availability of jobs and wages could increase, which could possibly lead to the income of households increasing, meaning that they don't have to borrow any more, so won't be in debt. Therefore as households have more money, they won't have to borrow from firms, so this will then reduce the chance of a recession as the household income will increase meaning that households won't have to borrow money, which will reduce the chance of household debt.



## ResultsPlus

### Examiner Comments

This candidate has made a reasonable attempt to answer the question but has failed to fully develop their answer and as such is unable to access the higher levels of the mark scheme. They correctly explain the problem of a current account deficit, although it is slightly simplistic and lacks any context. They then evaluate by suggesting that maybe the government will intervene and solve the problem – a somewhat implausible and simple argument. The next point correctly identifies the problem of rising household debt but seems somewhat confused in terms of what the impact of this would be, focusing on it somehow leading to more debt both for consumers and firms. Following on from this is some more relatively straightforward evaluation. Overall this answer is a low Level 3 for KAA (mainly thanks to the first part) and a low Level 2 for the evaluation.



## ResultsPlus

### Examiner Tip

You have been given a case study to help you – make the most of it to ensure your answer is applied to the UK economy.

## Paper summary

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

Ensure you manage your time effectively: it does say in the exam paper to spend 25 minutes on section A and 1 hour 5 minutes on section B. If candidates spend too long on section A, they are in danger of running out of time for the 15 and 20 mark questions at the end of the exam paper.

A multiple-choice question is worth 1 mark whereas 6(f) and 6(g) are worth 20 marks, bear this in mind in terms of how long you are spending on individual questions – especially those in Section A.

Ensure you are aware of key definitions, for example deflation, under-employment, real GDP, and direct tax, which were all tested in this exam. Be aware of all formulae and quantitative skills as explained in the Specification.

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.

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

Don't spend too much time on long introductions when a question has only asked to, for example, 'explain two likely reasons...'. Here, marks will only be awarded for your explanation of your reasons so you should start immediately with your first reason.

## 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>

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